ANNUAL REPORT 1999

THE ROUSE COMPANY

A PORTFOLIO OF DISTINCTION FOR THE 21st CENTURY

In the early 1990s, The Rouse Company embarked on a program to upgrade the quality of its portfolio of retail centers. Between 1993 and 2000, an unparalleled transformation took place. Of the 70 shopping centers listed in the 1993 Annual Report, 27 are no longer part of the Company's retail portfolio. In most cases, these properties could not be transformed into top-quality, market-dominant shopping centers at a rational cost. As a result, they were disposed of or sold. Two more centers are currently being held for disposition. More significantly, 23 centers on that list were expanded, renovated and/or added new department stores. Also, in the same time frame, six retail centers were acquired and one new center, Oviedo Marketplace, was opened. Today, the Company's portfolio is one of the highest in overall quality in the industry. Going forward, the goal of operating the highest quality properties in the industry retains its importance. The strategy for growth, however, has shifted from improving our existing portfolio to the development of a new generation of unique retail centers. A special section of this report, beginning after the Letter to Shareholders on page 6, highlights two major new projects, Village of Merrick Park in Coral Gables (above) and Fashion Show in Las Vegas (left), and spotlights 14 additional projects scheduled for openings in the next few years.

HIGHLIGHTS THE ROUSE COMPANY

	1999	1998
Operating Results		
Total Segment Revenues (note 1)	$ 1,037,849,000	$ 976,017,000
Funds from Operations (note 2)	$ 235,519,000	$ 204,842,000
Net Earnings	$ 135,297,000	$ 104,902,000
Financial Position		
Total Segment Assets (note 1)	$ 4,911,097,000	$ 5,626,102,000
Debt and Capital Leases (note 1)	$ 3,696,548,000	$ 4,401,920,000
Shareholders' Equity	$ 638,580,000	$ 628,926,000
Per Share Data		
Earnings Per Share—Diluted	$ 1.69	$ 1.34
Funds from Operations Per Share—Diluted	$ 2.97	$ 2.69
Dividends Per Share:		
Common stock	$ 1.20	$ 1.12
Preferred stock	$ 3.00	$ 3.00
Other Selected Data		
Weighted Average Common Shares Outstanding Used in Diluted Per Share Calculations:		
Earnings Per Share	74,199,000	68,859,000
Funds From Operations Per Share	81,097,000	78,748,000
Number of Employees	4,140	4,126

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 FFO of unconsolidated real estate ventures in which it holds a minority interest. See note 2 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 58 for further discussion of FFO.

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Front Cover: The architectural scaled model of the Village of Merrick Park features Neiman Marcus and Nordstrom department stores. The project is scheduled to open Fall 2002 in Coral Gables, Florida.

LETTER TO SHAREHOLDERS

The last year of the century was one of significant achievement and progress for the Company. Total Funds From Operations for 1999 were more than $235 million and totaled $2.97 on a per share basis, 10% ahead of 1998's result. Each of the Company's three operating lines of business contributed record levels of Funds From Operations. Net Earnings (after considering the effects of depreciation and amortization, deferred income taxes and net gains on dispositions) were $135.3 million compared to $104.9 million in 1998.

Commercial development activities also produced strong results, with four major retail projects opening during the year and a record number of new projects advancing in the pipeline for openings in the early 2000s.

Current Value Shareholders' Equity increased to $2.6 billion, or $35.50 per share, 7% ahead of $33.15 per share at the end of 1998.

The Company's Board of Directors, in recognition of the excellent results and the exciting future prospects for the Company, increased the common stock cash dividend for 2000 by 10%, to $.33 per share per quarter, or $1.32 on an annual basis. This action marks the 20th increase in the dividend rate since 1978.

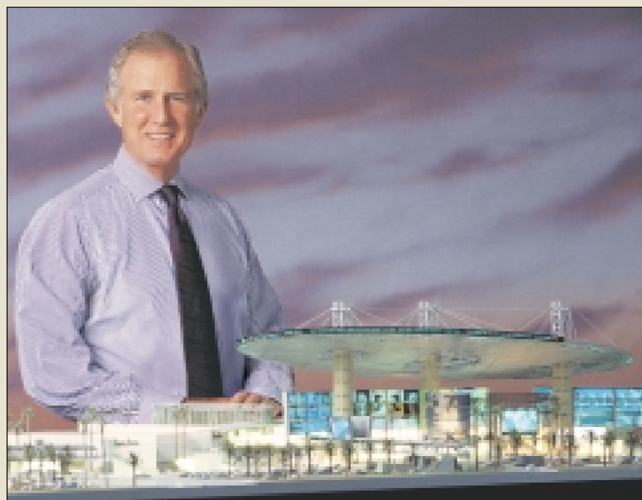
ANOTHER RECORD YEAR FOR RETAIL CENTERS

The Company's portfolio of retail centers produced yet another year of record-setting results. Funds From Operations were $152.5 million, 9% ahead of the $140.1 million recorded in 1998. Ten years ago, the Company's retail centers produced $48.4 million of Funds From Operations. Consequently, 1999's result represents three-fold growth over the decade, or a compound annual increase of more than 12%. The two most significant contributors to this performance in 1999 were an increase in average occupancy to 94.5% from 92.8% and the four large retail centers acquired in the second half of 1998.

Other important measures of growth and performance were also outstanding. Sales of merchants in the Company's retail centers (on a comparable space basis) increased by 5.3%, the best rate of growth in the 1990s. This gain was even more impressive because it was generated during a time of very low inflation. Sales per square foot of comparable tenants rose to $403 (from $371 in 1998) and, at year-end, retail occupancy stood at 96%. Of the three million square feet of space leased during 1999, more than 1.6 million square feet in Company-owned centers was leased for 1999 occupancy—at first year rents averaging over $35 per square foot, 15% above the previous year's rents.

These outstanding results were achieved even as the Company has disposed of its interests in 27 retail properties over the past six years and as a number of centers have faced disruptions due to renovations and to expansion-related construction activities. Most of the dispositions and renovations/expansions have now been completed and future years' results should reflect the investment in the quality of the retail center portfolio.

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



In the foreground is the architectural model of one of the Company's most exciting new development projects—Fashion Show, which will feature a new multi-media, multi-sensory entrance from Las Vegas Boulevard.

SUMMERLIN HOME SALES BOOMING

In 1999, new home sales in Summerlin reached 3,233 units, increasing by more than 12% over 1998, and making the seventh time in eight years that Summerlin was the nation's top-selling master planned community.

OFFICE, MIXED-USE AND OTHER PROPERTIES CONTINUE TO OUTPERFORM

During the 1990s, the Company's office, mixed-use and other properties achieved remarkable growth. Since 1992, when the portfolio had losses, Funds From Operations have grown to $49.2 million in 1999—including a 40% increase over the last year. The United States' long-running economic expansion has provided the undergirding, but the Company's primary concentration in two strong markets—the Baltimore-Washington corridor and Las Vegas—has also been a significant factor. The acquisition of a portfolio of office properties in late 1998 also contributed substantially to 1999's increase over 1998.

Like the retail center portfolio, performance indicators for these office, mixed-use and other properties were all extremely positive. Occupancy was 95% at year-end (for properties open at least a year), and the two million square feet of space re-leased in 1999 averaged rents of more than $15 per square foot, 13% ahead of 1998 rents on that space.

COLUMBIA AND SUMMERLIN AGAIN SET RECORDS

The Company's two major, large-scale planned communities once again set new records. The Columbia division recorded $25.0 million of Funds From Operations (FFO) on $64.1 million of land sale revenues, while Summerlin/Hughes produced $25.2 million of FFO on land sale revenues of $132.4 million. Total FFO from community development operations was another new record, $50.2 million compared to $48.8 million in 1998.

Columbia's revenues came predominantly from commercial sales—land for office and research and development space, restau-

rant pads and big box retail sites. With a population approaching 90,000 and an ultimate build-out projected at just under 100,000 people, residential land sales have become, and will continue to be, less significant in the mix of total land sales. Columbia's population makes it the second largest city in the state of Maryland, and its tremendous attributes—plentiful jobs, excellent schools, good transportation, great location and outstanding recreational, cultural, entertainment and institutional amenities—make it the commercial and residential center of the Baltimore-Washington corridor.

Summerlin is at an earlier point in its development cycle, and its excellent sales are predominantly residential. On the western edge of the Las Vegas Valley, abutting the Spring Rock Mountain range, Summerlin offers an exceptional quality of life. The population has surpassed 50,000 and the first legs of the Las Vegas perimeter beltway will extend into Summerlin later this year. This achievement of critical mass will enable the development of a commercial and employment core that will create an exciting edge city that will be only minutes from Las Vegas' entertainment center.

Summerlin's existing attributes and its potential have made it the best-selling master-planned community in the United States for seven of the last eight years. In 1999, it retained first place with a heretofore unparalleled total of 3,233 new residential units sold—almost 1,000 units ahead of its nearest competitor. Summerlin's appeal is also reflected in its 15% share of residential sales in the Las Vegas Valley, one of the fastest growing markets in the United States.

OPENINGS HIGHLIGHTED BY MAJOR EXPANSIONS

Two major expansion/renovation projects and one department store addition debuted in 1999. At The Mall in Columbia, Nordstrom and 60,000 square feet of new small store space opened on September 17th. The mall's existing areas were extensively renovated, and the new space was more than 90% occupied on opening day. Customer response has been enthusiastic, and an additional expansion and renovation is now underway.

At Exton Square, west of Philadelphia, new Sears and Boscov's stores and a new parking deck opened in mid-October; a new food court opened on November 12th; and a new JCPenney store and 120,000 square feet of new small store space are scheduled to open in May, 2000.

At Moorestown Mall, east of Philadelphia in southern New Jersey, a new Strawbridge's department store opened in November, and a new Lord &

THE MALL IN COLUMBIA EXPANSION

On September 17, 1999, a new Nordstrom and new expansion wing opened at The Mall in Columbia, making way for an additional expansion featuring L.L.Bean, three new restaurants, a cinema complex and additional new retail space.

Taylor store opened in March of 2000.

In February of 1999, Park Square, a 100,000-square-foot office building in downtown Columbia, opened virtually 100% leased. During 1999 in Las Vegas/Summerlin, five office/R&D/industrial buildings were opened, and two of them were 100% occupied by year-end.

3993 HOWARD HUGHES PARKWAY

Commercial development activity continued in Las Vegas with the opening of 3993 Howard Hughes Parkway, a new eight-story, class-A office building.

In addition to the completion of the development programs that were noted above, expansions will open in 2000 at Pioneer Place, Oviedo Marketplace and Perimeter Mall. Beyond 2000, a number of exciting new centers are moving forward. A special section of this report beginning on page 6, describes these new projects.

SHARE REPURCHASE/ASSET SALE ANNOUNCED

On September 23, 1999, the Board of Directors authorized the purchase of up to $250 million of the Company's common stock. Like the share prices of substantially all real estate and many smaller capitalization companies, the Company's common share price has reflected neither the Company's outstanding results nor the underlying value of its assets. Management and the Board of Directors believe that, under these circumstances, buying the Company's stock is one of the best investments that can be made at this time. As of December 31, 1999, more than 1.5 million shares of common stock had already been purchased at prices averaging less than $22 per share.

To provide funds for the common stock purchases and the development pipeline, and to maintain the strength of its balance sheet, the Company plans to sell some operating properties, primarily non-strategic office and industrial assets. Investment bankers have been retained to represent the Company in these sales efforts, and contracts of sale and closings are expected to occur before this fall.

SUMMARY AND CONCLUSION

Each of the Company's operating lines of business produced record results in 1999. Exciting new projects opened in 1999, will open in 2000 and are underway for openings in 2001 and beyond.

The present environment offers the opportunity to focus our efforts in the areas we know best, to improve our operating results and to build new projects for additional growth in Funds From Operations and value. At the same time, we have the opportunity to acquire our own shares at prices well below what we believe to be their value. While the current share price is frustratingly low compared to the Company's excellent performance, we believe that strong financial results and an improving share price over the next few years will demonstrate the soundness of our strategies.

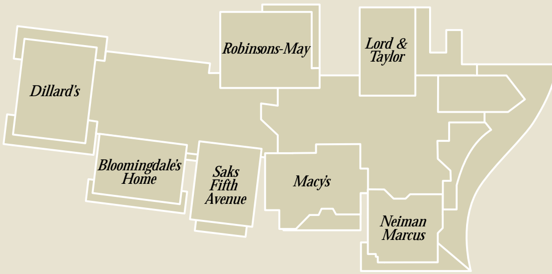
Anthony W. Deering

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

FASHION SHOW LAS VEGAS, NEVADA

Few locations in the nation rival the retail potential of Las Vegas. Once it is expanded and transformed, Fashion Show will exploit that potential by ushering its shoppers to the hottest fashion trends. It will be a place not just to buy, but to experience fashion, to be seduced, to be excited and, above all, to be entertained. An unparalleled combination of department stores will anchor the project and provide the consummate fashion experience in the country's fastest growing city and one of the world's top tourist destinations. The transformation of Fashion Show will be a history-making venture, and in keeping with Las Vegas tradition, accomplished on a grand scale. At the center's Las Vegas Boulevard entrance, directly on the world-famous "Strip," shoppers will marvel at interactive, ever-changing fashion presentations. The "Strip" exterior will also become an unduplicated showcase of extraordinary brands as evidenced by the center's seven powerful anchor stores: Neiman Marcus, Saks Fifth Avenue, Bloomingdale's Home, Lord & Taylor, Macy's, Dillard's and Robinsons-May.

FASHION SHOW LAS VEGAS, NEVADA



Las Vegas, already the world's preeminent fantasy resort destination, will soon be home to the ultimate retail destination, too. Fashion Show will offer the nation's premier department store lineup—together with extraordinary, cutting-edge retailers in a multi-sensory fashion experience.

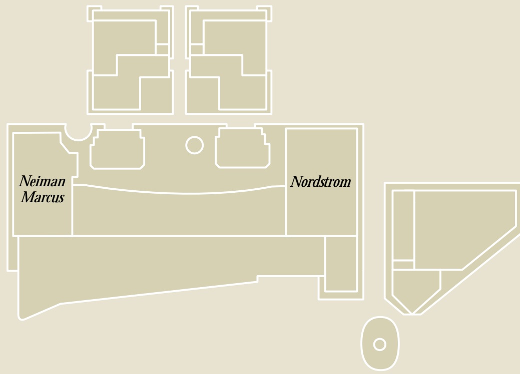
The goal of the Fashion Show expansion program is to reinvent this already dynamic shopping center into the focal point of retail and dining excitement on the world-renowned Las Vegas "Strip." Already the largest retail destination on the "Strip," Fashion Show will expand to nearly two million square feet of space with the addition of Lord & Taylor and Bloomingdale's Home and the doubling in size of its five current department stores, Neiman Marcus, Saks Fifth Avenue, Dillard's, Macy's and Robinsons-May. Fashion Show's redevelopment plan will transform the property into a bigger-than-life fashion experience for the 32 million travelers that visit the city annually, the 3.5 million convention and trade show delegates and the 1.2 million residents of the Las Vegas valley. This dynamic expansion program will redefine the retail experience—creating a place to shop as fascinating as fashion itself.

EXPANDED SAKS FIFTH AVENUE

Saks Fifth Avenue is expanding its current location into a brand new flagship building in the expectation that it will be the chain's best performing store outside of New York City. Based on the performance of its present relatively small Fashion Show store, Saks enthusiastically characterizes the Las Vegas market with a "buy now-wear now" fashion mentality.

VENETIAN
Harrah's
TREASURE ISLAND
EFX
MOTEL
Neiman Marcus

VILLAGE OF MERRICK PARK CORAL GABLES, FLORIDA



Coral Gables has long been recognized for its architecture, its affluence, its ambience and its allure. The Village of Merrick Park will enhance these attributes with Nordstrom, Neiman Marcus, the world's finest retailers and premier destination restaurants in a luxurious Mediterranean setting of natural beauty.

On March 28, 2000, the Company broke ground on its newest retail project, the Village of Merrick Park. The mixed-use development plan includes two anchor stores, Neiman Marcus and Nordstrom; 100,000 square feet of space for luxury retailers; 350,000 square feet of retail and destination restaurant space; and premier residential and office space—all surrounding a lushly landscaped urban garden. Ideally situated in a community known for its beauty and glamorous lifestyles, Merrick Park promises to become a luxury retail village unrivaled in Southern Florida if not the nation. The Village's lucrative trade area boasts 2.5 million residents, 9.5 million overnight visitors and 5.5 million international visitors—a clientele that appreciates and can afford the very best of everything.

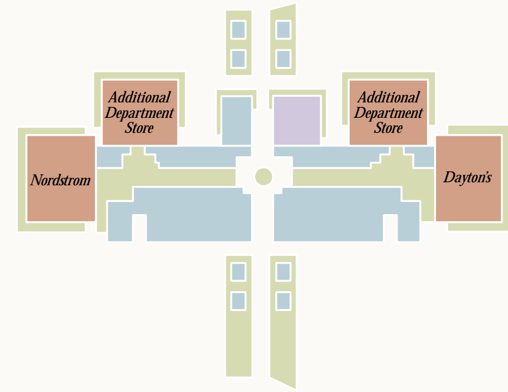
FIRST NORDSTROM IN MIAMI

Merrick Park will feature a grand new flagship Nordstrom store, which will cater to the market's retail sales potential and will offer exceptional merchandise. Within its quality surroundings, Coral Gables shoppers will experience Nordstrom's extraordinary selection of gifts and fashion plus its exceptional personal service.

THE ROUSE COMPANY'S FUTURE PROJECTS AND EXPANSIONS

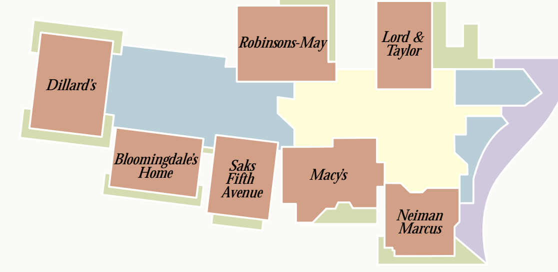
Existing Department Stores
New or Expansion Department Stores
Existing Retail/Restaurant Space
New Retail/Restaurant Space
Parking Garages
Promenades/Parks/Gardens
Cinemas/Entertainment

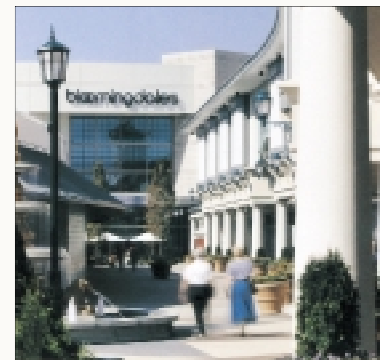
MAPLE GROVE CENTER *Minneapolis, Minnesota*



Dayton's
Nordstrom
Retail and Restaurant Space
Garden Courtyards
Two Additional Department Stores
Opens Spring, 2003

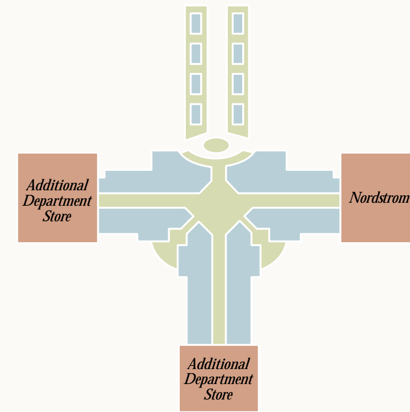
FASHION SHOW *Las Vegas, Nevada*





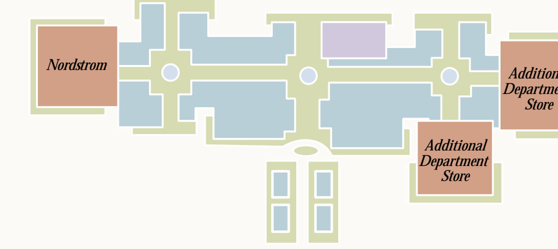
New Saks Fifth Avenue
New Lord & Taylor
New Bloomingdale's Home
New Dillard's
Expanded Neiman Marcus
Expanded Robinsons-May
Expanded Macy's
New Retail and Restaurant Space
New Las Vegas Boulevard Venue
Complete Fall, 2002

CINCINNATI CENTER *Cincinnati, Ohio*



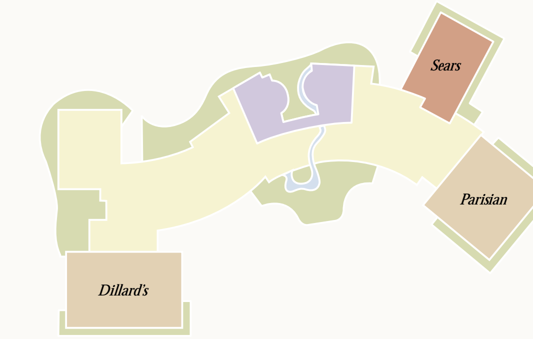
Nordstrom
Retail and Restaurant Space
Cinema Complex
Two Additional Department Stores
Opens Fall, 2003

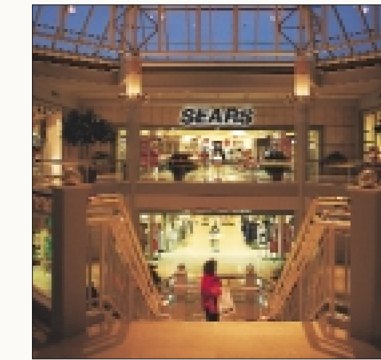
NASHVILLE CENTER *Nashville, Tennessee*



Nordstrom
Retail Space
Restaurant Space
Promenades and Gardens
Two Additional Department Stores
Opens Spring, 2003

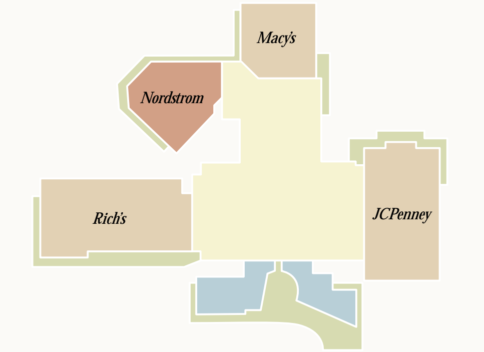
OVIEDO MARKETPLACE *Orlando, Florida*





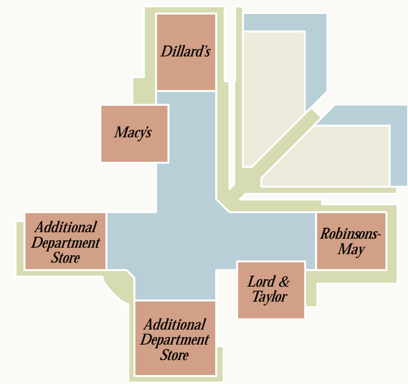
New Sears
Parisian
Dillard's
Regal Cinema Complex
Complete Fall, 2000

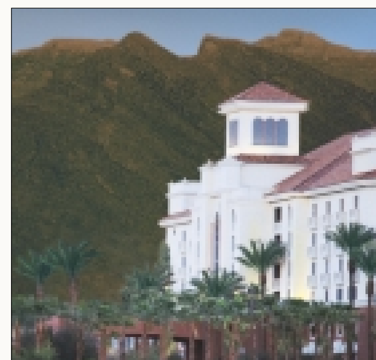
PERIMETER MALL *Atlanta, Georgia*



New Garden Entrance
New Restaurant Space
New Retail Space
New Nordstrom
Rich's
Macy's
JCPenney
Complete Summer, 2000

SUMMERLIN CENTER *Las Vegas, Nevada*



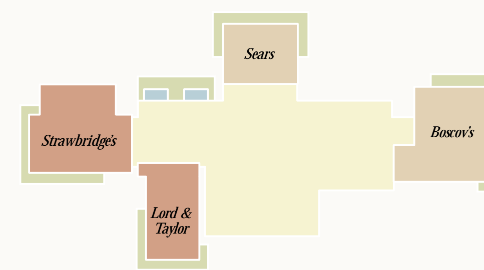


Lord & Taylor
Dillard's
Robinsons-May
Macy's
Retail Space
Restaurant Space
Cinema Complex
Two Additional Department Stores
Opens Spring, 2004

LA CANTERA CENTER *San Antonio, Texas*

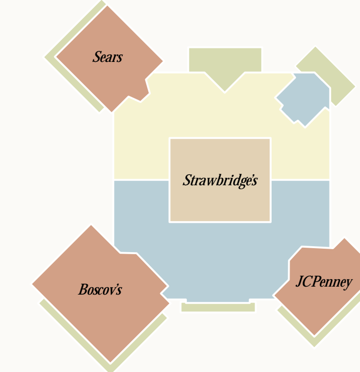
Dillard's
Foley's
Retail Pavilions
Restaurant Space
Garden Courtyards
Cinema Complex
Two Additional Department Stores
Opens Fall, 2003

MOORESTOWN MALL *Moorestown, New Jersey*



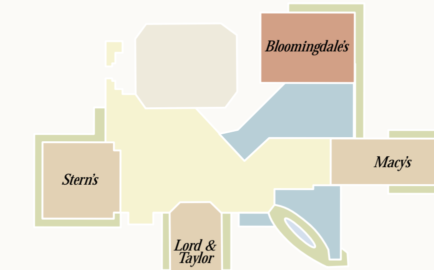
New Lord & Taylor
New Strawbridge's
Sears
Boscov's
Complete Fall, 2000

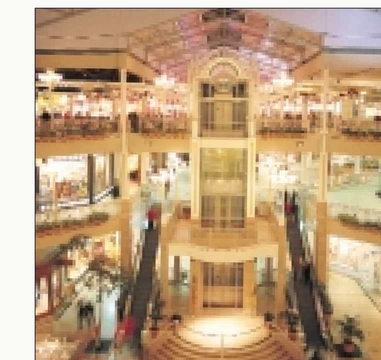
EXTON SQUARE *Exton, New Jersey*



New JCPenney
New Boscov's
New Sears
Strawbridge's
New Retail and Restaurant Space
Complete Spring, 2000

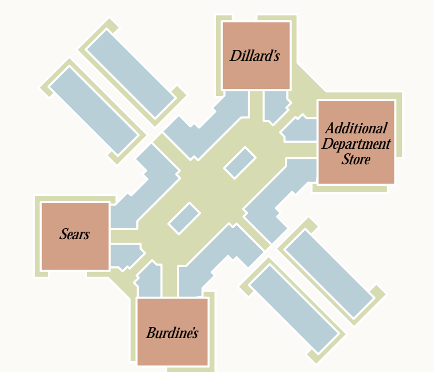
BRIDGEWATER COMMONS *Bridgewater, New Jersey*





New Bloomingdale's
New Retail Space
New Restaurant Space
Lord & Taylor
Macy's
Stern's
Complete Spring, 2001

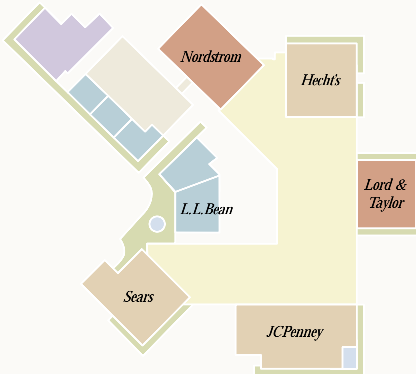
WEST KENDALL CENTER *Miami, Florida*



Burdine's
Dillard's
Sears
Retail and Restaurant Space
Additional Department Store
Opens Spring, 2003

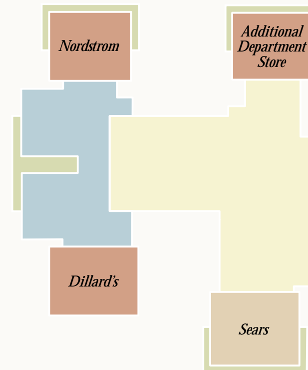
FUTURE PROJECTS

THE MALL IN COLUMBIA *Columbia, Maryland*



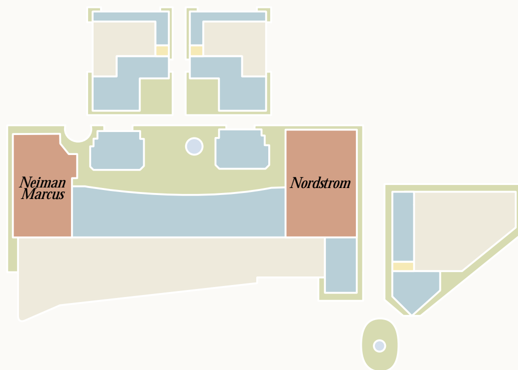
New L.L.Bean
New Cinema Complex
New Premier Restaurants
New Expansion Retail Space
New Nordstrom
New Lord & Taylor
Hecht's
JCPenney
Sears
Complete Fall, 2002

FASHION PLACE *Salt Lake City, Utah*



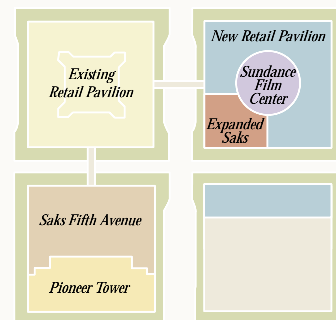
New Nordstrom
New Dillard's
Sears
New Retail Space
New Food Court
Additional Department Store
Complete Fall, 2001

VILLAGE OF MERRICK PARK *Coral Gables, Florida*



Neiman Marcus
Nordstrom
Retail Space
Restaurant Space
Residential and Office Space
New Plazas, Parks and Gardens
Opens Fall, 2002

PIONEER PLACE *Portland, Oregon*



Expanded Saks Fifth Avenue
New Sundance Film Center
New Retail Pavilion
Remerchandised Existing Pavilion
Complete Summer, 2000

PIONEER PLACE
PIONEER PLACE

FINANCIAL REVIEW

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

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Five Year Summary of Funds from Operations and Net Earnings (Loss)	64

Opposite: The expansion of Pioneer Place and its Saks Fifth Avenue store both opened on Wednesday, March 29, 2000. Sundance Cinema is scheduled to be completed and open early 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.

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, 1999 and 1998, 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, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Baltimore, Maryland
February 24, 2000

THE ROUSE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

December 31, 1999 and 1998 (in thousands, except share data)	*1999*	*1998*
Assets		
Property:		
Operating properties:		
Property and deferred costs of projects	$ 3,811,956	$ 4,718,727
Less accumulated depreciation and amortization	574,837	578,311
	3,237,119	4,140,416
Properties in development	288,058	167,360
Properties held for sale	10,984	165,894
Total property	3,536,161	4,473,670
Investments in and advances to unconsolidated real estate ventures	533,341	321,122
Prepaid expenses, receivables under finance leases and other assets	247,279	241,040
Accounts and notes receivable	61,224	75,917
Investments in marketable securities	23,321	13,262
Cash and cash equivalents	25,890	28,688
Total	$ 4,427,216	$ 5,153,699
Liabilities		
Debt:		
Property debt not carrying a Parent Company guarantee of repayment	$ 2,529,334	$ 2,865,119
Parent Company debt and debt carrying a Parent Company guarantee of repayment:		
Property debt	161,585	161,986
Convertible subordinated debentures	—	128,515
Other debt	643,500	903,200
	805,085	1,193,701
Total debt	3,334,419	4,058,820
Accounts payable, accrued expenses and other liabilities	317,252	328,988
Company-obligated mandatorily redeemable preferred securities of a trust holding solely Parent Company subordinated debt securities	136,965	136,965
Commitments and contingencies		
Shareholders' equity		
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 70,693,789 shares in 1999 and 72,225,223 shares in 1998	707	723
Additional paid-in capital	808,277	836,508
Accumulated deficit	(169,974)	(206,520)
Accumulated other comprehensive income (loss)	(471)	(1,826)
Net shareholders' equity	638,580	628,926
Total	$ 4,427,216	$ 5,153,699

The accompanying notes are an integral part of these statements.

THE ROUSE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years ended December 31, 1999, 1998 and 1997 (in thousands, except per share data)	*1999*	*1998*	*1997*
Revenues	$ 715,657	$ 691,345	$ 916,771
Operating expenses, exclusive of provision for bad debts, depreciation and amortization	329,839	349,421	530,076
Interest expense	244,515	209,564	207,490
Provision for bad debts	8,548	7,735	5,766
Depreciation and amortization	100,329	84,068	82,944
Equity in earnings of unconsolidated real estate ventures	76,468	75,769	6,815
Gain (loss) on dispositions of assets and other provisions, net	32,566	(11,174)	(23,484)
Earnings before income taxes, extraordinary items and cumulative effect of changes in accounting principle	141,460	105,152	73,826
Income tax provision (benefit):			
Current	284	(24)	8,137
Deferred—primarily Federal	—	—	(124,203)
	284	(24)	(116,066)
Earnings before extraordinary items and cumulative effect of changes in accounting principle	141,176	105,176	189,892
Extraordinary gain (loss), net	(5,879)	4,355	(21,342)
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, net	—	—	(1,214)
Net earnings	135,297	104,902	167,336
Other items of comprehensive income (loss) — minimum pension liability adjustment	1,355	(1,826)	—
Comprehensive income	$ 136,652	$ 103,076	$ 167,336
Net earnings applicable to common shareholders	$ 123,147	$ 92,752	$ 157,023
Earnings per share of common stock			
Basic:			
Earnings before extraordinary items and cumulative effect of changes in accounting principle	$ 1.79	$ 1.36	$ 2.70
Extraordinary items	(.08)	.07	(.32)
Cumulative effect of changes in accounting principle	—	(.07)	(.02)
Total	$ 1.71	$ 1.36	$ 2.36
Diluted:			
Earnings before extraordinary items and cumulative effect of changes in accounting principle	$ 1.77	$ 1.34	$ 2.59
Extraordinary items	(.08)	.07	(.28)
Cumulative effect of changes in accounting principle	—	(.07)	(.02)
Total	$ 1.69	$ 1.34	$ 2.29

The accompanying notes are an integral part of these statements.

THE ROUSE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1999, 1998 and 1997 (in thousands, except per share amounts)

	Series B Preferred stock	*Common stock*	*Additional paid-in capital*	*Accumulated deficit*	*Accumulated other comprehensive income (loss)*	*Total*
Balance at December 31, 1996	$ —	$ 667	$ 488,849	$ (312,367)	$ —	$ 177,149
Net earnings	—	—	—	167,336	—	167,336
Dividends declared:						
Common stock — $1.00 per share	—	—	—	(66,827)	—	(66,827)
Preferred stock — $2.65 per share	—	—	—	(10,313)	—	(10,313)
Issuance of Series B Preferred stock	41	—	196,787	—	—	196,828
Purchases of common stock	—	(8)	(26,357)	—	—	(26,365)
Common stock issued pursuant to Contingent Stock Agreement	—	8	23,305	—	—	23,313
Proceeds from exercise of stock options, net	—	2	2,077	—	—	2,079
Lapse of restrictions on common stock awards	—	—	2,315	—	—	2,315
Balance at December 31, 1997	41	669	686,976	(222,171)	—	465,515
Net earnings	—	—	—	104,902	—	104,902
Other comprehensive income (loss)	—	—	—	—	(1,826)	(1,826)
Dividends declared:						
Common stock — $1.12 per share	—	—	—	(77,101)	—	(77,101)
Preferred stock — $3.00 per share	—	—	—	(12,150)	—	(12,150)
Purchases of common stock	—	(21)	(65,412)	—	—	(65,433)
Conversion of convertible subordinated debentures	—	1	1,484	—	—	1,485
Common stock issued pursuant to Contingent Stock Agreement	—	21	65,002	—	—	65,023
Other common stock issued	—	50	143,378	—	—	143,428
Proceeds from exercise of stock options, net	—	3	484	—	—	487
Lapse of restrictions on common stock awards	—	—	4,596	—	—	4,596
Balance at December 31, 1998	41	723	836,508	(206,520)	(1,826)	628,926
Net earnings	—	—	—	135,297	—	135,297
Other comprehensive income (loss)	—	—	—	—	1,355	1,355
Dividends declared:						
Common stock — $1.20 per share	—	—	—	(86,601)	—	(86,601)
Preferred stock — $3.00 per share	—	—	—	(12,150)	—	(12,150)
Purchases of common stock	—	(29)	(66,491)	—	—	(66,520)
Conversion of convertible subordinated debentures	—	—	30	—	—	30
Common stock issued pursuant to Contingent Stock Agreement	—	13	34,478	—	—	34,491
Proceeds from exercise of stock options, net	—	—	32	—	—	32
Lapse of restrictions on common stock awards	—	—	3,720	—	—	3,720
Balance at December 31, 1999	$ 41	$ 707	$ 808,277	$ (169,974)	$ (471)	$ 638,580

The accompanying notes are an integral part of these statements.

THE ROUSE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1999, 1998 and 1997 (in thousands)	*1999*	*1998*	*1997*
Cash flows from operating activities			
Rents and other revenues received	$ 694,802	$ 664,854	$ 714,784
Proceeds from land sales and on notes receivable from land sales	24,754	80,017	159,932
Interest received	8,549	14,038	11,877
Land development expenditures	—	—	(97,868)
Operating expenditures	(344,987)	(338,736)	(395,528)
Interest paid	(242,328)	(204,897)	(207,681)
Dividends, interest and other operating distributions from unconsolidated majority financial interest ventures	59,170	45,907	—
Net cash provided by operating activities	199,960	261,183	185,516
Cash flows from investing activities			
Expenditures for properties in development and improvements to existing properties funded by debt	(220,045)	(306,950)	(283,401)
Expenditures for property acquisitions	—	(882,404)	(79,420)
Expenditures for improvements to existing properties funded by cash provided by operating activities:			
Tenant leasing and remerchandising	(781)	(7,955)	(5,964)
Building and equipment	(16,539)	(13,873)	(15,933)
Proceeds from sales of operating properties	255,218	130,070	81,281
Payments received on loans (advances made) to unconsolidated majority financial interest ventures, net	(49,304)	47,483	—
Other	(4,278)	(117)	(26,502)
Net cash used by investing activities	(35,729)	(1,033,746)	(329,939)
Cash flows from financing activities			
Proceeds from issuance of property debt	316,282	650,987	693,525
Repayments of property debt:			
Scheduled principal payments	(51,581)	(50,689)	(46,282)
Other payments	(140,103)	(347,725)	(572,139)
Proceeds from issuance of other debt	200,000	602,000	11,868
Repayments of other debt	(316,948)	(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	(66,520)	(65,433)	(26,365)
Dividends paid	(98,751)	(89,251)	(77,140)
Other	(9,408)	(6,419)	1,522
Net cash provided (used) by financing activities	(167,029)	721,611	180,297
Net increase (decrease) in cash and cash equivalents	(2,798)	(50,952)	35,874
Cash and cash equivalents at beginning of year	28,688	79,640	43,766
Cash and cash equivalents at end of year	$ 25,890	$ 28,688	$ 79,640

The accompanying notes are an integral part of these statements.

	1999	1998	1997
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities			
Net earnings	$135,297	$104,902	$167,336
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	100,329	84,068	82,944
Undistributed earnings of majority financial interest ventures	(31,546)	(41,720)	—
Loss (gain) on dispositions of assets	(41,173)	11,174	23,484
Extraordinary (gain) loss, net	5,879	(4,355)	21,342
Cumulative effect of changes in accounting principle, net	—	4,629	1,214
Participation expense pursuant to Contingent Stock Agreement	30,180	44,075	35,832
Provision for bad debts	8,548	7,735	5,766
Decrease (increase) in:			
Accounts and notes receivable	288	32,507	(70,045)
Other assets	(4,977)	1,845	(2,312)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(2,030)	8,852	48,783
Deferred income taxes	—	—	(124,203)
Other, net	(835)	7,471	(4,625)
Net cash provided by operating activities	$199,960	$261,183	$185,516

	1999	1998	1997
Schedule of Noncash Investing and Financing Activities			
Common stock issued pursuant to Contingent Stock Agreement	$ 34,491	$ 65,023	$ 23,313
Property and other assets contributed to an unconsolidated real estate venture	825,673	—	—
Mortgage debt, other debt and other liabilities related to property and other assets contributed to an unconsolidated real estate venture	423,387	—	—
Other debt repaid on formation of an unconsolidated real estate venture	271,233	—	—
Mortgage debt assumed by purchaser of a property	40,000	—	—
Common stock and other noncash consideration issued in acquisitions of property interests	—	100,000	5,323
Mortgage and other debt assumed or issued in acquisitions of property interests	—	599,795	—
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	30	1,485	—
Capital lease obligations incurred	3,196	2,743	1,101
Debt assumed by purchasers of land	—	2	21,928
Mortgage and other debt of subsidiaries in which a majority voting interest was sold to an affiliate	—	—	280,595
Property of subsidiaries in which a majority voting interest was sold to an affiliate	—	—	547,295

(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 1999.

(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. Provisions are 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 using the interest or straight-line methods, as appropriate, over the periods benefited by the expenditures.

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. Fair values are determined based on estimated future cash flows using appropriate discount and capitalization rates.

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. Generally, 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 liabilities.

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, 1999 and intends for it to meet the qualifications in the future and to distribute at least 95% of its REIT taxable income (determined after taking into account any net operating loss deduction) to shareholders in 2000 and subsequent years. Based on these considerations, management does not believe that the Company will be liable for significant income taxes at the Federal level or in most of the states in which it operates in 2000 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.

(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. Investments in marketable equity securities are classified as trading securities and are carried at market value.

(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 6.

(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 12.

(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 basic and diluted), 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.

(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.

(2) Unconsolidated real estate ventures

Investments in and advances to unconsolidated real estate ventures at December 31, 1999 and 1998 are summarized, based on the level of the Company's financial interest, as follows (in thousands):

	1999	*1998*
Majority interest ventures	$ 349,991	$ 269,141
Joint interest and control ventures	—	1,140
Minority interest ventures	183,350	50,841
Total	$ 533,341	$ 321,122

The equity in earnings of unconsolidated real estate ventures is summarized, based upon the level of the Company's financial interest, as follows (in thousands):

	1999	*1998*	*1997*
Majority interest ventures	$ 61,920	$ 63,475	$ —
Minority interest ventures	14,548	12,294	6,815
Total	$ 76,468	$ 75,769	$ 6,815

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. 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, investments in properties owned jointly with the Company and contracts to manage various operating properties.

The combined balance sheets of these ventures at December 31, 1999 and 1998 are summarized as follows (in thousands):

	1999	*1998*
Assets:		
Operating properties, net	$378,789	$244,470
Properties in development	26,924	66,442
Land held for development and sale	257,773	278,155
Investments in and advances to unconsolidated real estate ventures	107,813	22,689
Advances to the Company	—	112,310
Prepaid expenses, receivables under finance leases and other assets	95,090	95,012
Accounts and notes receivable	88,765	88,438
Cash and cash equivalents	8,194	—
Total	$963,348	$907,516
Liabilities and shareholders' deficit:		
Loans and advances from the Company	$514,792	$487,419
Mortgages payable and other long-term debt	350,646	332,945
Other liabilities	118,525	130,890
Redeemable Series A Preferred stock	50,000	50,000
Shareholders' deficit	(70,615)	(93,738)
Total	$963,348	$907,516

The combined statements of operations of these ventures are summarized as follows (in thousands):

	1999	*1998*
Revenues, excluding interest on loans to the Company	$299,404	$ 272,943
Interest income on loans to the Company	2,647	9,067
Operating expenses	(176,487)	(161,350)
Interest expense, excluding interest on borrowings from the Company	(10,687)	(14,806)
Interest expense on borrowings from the Company	(57,535)	(53,340)
Depreciation and amortization	(13,004)	(10,585)
Equity in earnings (loss) of unconsolidated real estate ventures	(425)	811
Gain on dispositions of assets, net	408	15,856
Income taxes	(19,693)	(22,060)
Extraordinary losses, net	—	(1,127)
Net earnings	$ 24,628	$ 35,409

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

	1999	*1998*
Share of net earnings based on ownership interest	$ 24,382	$ 35,055
Share of extraordinary losses	—	1,116
Participation by others in the Company's share of earnings	(28,796)	(24,152)
Interest on loans and advances, net	54,888	44,273
Eliminations and other, net	11,446	7,183
Equity in earnings of majority interest ventures	$ 61,920	$ 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, 1999 and 1998 and the condensed, combined statements of earnings of these ventures and the Company's proportionate share of their revenues and expenses are summarized as follows (in thousands):

	Combined		*Proportionate Share*	
	1999	*1998*	*1999*	*1998*
Total assets, primarily property	$393,827	$389,565	$186,431	$171,218
Liabilities, primarily long-term debt	$403,138	$273,398	$195,516	$131,790
Venturers' equity (deficit)	(9,311)	116,167	(9,085)	39,428
Total liabilities and venturers' equity (deficit)	$393,827	$389,565	$186,431	$171,218

	Combined			*Proportionate Share*		
	1999	*1998*	*1997*	*1999*	*1998*	*1997*
Revenues	$144,420	$136,447	$123,802	$64,834	$61,102	$55,477
Operating and interest expenses	80,182	71,146	69,825	36,524	32,039	31,528
Depreciation and amortization	13,212	13,440	12,013	4,627	4,502	3,657
Net earnings	$ 51,026	$ 51,861	$ 41,964	$23,683	$24,561	$20,292

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, 1999 and 1998, these ventures were primarily partnerships and corporations which own retail centers. These ventures include a joint venture formed in February 1999 in connection with the Company's contribution of its ownership interests in four retail centers. The Company received a 35% ownership interest in the venture. Prior to December 1998, these minority interest ventures 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, 1999 and 1998 and their condensed, combined statements of earnings are summarized as follows (in thousands):

	1999	*1998*
Total assets, primarily property	$1,356,685	$ 560,185
Liabilities, primarily long-term debt	$ 825,540	$ 380,384
Venturers' equity	531,145	179,801
Total liabilities and venturers' equity	$1,356,685	$ 560,185

	1999	*1998*	*1997*
Revenues	$219,766	$191,456	$ 212,614
Operating and interest expenses	166,030	135,871	148,065
Depreciation and amortization	32,668	32,327	37,423
Gain (loss) on dispositions of assets	33,121	38,915	(11,097)
Net earnings	$ 54,189	$ 62,173	$ 16,029

The Company's share of net earnings of these ventures was $14,548,000, $12,294,000, and $6,815,000 in 1999, 1998 and 1997, respectively.

(3) Property

Operating properties and deferred costs of projects at December 31, 1999 and 1998 are summarized as follows (in thousands):

	1999	*1998*
Buildings and improvements	$3,319,652	$4,113,654
Land	380,465	488,114
Deferred costs	101,028	106,385
Furniture and equipment	10,811	10,574
Total	$3,811,956	$4,718,727

Depreciation expense for 1999, 1998 and 1997 was $87,133,000, $73,646,000, and $70,751,000, respectively. Amortization expense for 1999, 1998 and 1997 was $13,196,000, $10,422,000, and $12,193,000, 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 repaid obligations under the bridge loan facility of $271,233,000 using cash contributed by the other venturers. The fair value of the consideration received in the formation of the joint venture was considered in the Company's allocation of the initial acquisition costs of all of the property interests acquired from TrizecHahn. Accordingly, no gain or loss was recognized on the sale.

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 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. Construction and development in progress includes land and land improvements of $53,463,000 and $63,737,000 at December 31, 1999 and 1998, 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, 1999 and 1998 are summarized as follows (in thousands):

	1999	*1998*
Retails centers	$10,984	$163,307
Office and other properties	—	2,587
Total	$10,984	$165,894

In 1998, the Company acquired the interests in the retail centers held for sale at December 31, 1998, with the intention of selling them. Consequently, revenues of $6,142,000 and operating income of $388,000 in 1999 and revenues of $6,395,000 and operating losses of $723,000 in 1998 relating to them are not included in the consolidated statements of operations and comprehensive income. In June 1999, the Company sold one of these properties at a price approximating its acquisition cost and, accordingly, recognized no gain or loss on the sale. Revenues relating to other properties held for sale were $2,546,000 in 1999, $1,405,000 in 1998 and $17,642,000 in 1997. Operating income from these properties was $247,000 in 1999 and $859,000 in 1998 and an operating loss of $3,558,000 was incurred on them in 1997. All properties held for sale at December 31, 1999 are expected to be sold in 2000.

(4) Accounts and notes receivable

Accounts and notes receivable at December 31, 1999 and 1998 are summarized as follows (in thousands):

	1999	*1998*
Accounts receivable, primarily accrued rents and income under tenant leases	$67,800	$54,261
Notes receivable from sales of properties	3,744	5,497
Notes receivable from sales of land	14,553	35,987
	86,097	95,745
Less allowance for doubtful receivables	24,873	19,828
Total	$61,224	$75,917

Accounts and notes receivable due after one year were $10,432,000 and $23,197,000 at December 31, 1999 and 1998, 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 when the Company's majority interest ventures began conducting land sales operations. 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.

(5) 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, 1999 and 1998 and for the years then ended is summarized as follows (in thousands):

	Pension Plans		*Postretirement Plan*	
	1999	*1998*	*1999*	*1998*
Change in benefit obligations:				
Benefit obligations at beginning of year	$ 72,344	$ 57,440	$ 15,887	$ 14,668
Service cost	4,593	4,609	666	718
Interest cost	4,805	4,549	1,086	1,024
Actuarial loss (gain)	(7,647)	17,194	(1,892)	282
Benefits paid	(5,175)	(11,448)	(852)	(805)
Benefit obligations before special events	68,920	72,344	14,895	15,887
Settlements	(20,679)	—	—	—
Special terminations	5,078	—	—	—
Benefit obligations at end of year	53,319	72,344	14,895	15,887
Change in plan assets:				
Fair value of plan assets at beginning of year	54,984	47,083	—	—
Actual return on plan assets	12,199	7,900	—	—
Employer contribution	18,203	11,449	852	805
Benefits paid	(5,175)	(11,448)	(852)	(805)
Settlements	(20,679)	—	—	—
Fair value of plan assets at year end	59,532	54,984	—	—
Funded status	6,213	(17,360)	(14,895)	(15,887)
Unrecognized net actuarial (gain) loss	4,887	23,784	(1,809)	83
Unamortized prior service cost	6,242	7,652	—	—
Unrecognized transition obligation	669	870	4,331	4,664
Net amount recognized	$ 18,011	$ 14,946	$(12,373)	$(11,140)
Amounts recognized in the balance sheets consist of:				
Prepaid benefit cost	$ 24,060	$ 20,189	$ —	$ —
Accrued benefit liability	(9,803)	(11,382)	(12,373)	(11,140)
Intangible asset	3,283	4,313	—	—
Accumulated other comprehensive income items	471	1,826	—	—
Net amount recognized	$ 18,011	$ 14,946	$(12,373)	$(11,140)
Weighted-average assumptions as of December 31:				
Discount rate	8.00%	7.00%	8.00%	7.00%
Expected rate of return on plan assets	7.25	7.25	—	—
Rate of compensation increase	4.50	4.50	—	—

The assets of the funded plan consist primarily of fixed income and marketable equity securities.

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

	1999	1998	1997
Service cost	$ 4,593	$ 4,609	$ 3,373
Interest cost on projected benefit obligations	4,805	4,549	3,702
Expected return on funded plan assets	(4,049)	(3,479)	(3,239)
Prior service cost recognized	1,410	1,410	1,410
Net loss recognized	1,408	1,281	436
Amortization of transition obligation	201	201	201
Net pension cost before special events	8,368	8,571	5,883
Settlement loss	1,691	—	—
Special termination loss	5,078	—	—
Net pension cost	$15,137	$ 8,571	$ 5,883

The settlement and special termination losses relate to the organizational changes and early retirement program more fully discussed in note 10.

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

	1999	1998	1997
Service cost	$ 666	$ 718	$ 578
Interest cost on accumulated benefit obligations	1,086	1,024	990
Amortization of transition obligation	333	333	333
Net postretirement benefit cost	$2,085	$2,075	$1,901

Because the Company's contributions to the cost of the majority of the participants' medical insurance coverage are fixed, health care cost trend rates do not significantly affect the benefit obligation or service cost under the post retirement plan.

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 1999 and 1998 was $3,947,000 and $3,091,000, respectively.

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. Compensation expense related to this program was not significant in 1999, 1998 and 1997.

(6) Debt

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 expenditures, including debt service, exceed their operating revenues. At December 31, 1999 and 1998, nonrecourse loans include $233,703,000 and $185,574,000, respectively, of subsidiary companies' mortgages and bonds which are subject to agree-

ments 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, 1999 and 1998 is summarized as follows (in thousands):

	1999	*1998*
Mortgages and bonds	$2,572,496	$2,948,324
Convertible subordinated debentures	—	128,515
Medium-term notes	91,500	97,500
Credit facility borrowings:		
Revolving credit facility	174,000	298,000
Bridge facility	—	304,000
Other loans	496,423	282,481
Total	$3,334,419	$4,058,820

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, 1999, bears interest at a weighted-average effective rate of 7.78%, including lender participations in operations. At December 31, 1999, approximately $309,137,000 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 bore interest at 5.75% and were redeemed by the Company in 1999 at an amount 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, 1999, mature at various dates from 2000 to 2015, bear interest at a weighted-average effective rate of 7.75% (including an average rate of 6.24% on $20,000,000 of variable rate notes) and have a weighted-average maturity of 3.8 years.

The Company has a credit facility with a group of lenders that provides for unsecured borrowings of up to $450,000,000. Advances under the facility bear interest at a variable rate based on LIBOR (6.6% at December 31, 1999). The facility is available to July 2001, subject to a one-year renewal option. The group of lenders also provided a bridge facility of up to $350,000,000 that was available solely for specified property acquisitions that were completed in 1998. Borrowings under the bridge facility were repaid on or before July 30, 1999. Payment of borrowings under the credit facility 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 facility.

Other loans include $120,000,000 of 8.5% unsecured notes due in 2003, $200,000,000 of 8% Senior Debt due in 2009, various property acquisition loans and certain other borrowings. These loans include aggregate unsecured borrowings of $472,118,000 and $258,213,000 at December 31, 1999 and 1998, respectively, and at December 31, 1999, bear interest at a weighted-average effective rate of 8.01%.

At December 31, 1999, approximately $1,224,795,000 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, 1999 are summarized as follows (in thousands):

	Nonrecourse Loans	*Company and Recourse Loans*	*Total*
2000	$ 51,933	$ 19,660	$ 71,593
2001	165,552	245,877	411,429
2002	283,111	26,695	309,806
2003	218,250	122,435	340,685
2004	260,018	2,775	262,793
Subsequent to 2004	1,550,470	387,643	1,938,113
Total	$2,529,334	$805,085	$3,334,419

The annual maturities reflect the terms of existing loan agreements except where refinancing commitments from outside lenders have been obtained. In these instances, maturities are determined based on the terms of the refinancing commitments.

At December 31, 1999, the Company had interest rate cap agreements which effectively limit the average interest rate on $63,935,000 of mortgages to 9.0% through May 2002, and $36,000,000 of mortgages to 9.0% through July 2002. The interest rate swap agreements outstanding at December 31, 1999 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, 1999 and 1998 or interest expense for 1999, 1998 and 1997. The fair values of interest rate exchange agreements were insignificant at December 31, 1999 and 1998.

Total interest costs were $264,349,000 in 1999, $229,478,000 in 1998, and $231,098,000 in 1997, of which $19,834,000, $19,914,000, and $23,608,000 were capitalized, respectively.

In 1999 and 1997, the Company recognized net extraordinary losses related to extinguishments of debt prior to scheduled maturity of $5,879,000 and $32,834,000, respectively, before deferred income tax benefits of $11,492,000 in 1997. In 1998, the Company recognized net extraordinary gains of $3,626,000 on such transactions, before deferred income tax benefits of $729,000. The sources of funds used to pay the debt and fund the prepayment penalties, where applicable, were refinancings of properties, the 8% Senior Debt issued in 1999 and the Series B Preferred stock issued in 1997.

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, 1999 and 1998 are summarized as follows (in thousands):

	1999		*1998*	
	Carrying Amount	*Estimated Fair Value*	*Carrying Amount*	*Estimated Fair Value*
Fixed rate debt	$2,746,704	$2,628,268	$3,099,949	$3,198,641
Variable rate debt	587,715	587,715	958,871	958,871
Total	$3,334,419	$3,215,983	$4,058,820	$4,157,512

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.

(7) 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.

(8) Segment information

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 Company defines FFO as net earnings (computed in accordance with generally accepted accounting principles), excluding deferred income taxes, 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's definition of FFO differs from the definition of FFO developed by the National Association of Real Estate Investments Trusts in October 1999 and may differ from definitions 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 (majority financial interest ventures) 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
1999						
Revenues	$583,127	$256,163	$196,475	$ —	$ 2,084	$1,037,849
Operating expenses*	269,460	110,428	143,117	3,707	20,416	547,128
Interest expense	161,203	96,559	3,151	—	(5,711)	255,202
FFO	$152,464	$ 49,176	$ 50,207	$(3,707)	$(12,621)	$ 235,519
1998						
Revenues	$559,821	$214,693	$197,706	$ —	$ 3,797	$ 976,017
Operating expenses*	268,851	101,730	144,732	7,383	24,109	546,805
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*	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

*Operating expenses include provisions for bad debts and current income taxes and exclude depreciation and amortization.

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

	1999	*1998*	*1997*
Revenues:			
Total reported above	$1,037,849	$ 976,017	$927,930
Revenues of majority financial interest ventures, excluding interest on advances to the Company	(299,404)	(272,943)	—
Revenues representing the Company's share of FFO of minority financial interest ventures ventures	(22,128)	(12,753)	(11,159)
Other	(660)	1,024	—
Total in consolidated financial statements	$ 715,657	$ 691,345	$916,771
Operating expenses, exclusive of depreciation and amortization:			
Total reported above	$ 547,128	$ 546,805	$539,050
Operating expenses of majority financial interest ventures	(176,487)	(161,350)	—
Current income taxes applicable to operations	(284)	24	(3,208)
Participation by others in the Company's share of earnings of majority financial interest ventures	(28,796)	(24,152)	—
Other	(3,174)	(4,171)	—
Total in consolidated financial statements	$ 338,387	$ 357,156	$535,842
Interest expense:			
Total reported above	$ 255,202	$ 224,370	$207,490
Interest expense of majority financial interest ventures, excluding interest on borrowings from the Company	(10,687)	(14,806)	—
Total in consolidated financial statements	$ 244,515	$ 209,564	$207,490
Operating results:			
FFO reported above	$ 235,519	$ 204,842	$181,390
Depreciation and amortization	(100,329)	(84,068)	(82,944)
Gain (loss) on dispositions of assets and other provisions, net	32,566	(11,174)	(23,484)
Depreciation and amortization, gain on dispositions of assets and deferred income taxes of unconsolidated real estate ventures, net	(26,580)	(4,380)	(4,344)
Current income taxes (benefit) applicable to operations	284	(24)	3,208
Other	—	(44)	—
Earnings before income taxes, extraordinary items and cumulative effect of changes in accounting principle in consolidated financial statements	$ 141,460	$ 105,152	$ 73,826

The assets by segment at December 31, 1999, 1998 and 1997 are summarized as follows (in thousands):

	1999	1998	1997
Retail centers	$2,873,837	$3,636,874	$ 2,144,334
Office, mixed-use and other properties	1,462,780	1,417,622	1,127,640
Land sales operations	434,195	452,507	552,920
Development	34,680	61,166	165,101
Corporate	105,605	57,933	126,593
Total	$4,911,097	$5,626,102	$ 4,116,588

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):

	1999	1998	1997
Retail centers:			
Expansions and renovations	$ 172,633	$ 231,607	$ 139,608
Improvements for tenants and other	23,015	18,105	15,960
Acquisitions	—	1,042,846	83,985
	195,648	1,292,558	239,553
Office, mixed-use and other properties:			
Expansions and renovations	27,893	24,390	975
Improvements for tenants and other	17,931	10,688	7,667
Acquisitions	—	288,694	550
	45,824	323,772	9,192
Land sales operations:			
Development expenditures	73,240	82,656	131,310
Acquisitions	—	16,993	—
	73,240	99,649	131,310
Development:			
Construction and development costs of new projects	71,890	112,184	153,620
Total	$ 386,602	$1,828,163	$ 533,675

Approximately $163,042,000 and $169,860,000 of the additions in 1999 and 1998, respectively, relate to property owned by the majority financial interest ventures.

(9) Income taxes

The income tax benefit for 1997 is reconciled to the amount computed by applying the Federal corporate tax rate as follows (in thousands):

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

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, 1999, and intends for it 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 1999 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, 1999, the income tax bases of the Company's assets and liabilities were approximately $3,148,000,000 and $3,673,000,000, respectively. The net operating loss carryforward at December 31, 1999 for Federal income tax purposes aggregated approximately $220,000,000 and will expire from 2005 to 2011.

In connection with its election to be taxed as a REIT, the Company also elected to be subject to the "built-in gain" rules. In February 2000, temporary and proposed regulations were issued providing guidance regarding the application of the "built-in gain" rules to REITs and are effective retroactive to June 10, 1987. The regulations require a REIT to refile its election to be subject to the "built-in gain" rules. The Company intends to refile its election with respect to assets owned by the Company on the date of conversion to REIT status. Under these rules, taxes will 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. At December 31, 1999, net unrealized gains increased to approximately $2,465,000,000 as a result of certain property acquisitions in 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 certain built-in gains which might be recognized and the potential for the Company to make nontaxable dispositions, if necessary. At December 31, 1999, the regular tax net operating loss carryforward is sufficient to offset built-in gains on assets the Company has classified as held for sale 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. The REIT Modernization Act (RMA) was included in the Tax Relief Extension Act of 1999, which was enacted into law on December 17, 1999. The RMA includes numerous amendments to provisions governing the qualification and taxation of REITs. These amendments are effective January 1, 2001. The Company is in the process of evaluating the effects of these amendments.

(10) Gain (loss) on dispositions of assets and other provisions, net

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

	1999	*1998*	*1997*
Net gain (loss) on operating properties	$41,173	$ (6,109)	$(22,426)
Other, net	(8,607)	(5,065)	(1,058)
Total	$32,566	$(11,174)	$(23,484)

The net gain on operating properties in 1999 relates primarily to a gain on a retail center sold in the fourth quarter ($61,970,000) and a gain on an other property sold in the second quarter ($6,384,000), partially offset by impairment losses on two retail centers ($28,142,000). During the fourth quarter, the Company changed its plans and intentions as to the manner in which these two centers would be operated in the future and revised estimates of the most likely holding periods. As a result, the Company evaluated the recoverability of the carrying amounts of the centers, determined that the carrying amounts of the centers were not recoverable from future cash flows and recognized impairment losses. The other net loss in 1999 relates primarily to the Company's consolidation of the management and administration of its Retail Operations and Office and Mixed-Use Operations divisions into a single Property Operations Division during the second quarter and the integration of certain operating, administrative and support functions of the Hughes Division into other divisions. The costs relating to these organizational changes, primarily severance and other benefits to terminated employees, aggregated approximately $6,600,000. Also, in October 1999, the Company adopted a voluntary early retirement program in which employees who met certain criteria were eligible to participate. The Company recognized a provision of approximately $2,500,000 for costs associated with this program for employees who accepted early retirement prior to December 31, 1999.

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 would 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).

(11) 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 redeemed all of the outstanding shares of Series A Convertible Preferred stock in exchange for common stock in 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.

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 12. These shares are issuable only in limited circumstances and no shares have been issued. There were no shares of 10.25% Junior Preferred stock, Series 1996, outstanding at December 31, 1999 and 1998.

(12) Common stock

At December 31, 1999, shares of authorized and unissued common stock are reserved as follows: (a) 15,571,192 shares for issuance under the Contingent Stock Agreement discussed below; (b) 8,299,597 shares for issuance under the Company's stock option and stock bonus plans; (c) 5,309,955 shares for conversion of the Series B Convertible Preferred stock; and (d) 1,929,000 shares for conversion of convertible property debt.

In connection with the acquisition of The Hughes Corporation (Hughes) in 1996, 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, 1999, a distribution of approximately 657,000 shares ($14,208,000) 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 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:

	1999		*1998*		*1997*	
	Shares	*Weighted-average Exercise Price*	*Shares*	*Weighted-average Exercise Price*	*Shares*	*Weighted-average Exercise Price*
Balance at beginning of year	5,434,214	$25.91	4,670,138	$24.90	2,765,779	$20.18
Options granted	1,125,641	22.90	1,210,402	29.06	2,155,901	30.45
Options exercised	(128,232)	16.89	(263,076)	19.48	(239,942)	20.16
Options expired or cancelled	(168,395)	26.38	(183,250)	30.36	(11,600)	28.76
Balance at end of year	6,263,228	$25.54	5,434,214	$25.91	4,670,138	$24.90

Information about stock options outstanding at December 31, 1999 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	1,527,729	4.7	$18.87	1,323,827	$18.72
$20.94 to $31.375	4,344,827	7.3	27.24	1,572,761	27.54
$31.50 to $32.875	390,672	7.1	32.69	86,144	32.43
	6,263,228	6.6	$25.54	2,982,732	$23.77

At December 31, 1998 and 1997, options to purchase 1,930,918 and 1,594,705 shares, respectively, were exercisable at per share weighted-average prices of $21.56 and $21.07, respectively.

The per share weighted-average estimated fair values of options granted during 1999, 1998 and 1997 were $3.15, $3.17, and $8.34, respectively. These fair values were estimated on the dates of each grant using the Black-Scholes option-pricing model with the following assumptions:

	1999	*1998*	*1997*
Risk-free interest rate	5.4%	4.6%	6.0%
Dividend yield	5.5	6.0	3.5
Volatility factor	20.0	21.8	28.0
Expected life in years	6.7	6.6	6.9

The option prices were greater than or equal to the market prices at the date of grant for all of the options granted in 1999, 1998 and 1997 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):

	1999	*1998*	*1997*
Net earnings:			
As reported	$135,297	$104,902	$167,336
Pro forma	129,763	99,653	164,445
Earnings per share of common stock:			
Basic:			
As reported	1.71	1.36	2.36
Pro forma	1.63	1.28	2.32
Diluted:			
As reported	1.69	1.34	2.29
Pro forma	1.62	1.27	2.25

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. No awards were granted in 1999. Awards granted in 1998 and 1997 aggregated 164,850 and 49,000 shares, respectively, with a weighted-average market value per share of $27.54 and $31.25, 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, 1999, 1998 and 1997 were $2,523,000, $4,012,000, and $5,710,000, 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 $5,123,000 in 1999, $5,572,000 in 1998, and $5,807,000 in 1997.

(13) Earnings per share

Information relating to the calculations of earnings per share of common stock is summarized as follows (in thousands):

	1999		1998		1997	
	Basic	*Diluted*	*Basic*	*Diluted*	*Basic*	*Diluted*
Earnings before extraordinary items and cumulative effect of changes in accounting principle	$141,176	$141,176	$105,176	$105,176	$189,892	$189,892
Dividends on unvested common stock awards and other	(466)	(909)	(622)	(427)	(632)	(552)
Dividends on Preferred stock	(12,150)	(12,150)	(12,150)	(12,150)	(10,313)	—
Interest on convertible subordinated debentures	—	3,222	—	—	—	7,475
Adjusted earnings before extraordinary items and cumulative effect of changes in accounting principle used in EPS computation	$128,560	$131,339	$ 92,404	$ 92,599	$178,947	$196,815
Weighted-average shares outstanding	71,705	71,705	67,874	67,874	66,201	66,201
Dilutive securities:						
Options, warrants and unvested common stock awards	—	563	—	985	—	753
Convertible Preferred stock	—	—	—	—	—	4,509
Convertible subordinated debentures	—	1,931	—	—	—	4,542
Adjusted weighted-average shares used in EPS computation	71,705	74,199	67,874	68,859	66,201	76,005

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

(14) Leases

The Company, as lessee, has entered into operating leases expiring at various dates through 2076. Rents under such leases aggregated $10,728,000 in 1999, $8,096,000 in 1998, and $9,147,000 in 1997, including contingent rents, based on the operating performance of the related properties, of $5,132,000, $2,330,000, and $3,158,000, 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, 1999 are summarized as follows (in thousands):

2000	$ 7,165
2001	7,202
2002	7,230
2003	7,206
2004	6,660
Subsequent to 2004	278,149
Total	$313,612

Space in the Company's operating properties is leased to approximately 5,250 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):

	1999	*1998*	*1997*
Minimum rents	$434,744	$384,900	$387,488
Percentage rents	12,210	13,071	14,999
Other rents	212,279	204,862	213,005
Total	$659,233	$602,833	$615,492

The minimum rents to be received from tenants under operating leases in effect at December 31, 1999 are summarized as follows (in thousands):

2000	$ 392,990
2001	345,818
2002	302,872
2003	255,142
2004	211,246
Subsequent to 2004	665,075
Total	$2,173,143

Rents under finance leases aggregated $9,055,000 in 1999, $9,332,000 in 1998, and $9,316,000 in 1997. The net investment in finance leases at December 31, 1999 and 1998 is summarized as follows (in thousands):

	1999	*1998*
Total minimum rent payments to be received over lease terms	$141,466	$157,374
Estimated residual values of leased properties	3,890	5,695
Unearned income	(65,996)	(75,717)
Net investment in finance leases	$ 79,360	$ 87,352

Minimum rent payments to be received from tenants under finance leases in effect at December 31, 1999 are $8,468,000, $9,191,000, $9,256,000, $9,256,000 and $9,452,000 for 2000, 2001, 2002, 2003 and 2004, respectively.

(15) 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 $60,000,000 at December 31, 1999.

At December 31, 1999, subsidiaries of the Company have contingent liabilities of approximately $17,505,000 with respect to future minimum rents under long-term lease obligations of certain unconsolidated real estate ventures and approximately $9,053,000 with respect to bank letters of credit issued to secure their obligations under certain agreements.

At December 31, 1999, the Company had a shelf registration statement for future sale of up to an aggregate of $1.9 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.

(16) New accounting standards not yet adopted

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137 (Statement 137), an amendment to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133), issued in June 1998. Statement 137 defers the required adoption date of Statement 133 for the Company to no later than January 1, 2001. 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 limited use of derivative instruments.

Five Year Comparison of Selected Financial Data

Years ended December 31, (in thousands, except per share data)	*1999*	*1998*	*1997*	*1996*	*1995*
Operating results data:					
Revenues from continuing operations	$ 715,657	$ 691,345	$ 916,771	$ 821,036	$ 672,821
Earnings from continuing operations	141,176	105,176	189,892	17,886	5,850
Basic earnings (loss) from continuing operations applicable to common shareholders per share of common stock	1.79	1.36	2.70	.13	(.19)
Diluted earnings (loss) from continuing operations applicable to common shareholders per share of common stock	1.77	1.34	2.59	.12	(.19)
Balance sheet data:					
Total assets	4,427,216	5,153,699	3,589,768	3,643,452	2,985,609
Debt and capital leases	3,345,361	4,068,459	2,684,140	2,895,447	2,538,315
Shareholders' equity	638,580	628,926	465,515	177,149	42,584
Shareholders' equity per share of common stock (note 1)	8.40	8.11	6.45	2.65	.73
Other selected data:					
Funds from Operations (note 2)	235,519	204,842	181,390	139,359	108,360
Net cash provided (used) by:					
Operating activities	199,960	261,183	185,516	168,126	107,001
Investing activities	(35,729)	(1,033,746)	(329,939)	(182,995)	(64,995)
Financing activities	(167,029)	721,611	180,297	(36,287)	3,518
Dividends per share of common stock	1.20	1.12	1.00	.88	.80
Dividends per share of convertible Preferred stock	3.00	3.00	2.65	2.44	3.25
Market price per share of common stock at year end	21.25	27.50	32.75	31.75	20.13
Market price per share of convertible Preferred stock at year end	32.63	43.38	50.50	—	51.63
Weighted-average common shares outstanding (basic)	71,705	67,874	66,201	54,913	47,375
Weighted-average common shares outstanding (diluted)	74,199	68,859	76,005	55,311	47,375

Note 1—For 1999, 1998 and 1997, shareholders' equity per share of common stock assumes conversion of the Series B Convertible Preferred stock issued in 1997. For 1995, 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 58 for further discussion of FFO.

Interim Financial Information (Unaudited)

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

	Quarter ended							
	December 31, 1999	September 30, 1999	June 30, 1999	March 31, 1999	December 31, 1998	September 30, 1998	June 30, 1998	March 31, 1998
Revenues	$183,370	$175,644	$176,601	$180,042	$201,024	$164,008	$154,741	$171,572
Operating income	25,831	26,742	29,427	26,894	25,562	28,938	29,123	32,703
Earnings before extraordinary items	56,631	26,657	29,962	27,926	19,868	21,512	29,264	34,532
Net earnings	51,665	26,654	29,052	27,926	19,549	19,611	36,755	28,987
Earnings per common share								
Basic:								
Earnings before extraordinary iems	$ .75	$ .33	$ .37	$ .34	$ .24	$ .27	$ .38	$ .47
Extraordinary gains (losses)	(.07)	—	(.01)	—	—	(.03)	.11	(.01)
Cumulative effect of accounting changes	—	—	—	—	—	—	—	(.07)
Total	$ .68	$ .33	$ .36	$ .34	$ .24	$ .24	$ .49	$ .39
Diluted:								
Earnings before extraordinary items	$ .73	$ .32	$ .37	$ .34	$ .24	$ .27	$ .37	$ .46
Extraordinary gains (losses)	(.07)	—	(.01)	—	—	(.03)	.11	(.01)
Cumulative effect of accounting changes	—	—	—	—	—	—	—	(.07)
Total	$ .66	$ .32	$ .36	$ .34	$ .24	$ .24	$ .48	$ .38

Note—Extraordinary gains (losses) relate to early extinguishments of debt. Net earnings for the fourth quarter of 1999 includes a gain on sale of a retail center of $61,970,000 ($.86 per share basic, $.84 per share diluted) and provisions for impairment losses on two retail centers of $28,142,000 ($.39 per share basic, $.38 per share diluted). 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).

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, 1999	September 30, 1999	June 30, 1999	March 31, 1999	December 31, 1998	September 30, 1998	June 30, 1998	March 31, 1998
High	$23.25	$25.19	$27.06	$27.44	$28.88	$32.19	$32.81	$34.69
Low	19.88	22.56	21.25	21.94	23.63	24.81	28.88	29.75
Dividends	.30	.30	.30	.30	.28	.28	.28	.28

Number of Holders of Common Stock

The number of holders of record of the Company's common stock as of February 24, 2000 was 2,013.

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.

One of the Company's primary objectives is to own and operate premier operating properties - shopping centers, geographically concentrated 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 and evaluating the outlook for properties in its portfolio that have prospects consistent with the Company's long-term investment criteria. 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 mall space and/or add new department stores and/or other anchor tenants 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 prospects consistent with its objectives. The Company has disposed of interests in more than 35 properties since 1993 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. In September 1999, the Company announced that it would pursue developing a strategy to sell interests in certain office and industrial properties and land parcels, and use the proceeds to repay debt and repurchase (subject to certain price restrictions) up to $250 million of the Company's common stock. Management subsequently identified the specific properties the Company may sell (mostly office and industrial buildings in the Baltimore-Washington corridor and certain business parks in Las Vegas) and was developing alternative disposition plans and structures at December 31,1999. The Company may also selectively dispose of properties for other reasons. These 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, and, taken together with the use of sales proceeds, may have a material effect on the overall consolidated financial position of the Company.

In 1999, 1998 and 1997, the Company and its affiliates completed several acquisition and disposition transactions designed to upgrade the overall quality of its portfolio of operating properties. This acquisition and disposition activity is summarized as follows:

Acquisitions			
Retail Centers	*Date Acquired*	*Office, mixed-use and other*	*Date Acquired*
Moorestown Mall	December 1997	Inglewood Business Center (2)	December 1998
Park Meadows (1)	August 1998	Hunt Valley Business Center (2)	December 1998
Fashion Place Mall (1)	October 1998	Rutherford Business Center (2)	December 1998
The Fashion Show (3)	October 1998	Senate Plaza (2)	December 1998
Towson Town Center (1)	October 1998		
Governor's Square (3)	November 1998		
Bridgewater Commons (1)	December 1998		

Dispositions

Retail Centers	*Disposition Date*	*Office, mixed-use and other*	*Disposition Date*
Almeda Mall	October 1997	Howard Hughes Center (1 building)	May 1997
Northwest Mall	October 1997	Hughes Center (1 building)	December 1997
The Citadel (4)	December 1997	Hughes Airport Center (1 building)	December 1997
Harundale Mall	December 1997	Columbia Inn	March 1998
Salem Centre (4)	December 1997	Cross Keys Inn	March 1998
Eastfield Mall	April 1998	Howard Hughes Center (1 building)	March 1998
Salem Mall	June 1998	Gateway Commerce Center (2 buildings)	June 1998
College Square (4)	June 1998	Lucky's Center	June 1999
Marshall Town Center (4)	June 1998		
Muscatine Mall (4)	June 1998		
North Grand (4)	June 1998		
Westland Mall (4)	June 1998		
Greengate Mall	August 1998		
St. Louis Union Station	September 1998		
Northwest Arkansas Mall (4)	December 1998		
Santa Monica Place	October 1999		

Notes:

(1) Properties were contributed to a joint venture in which the Company retained a 35% ownership interest in February 1999.

(2) Properties are primarily office and industrial buildings (64 in total) in the Baltimore-Washington metropolitan area which were acquired from an entity in which the Company held a 5% ownership interest.

(3) The Company purchased partners' ownership interests.

(4) The Company held a 5% ownership interest in these properties.

In 1999, 1998 and 1997 the Company and its affiliates completed a number of development projects to enhance the property portfolio. This development activity is summarized as follows:

Development activities

Retail Centers	*Date Opened*	*Office, mixed-use and other*	*Date Opened*
Beachwood Place Expansion	October 1997	Hughes Airport Center (3 buildings)	March 1997
River Hill Village Center	November 1997	Hughes Center (3 buildings)	May 1997
Summerlin Village Centers	February 1998	Summerlin Commercial (3 buildings)	June 1997
Perimeter Mall Expansion	February 1998	Hughes Cheyenne Center (1 building)	September 1997
Augusta Mall Expansion	March 1998	Hughes Airport Center (2 buildings)	February 1998
Oviedo Marketplace	March 1998	Arizona Center Cinema	March 1998
Paramus Park Expansion	July 1998	Summerlin Commercial (2 buildings)	March 1998
White Marsh Expansion	September 1998	Hughes Center (3 buildings)	May 1998
Echelon Mall Expansion	October 1998	Park Square, Columbia Office	January 1999
Mall St. Matthews Expansion	October 1998	Hughes Airport Center (1 building)	May 1999
The Mall in Columbia Expansion—Phase I	November 1998	Summerlin Commercial (3 buildings)	September 1999
Owings Mills Expansion	November 1998	Hughes Center (1 building)	October 1999
Plymouth Meeting Expansion	December 1998		
Columbia Village Center Redevelopment	Various 1998		
Oakwood Center Expansion	March 1999		
The Mall in Columbia Expansion—Phase II	September 1999		
Exton Square Expansion	November 1999		
Moorestown Mall Expansion	November 1999		

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 15% in 1999 and 13% in 1998, including increases of 9% and 14%, respectively, from retail centers, 40% and 32%, respectively, from office/mixed-use properties and 3% and 4%, respectively, from land sales operations. These results are attributable to several factors, including:

- the acquisition, disposition and development activities referred to above,
- higher occupancy levels in retail and office properties,
- higher rents on re-leased space,
- corporate cost reduction measures,
- 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 2000. The prospects for growth from retail centers remain positive as the Company should benefit from a full year of operations of properties expanded in 1999 and continued strong occupancy levels in existing projects. The Company also expects continued strong performance from its office/mixed-use properties however; FFO from these properties may decline if possible sales of certain properties referred to above are completed. FFO from land sales should also remain strong in 2000, assuming continued favorable 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 8 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 64, should be referred to when reading this discussion and analysis. As discussed in note 8, 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 or FFO 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 8.

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):

	1999	*1998*	*1997*
Revenues	$583.1	$559.8	$503.6
Operating expenses, exclusive of depreciation and amortization	269.4	268.8	258.2
Interest expense	161.2	150.9	122.3
	152.5	140.1	123.1
Depreciation and amortization	80.2	63.1	51.2
Operating income	$ 72.3	$ 77.0	$ 71.9

Revenues increased $23.3 million in 1999 and $56.2 million in 1998. The increase in 1999 was attributable primarily to properties opened or expanded (approximately $17 million) and acquired (approximately $14 million) in 1999 and 1998, higher average occupancy levels (94.5% in 1999 as compared to 92.5% in 1998) and higher rents on re-leased space. These increases were partially offset by dispositions of interests in properties in 1999 and 1998 (approximately $19 million). The increase in 1998 was attributable primarily to properties opened or expanded (approximately $25 million) and 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).

Total operating and interest expenses (exclusive of depreciation and amortization) increased $10.9 million in 1999 and $39.2 million in 1998. The increase in 1999 was attributable primarily to properties opened or expanded (approximately $20 million) and acquired (approximately $5 million) in 1999 and 1998. These increases were partially offset by dispositions of interests in properties in 1999 and 1998 (approximately $18 million). The increase in 1998 was attributable primarily to properties opened and 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). Depreciation and amortization expense increased $17.1 million in 1999 and $11.9 million in 1998. These increases 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):

	1999	*1998*	*1997*
Revenues	$ 256.2	$214.7	$216.6
Operating expenses, exclusive of depreciation and amortization	110.4	101.7	108.1
Interest expense	96.6	77.9	81.9
	49.2	35.1	26.6
Depreciation and amortization	40.9	34.2	34.8
Operating income (loss)	$ 8.3	$ .9	$ (8.2)

Revenues increased $41.5 million in 1999 and decreased $1.9 million in 1998. The increase in 1999 was attributable primarily to properties acquired in 1998 (approximately $38 million) and new properties opened in 1999 and 1998 (approximately $9 million). These increases were partially offset by dispositions of properties in 1999 and 1998 (approximately $7 million). The decrease in 1998 was attributable primarily to dispositions of properties in 1998 (approximately $21 million). These decreases were substantially offset by properties acquired in 1998 (approximately $5 million) and opened in 1998 and 1997 (approximately $9 million), and higher average occupancy levels (96.3% in 1998 as compared to 93.4% in 1997) at comparable properties.

Total operating and interest expenses (exclusive of depreciation and amortization) increased $27.4 million in 1999 and decreased $10.4 million in 1998. The increase in 1999 was attributable primarily to properties acquired in 1998 (approximately $32 million) and new properties opened in 1999 and 1998 (approximately $5 million). These increases were partially offset by dispositions of properties in 1999 and 1998 (approximately $6 million) and by lower expenses due to the integration of certain operating, administrative and support functions of the Hughes Division into other divisions. The decrease in 1998 was attributable primarily to the dispositions of properties in 1998 and 1997 (approximately $18 million) and to the repayment and refinancing of certain property debt. These decreases were partially offset by the properties acquired (approximately $4 million) and opened (approximately $5 million) in 1998 and 1997. Depreciation and amortization expense increased $6.7 million in 1999. This increase was attributed primarily to the net effect of the changes in the Company's portfolio of office/mixed-use 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):

	1999	1998	1997
Hughes Land Operations:			
Revenues:			
Summerlin	$108.6	$ 99.6	$128.8
Other	23.8	52.6	34.4
Operating costs and expenses:			
Summerlin	85.5	78.6	101.2
Other	21.5	41.9	28.8
Interest expense	.2	.3	.5
Operating income	$ 25.2	$ 31.4	$ 32.7
Columbia and Other:			
Revenues	$ 64.1	$ 45.5	$ 40.0
Operating costs and expenses	36.1	24.2	21.8
Interest expense	3.0	3.9	3.8
Operating income	$ 25.0	$ 17.4	$ 14.4
Total Land Sales Operations:			
Revenues	$196.5	$197.7	$203.2
Operating costs and expenses	143.1	144.7	151.8
Interest expense	3.2	4.2	4.3
Operating income	$ 50.2	$ 48.8	$ 47.1

The increases in revenues and operating income in 1999 relating to Summerlin were attributable to higher levels of land sold for residential purposes. The decreases in revenues and operating income relating to other Hughes land holdings in 1999 were attributable to lower levels of land sales at master planned business parks. 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 relating to other Hughes land holdings in 1998 were attributable to higher levels of land sales at 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 in 1998.

Revenues and operating income from land sales in Columbia and other developments increased $18.6 million and $7.6 million, respectively, in 1999 and $5.5 million and $3.0 million, respectively, in 1998. These increases were attributable primarily to higher levels of land sales for commercial purposes.

Development: Development expenses were $3.7 million in 1999, $7.4 million in 1998 and $4.7 million in 1997. These costs consist primarily of preconstruction expenses and new business costs.

Preconstruction expenses relate to retail and mixed-use property development opportunities which may not go forward to completion. Preconstruction expenses were $1.9 million in 1999, $1.7 million in 1998 and $2.8 million in 1997. New business costs relate primarily to the initial evaluation of potential acquisition and development opportunities. These costs were $1.8 million in 1999, $5.7 million in 1998 and $1.9 million in 1997. 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 investment of unallocated proceeds from refinancings of certain properties. Corporate interest income was $2.1 million in 1999, $3.8 million in 1998 and $4.5 million in 1997. 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. Corporate interest expense consists primarily of interest on the 8% Senior Debt, 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, current federal income taxes and distributions on the redeemable preferred securities.

Corporate interest costs were $8.6 million in 1999, $6.3 million in 1998 and $13.9 million in 1997. Interest of $14.3 million, $14.9 million and $14.9 million was capitalized in 1999, 1998 and 1997, respectively, on funds invested in development projects. The increase in corporate interest costs in 1999 was attributable primarily to interest expense incurred on the 8% Senior Debt issued in May 1999, partially offset by lower interest expense on the convertible subordinated debentures that were repaid using a portion of the proceeds from the issuance of the 8% Senior Debt. The decrease in corporate interest costs in 1998 was attributable primarily to allocations of debt to other segments to fund property acquisitions and certain capital expenditures.

Gain (Loss) on Dispositions of Assets and Other Provisions, Net: Gain (loss) on dispositions of assets and other provisions, net, including the Company's share of those recorded by unconsolidated real estate ventures, is summarized as follows (in millions):

	1999	*1998*	*1997*
Net gain (loss) on operating properties	$ 44,018	$12,284	$(22,426)
Other, net	(10,815)	(4,494)	(1,058)
	$ 33,203	$ 7,790	$(23,484)

The net gain on operating properties in 1999 consisted primarily of a gain on a retail center sold in the fourth quarter ($62 million) and gains on three other properties sold during the year ($9 million), partially offset by impairment losses on two retail centers ($28 million). During the fourth quarter, the Company changed its plans and intentions as to the manner in which these centers would be operated in the future and revised estimates of the most likely holding periods. As a result, the Company evaluated the recoverability of the carrying amounts of the centers, determined that the carrying amounts were not recoverable from future cash flows and recognized impairment losses. The other net loss in 1999 relates primarily to the Company's consolidation of the management and administration of its Retail Operations and Office and Mixed-Use divisions into a single Property Operations Division during the second quarter and the integration of certain operating, administrative and support functions of the Hughes Division into other divisions. The costs relating to these organizational changes, primarily severance and other benefits to terminated employees of the Company and its affiliates, aggregated approximately $7.4 million. Also, in October 1999, the Company and its affiliates adopted voluntary early retirement programs in which employees who met certain criteria were eligible to participate. The Company and its affiliates recognized provisions of approximately $4 million for costs associated with this program for employees who accepted early retirement prior to December 31, 1999.

The net gain on operating properties in 1998 consisted primarily of gains on a hotel and industrial properties sold by an affiliate ($16 million) and a gain on the sale of an interest in a portfolio of retail centers ($3 million), partially offset by a loss on the disposal of a retail center ($8 million). The other net loss in 1998 related primarily to a loss on a treasury lock contract ($6 million) that no longer qualified for hedge accounting because the Company determined that the related anticipated financing transaction would not occur under the terms and timing originally expected.

The net loss on operating properties in 1997 consisted primarily of losses recognized on several retail centers, an industrial property and a hotel the Company decided to sell, partially offset by gains on the sales of five office buildings ($5 million).

Extraordinary Items, Net of Related Income Tax Benefits: The extraordinary losses resulting from early extinguishment of debt were $5.9 million and $32.8 million in 1999 and 1997, respectively, before deferred income tax benefits of $11.5 million in 1997. In 1998, the Company and its affiliates recognized extraordinary gains from early extinguishment of debt of $3.6 million before deferred income tax benefits of $.8 million.

Net Earnings: The Company had net earnings of $135.3 million in 1999, $104.9 million in 1998 and $167.3 million in 1997. The Company's operating income (after depreciation and amortization) was $108.9 million in 1999, $116.3 million in 1998 and $97.3 million in 1997. The changes in operating income were due primarily to the factors discussed 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 meet the qualifications in the future and does not expect that the Company will be liable for significant 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. 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 rate was high in 1997 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 is referred to as Funds from Operations ("FFO"). The Company defines FFO as net earnings (loss) (computed in accordance with generally accepted accounting principles), excluding deferred income taxes, 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 definition used by the Company to compute FFO differs from that used by the National Association of Real Estate Investment Trusts (NAREIT) and may differ from definitions 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. 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 were excluded. Management believes this exclusion is appropriate because 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 65.

FFO was $235.5 million in 1999, $204.8 million in 1998 and $181.4 million in 1997. The increases in FFO in 1999 and 1998 were due primarily to the property acquisitions, expansions and dispositions referred to above, higher occupancy levels, and higher rents from re-leased space. The reasons for significant changes in revenues and expenses comprising FFO by segment are discussed above.

In October 1999, NAREIT clarified the definition of FFO to address diversity in practice with respect to the treatment of unusual and/or nonrecurring items. Under the revised definition, FFO will include deferred income taxes and all unusual and/or nonrecurring items that are included in net income, except for gains and losses from sales of depreciable operating properties and items that are defined as extraordinary items under generally accepted accounting principles. The clarified definition is effective January 1, 2000 and is applicable retroactively. If the change had been effective for 1999, 1998 and 1997, the Company's FFO calculated in accordance with the revised definition would have been $218.2 million, $190.2 million and $299.6 million (including the reversal of recorded deferred tax assets and liabilities referred to above), respectively.

Financial condition, liquidity and capital resources

Management believes that the Company's liquidity and capital resources are adequate for near-term and longer-term requirements. Shareholders' equity increased to $638.6 million at December 31, 1999 from $628.9 million at December 31, 1998. The increase was due primarily to net earnings for the year, partially offset by the payment of regular quarterly dividends on the common and Preferred stocks and net repurchases of common stock.

The Company had cash and cash equivalents and investments in marketable securities totaling $49.2 million and $41.9 million at December 31, 1999 and 1998, respectively.

Net cash provided by operating activities was $200.0 million, $261.2 million and $185.5 million in 1999, 1998 and 1997, 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 rents and other revenues (including proceeds of land sales financed by the Company prior to 1998) and the payment of operating and interest expenses. The level of cash provided by operating distributions from unconsolidated majority financial interest ventures is affected by the timing of receipt of their land sales revenues, payment of operating and interest expenses and other sources and uses of cash.

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 from a group of lenders. The facility is available until July 2001 and is subject to a one year renewal option. The group of lenders also provided a bridge facility that was available solely for specified property acquisitions that were completed in 1998. Related borrowings were repaid on or before July 30, 1999. 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 2000 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 $51.6 million, $50.7 million and $46.3 million in 1999, 1998 and 1997, respectively.

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

	Scheduled Payments	*Balloon Payments*	*Total*
2000	$ 55	$ 17	$ 72
2001	61	350	411
2002	63	247	310
2003	67	274	341
2004	67	196	263
	$313	$1,084	$1,397

Of the balloon payments due in 2001, $174 million represents borrowings under the Company's credit facility. The Company has an option to renew this facility for one year. The remaining balloon payments due in 2001 are expected to be paid at or before the scheduled maturity dates of the related loans from property refinancings, credit facility borrowings or other available corporate funds.

Cash expenditures for properties in development and improvements to existing properties funded by debt were $220.0 million, $307.0 million and $283.4 million in 1999, 1998 and 1997, respectively. These expenditures relate primarily to 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 facility borrowings. In many cases, 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 tenant 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 facility borrowings.

Due to the large number of projects in development, the Company anticipates that the level of capital expenditures for new development and improvements to existing properties will exceed $200 million in 2000. A substantial portion of these expenditures relates to new properties or retail center expansions and it is expected that a majority of these costs will be financed by debt, including property-specific construction loans and/or credit line borrowings. The Company may also develop certain of these projects in joint ventures, with the other venturers funding a portion of development costs.

Cash expenditures for acquisitions of interests in properties were $882.4 million in 1998 and $79.4 million in 1997. The acquisitions in 1998, consisting of the interests in the retail centers, 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 and $108 million of mortgage and other debt and paid $882.4 million of cash to the sellers as payment. The 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 financed primarily by nonrecourse debt.

In addition to its unrestricted cash and cash equivalents and investments in marketable securities, the Company has other sources of capital. Availability under the Company's credit facility was $276 million at December 31, 1999. This credit facility 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, 1999, the Company had issued approximately $358 million of common stock and debt securities under the shelf registration statement, with a remaining availability of approximately $1.9 billion.

As discussed above, at December 31, 1999, the Company was developing alternative disposition plans and structures with respect to certain office and industrial buildings in Las Vegas and in the Baltimore-Washington corridor. The Company began marketing some of these properties in the first quarter of 2000. The Company expects that some or all of these properties will be sold in 2000 and that any proceeds will be used to repay debt, repurchase common stock and/or fund project development costs. The Company may also sell interests in other operating properties. The Company and its affiliates also consider certain investment and other land assets as significant sources of cash flows and may decide to accelerate sales in order to provide cash for other purposes, including the funding of development activities.

Also as discussed above, the Company has approval to repurchase, subject to certain pricing restrictions, up to $250 million of common stock. As of December 31, 1999, the Company had repurchased approximately 1.6 million shares under this program for approximately $34.8 million.

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., credit facility advances) or finance project development costs (e.g., 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, 1999.

The Company's interest rate risk is monitored closely by management. The table below presents the principal amounts, weighted-average interest rates and fair values required to evaluate the expected cash flows of the Company under debt and related agreements and its sensitivity to interest rate changes at December 31, 1999. Information relating to debt maturities is based on expected maturity dates which consider anticipated refinancing or other transactions and is summarized as follows (dollars in millions):

	2000	*2001*	*2002*	*2003*	*2004*	*Thereafter*	*Total*	*Fair Value*
Fixed rate debt	$52	$160	$128	$337	$258	$1,811	$2,746	$2,628
Average interest rate	7.8%	7.9%	7.9%	7.8%	7.9%	7.9%	7.8%	
Variable rate LIBOR debt	$20	$251	$181	$ 4	$ 5	$ 127	$ 588	$ 588
Average interest rate	7.1%	7.4%	7.1%	7.1%	7.1%	7.1%	7.1%	

At December 31, 1999, approximately $133.3 million of the Company's variable rate debt relates to borrowings under project construction loans. The borrowings under project construction loans are expected to be repaid from proceeds of long-term, fixed rate loans at dates from 2000 to 2001 when construction of the related projects is scheduled to be completed. At December 31, 1999, the Company had interest rate cap agreements which effectively limit the average interest rate on $100 million of the variable rate LIBOR debt maturing in 2002 to 9.0%.

As the table incorporates only those exposures that exist as of December 31, 1999, 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, 1999, the Company's hedging strategies during that period and interest rates.

New accounting standards not yet adopted

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137 (Statement 137), an amendment to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133), issued in June 1998. Statement 137 defers the required adoption date of Statement 133 for the Company to no later than January 1, 2001. 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 fixed rate 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, 1999.

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

Year ended December 31,	*1999*	*1998*	*1997*	*1996*	*1995*
Revenues:					
Retail centers:					
Minimum and percentage rents	$ 317,548	$ 308,900	$ 271,743	$ 256,880	$ 245,192
Other rents and other revenues	265,579	250,921	231,912	251,535	246,488
	583,127	559,821	503,655	508,415	491,680
Office, mixed-use and other:					
Minimum and percentage rents	181,582	138,043	130,744	106,246	80,319
Other rents and other revenues	74,581	76,650	85,827	75,908	64,647
	256,163	214,693	216,571	182,154	144,966
Land sales	196,475	197,706	203,219	137,853	33,403
Corporate interest income	2,084	3,797	4,485	3,495	2,772
	1,037,849	976,017	927,930	831,917	672,821
Operating expenses, exclusive of depreciation and amortization:					
Retail centers	269,252	268,786	257,848	260,027	246,747
Office, mixed-use and other	110,387	101,719	108,063	89,524	70,096
Land sales	143,089	144,709	151,800	107,787	17,827
Development	3,707	7,383	4,747	4,964	7,288
Corporate	17,812	18,813	13,384	9,752	8,920
	544,247	541,410	535,842	472,054	350,878
Interest expense:					
Retail centers	161,203	150,889	122,325	129,091	128,215
Office, mixed-use and other	96,559	77,894	81,905	76,659	69,034
Land sales	3,151	4,201	4,287	1,658	5,071
Development	—	—	—	361	358
Corporate	(5,711)	(8,614)	(1,027)	12,612	10,285
	255,202	224,370	207,490	220,381	212,963
Current income taxes applicable to operations (note 3)	2,881	5,395	3,208	123	620
	802,330	771,175	746,540	692,558	564,461
Funds from Operations (note 2)	$ 235,519	$ 204,842	$ 181,390	$ 139,359	$ 108,360

Year ended December 31, (in thousands)	1999	1998	1997	1996	1995
Funds from Operations by segment:					
Retail centers	$152,464	$140,081	$123,101	$119,297	$116,135
Office, mixed-use and other	49,176	35,069	26,562	15,852	5,839
Land sales	50,207	48,773	47,090	28,404	10,502
Development	(3,707)	(7,383)	(4,747)	(5,325)	(7,646)
Corporate	(12,621)	(11,698)	(10,616)	(18,869)	(16,470)
Funds from Operations	$235,519	$204,842	$181,390	$139,359	$108,360
Reconciliation to net earnings (loss):					
Funds from Operations	$235,519	$204,842	$181,390	$139,359	$108,360
Depreciation and amortization	(100,329)	(84,068)	(82,944)	(79,990)	(73,062)
Deferred income taxes applicable to operations	—	—	124,203	(25,596)	(3,699)
Certain current income taxes (note 3)	—	—	(4,929)	—	—
Gain (loss) on dispositions of assets and other provisions, net	32,566	(11,174)	(23,484)	(15,887)	(25,749)
Depreciation and amortization, gain on dispositions of assets and deferred income taxes of unconsolidated real estate ventures, net	(26,580)	(4,380)	(4,344)	—	—
Extraordinary gain (loss), net	(5,879)	4,355	(21,342)	(1,453)	(8,631)
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)	$135,297	$104,902	$167,336	$ 16,433	$ (2,781)

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 reconciliation 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 58 for further 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*

Andrew B. Bolton, III, *Assistant Treasurer*

Anthony Mifsud, *Assistant Treasurer*

David L. Tripp, *Vice President and Director, Investor Relations and Corporate Communications*

Timothy J. Lordan, *Assistant Director, Investor Relations, and Senior Financial Analyst*

Robert E. Rubenkonig, Jr., *Associate Director, Corporate Communications*

Stephen E. Pospisil, *Associate Director, Corporate Communications*

Elizabeth A. Hullinger, *Vice President and Director, Taxes*

Martin P. Lutsky, *Director, Property Taxes*

Robert E. Carroll, *Tax Manager, Planning and Research*

Julie M. Hardnock, *Tax Manager, REIT and Acquisition Planning*

David W. Lee, *Tax Manager, Federal and State Compliance*

Joseph H. Schnitzer, *Associate Director of Property Tax*

Legal Division

Gordon H. Glenn, *Vice President, General Counsel and Secretary*

Richard E. Galen, *Vice President and Deputy General Counsel*

Kathleen E. Barry, *Vice President and Associate General Counsel*

James D. Lano, *Vice President and Associate General Counsel*

David R. Schwiesow, *Vice President and Associate General Counsel*

Donna M. Sills, *Vice President and Associate General Counsel*

John W. Steele, III, *Vice President and Associate General Counsel*

Nancy E. Everett, *Senior Assistant General Counsel*

E. Bernard Justis, *Senior Assistant General Counsel*

Arianne H. Monroe, *Senior Assistant General Counsel*

M. Lucinda Motsko, *Senior Assistant General Counsel*

Jeffrey C. Palkovitz, *Senior Assistant General Counsel*

Gabrielle Koeppel, *Senior Attorney*

Cynthia L. Stewart, *Senior Attorney*

Dodie Stewart Gaudry, *Manager, Legal Operations and Administration*

Human Resources and Administrative Services Division

Janice A. Fuchs, *Vice President and Director, Human Resources and Administrative Services*

Kathleen M. Hart, *Vice President and Associate Director, Human Resources*

Robin S. Bradley, *Director, HR Service Center*

Controllers Division

Melanie M. Lundquist, *Vice President and Corporate Controller*

Holly G. Edington, *Vice President and Operations Controller*

Gary M. Rivers, *Vice President and Director, Corporate Accounting*

Jack R. Greenberg, *Vice President and Director, Internal Audit and Management Services*

Monty C. Leonard, *Vice President and Division Controller, Land Operations*

Joel A. Manfredo, *Vice President and Director, Information Strategies*

Frederick A. Fochtman, *Division Controller, Commercial Development*

Cynthia N. Bond, *Manager, Internal Audit*

Rodney W. Lewis, *Director, Information Systems*

Jeanette L. Daymude, *Assistant Division Controller, Operating Properties*

Randall A. Shields, *Assistant Division Controller, Operating Properties*

Gregory J. Thor, *Director, Financial Accounting and Reporting*

Linda K. Adams, *Director, Land Development and Operations Accounting*

Derwood A. Brooks, *Accounting Director*

Patricia A. Campanile, *Accounting Director*

Janet F. Delaney, *Director, Business Systems Analysis*

Matthew D. Dowling, *Director, Joint Venture Accounting and Reporting*

Sally S. Hebner, *Director, Development and Capital Accounting*

Shelly L. Lara, *Director, Land Development and Operations Accounting*

Stephen M. Levin, *Accounting Director*

Deborah A. Maskell, *Accounting Director*

Deborah L. Mathews, *Accounting Director*

Craig A. Mellendick, *Director, Consolidated Accounting and Reporting*

Lisa M. Schenk, *Manager, Information Systems Audit*

Michelle M. Shaver, *Accounting Director*

Winston L. Smith, *Director, System Administration*

New Business

Robert Minutoli, *Senior Vice President*

B. Owen Williams, *Vice President and Director, Acquisitions*

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*

Clarke B. Aburn, *Vice President, National Leasing Director, New Business*

William Y. Hecht, *Vice President, National Leasing Director*

National Leasing Managers

W. Wallace Lanahan, III, *Vice President*

Mark W. Polivka, *Vice President*

Charles N. Quisenberry

Account Managers

Gale M. Burton

Wendy G. Crawford

Jill D. Creps

Nick P. Dialynas

R. Shereen Fuqua

Mary E. McFeeley

Kimberle S. Menz

Michael T. Mitcham

Lynda B. Newman

Robert H. O'Brien

Robert L. Quarles, Jr.

Catherine S. Redden

Marlene F. Weinberg, *Vice President*

Senior Area Leasing Managers

Steven L. Balazs

Andrew J. A. Chriss

Michael L. Podracky, *Vice President*

Area Leasing Managers

Michael A. Khouri

Eric E. Litz

Susan S. Plummer

Thomas Rindos

Paul J. Schiffer

Jeffrey G. Sneddon

Property Operations

Duke S. Kassolis, *Senior Vice President and Director, Property Operations*

Jody L. Clark, *Vice President and Associate Division Director, Property Operations*

John G. McLaughlin, *Vice President and Associate Division Director, Property Operations*

Ronald C. Wickwire, *Vice President and Associate Division Director, Property Operations*

Karen C. Weir, *Vice President and Director, Specialty Retail and Marketing*

Group Directors

J. Patrick Done, *Vice President*

F. Scott Ball

Paul C. Fickinger

Philip A.V. Genovese

Edward J. Vasconcellos, Jr.

General Managers of Subsidiary Corporations or Affiliates

David B. Altman, *Cherry Hill Mall*

John A. Badagliacco, *North Star, RPMI*

William J. Baker, Jr., *Oviedo Marketplace*

Melinda R. Benson, *Oakwood Center*

Michael S. Boden, *Moorestown Mall*
Charles A. Breidenbach, *Willowbrook, RPMI*
Mary C. Bryant, *White Marsh*
Ronald D. Buhidar, *Collin Creek*
John K. Campbell, *Arizona Center*
Wayne A. Christmann, *Columbia Office and Retail*
John P. Cochran, *Owings Mills*
Joseph “Skip” Coppola, *Faneuil Hall Marketplace*
Kevin M. Davies, *Randhurst, RPMI*
Dennis E. Deehan, *Echelon Mall*
Deanne D. Desjardin, *Highland Mall, RPMI*
Mark S. Dunbar, *Southland Center, RPMI*
James M. Easley, *Staten Island Mall*
Ann M. Esposito, *The ExecuCentre*
Martin D. Fortes, *Perimeter Mall, RPMI*
Scott A. Freshwater, *Fashion Show*
Michael A. Gaines, Sr., *Harborplace and The Gallery*
Brian K. Gardiner, *Mondawmin/Metro Plaza*
Francis X. Gildea, *Plymouth Meeting*
J. Alex Hallien, *Fashion Place*
Linda B. Hardin, *Augusta Mall*
Paul G. Harnett, *South Street Seaport*
Charles M. Hood, III, *Town & Country Center, RPMI*
Larry K. Howard, *The Gallery at Market East*
Scott M. Howe, *Mall St. Matthews*
John E. Kiddy, *The Jacksonville Landing*
Brian G. Lade, *Riverwalk*
Luanne E. Lenberg, *Governor’s Square, RPMI*
Clinton L. Lewis, III, *Hulen Mall, RPMI*
John V. Massey, *Sherway Gardens*
Amy H. McQueeney, *Woodbridge Center*
Jill M. Noack, *Ridgedale Center, RPMI*
Timothy P. Radigan, *Beachwood Place*
Allyson Reed, *Pioneer Place*
Polly L. Richman, *Exton Square*
Sandra M. Sadler, *Hunt Valley Office Properties*
Christopher S. Schardt, *Towson Town Center*
Pamela J. Schenck, *Park Meadows*
Michelle J. Schiffer, *Village of Cross Keys*
Catherine A. Swartz, *Inglewood Business Center*
Raul D. Tercilla, *Bayside Marketplace, RPMI*
Bryan K. Touchstone, *The Grand Avenue*
Scot D. Vallee, *Franklin Park, RPMI*
Janell K. Vaughan, *Bridgewater Commons*
Patrick J. Walsh, *The Mall in Columbia*
Nancy Wieland, *Paramus Park*

Andrew C. Tilmont, *Director, Operations Administration*

Eric C. Buckner, *Associate Director, Operations Administration*

Steven A. Crumrine, *Director, Corporate Security and Safety*

Joseph Eugenio, Sr., *Director, Maintenance Services*

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Elizabeth Barczak-Smith, *Manager, Regional Specialty Retail*

Margaret M. Calvert, *Manager, Regional Specialty Retail*

Dianne M. Meyer, *Manager, Specialty Retail National Accounts*

Michelle B. Washington, *Manager, Regional Specialty Retail*

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Cathy A. Case, *Associate Director, Marketing*

Erin M. Duggan, *Manager, Regional Marketing*

Susan E. Houck, *Manager, Regional Marketing*

Katherine M. Standon, *Manager, National Advertising and Events*

David L. Shapiro, *Senior Leasing Representative*

Community Development

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

David E. Forester, *Senior Vice President and Senior Development Director, HRD*

Edward A. Ely, *Senior Vice President and Director, Business Land Sales and Marketing, HRD*

Alvis H. Hagelis, *Vice President and 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., *Senior Vice President and Director, Engineering, HRD*

Robert A. Jenkins, *Vice President and Director, Construction, HRD*

George H. Hayne, III, *Senior Project Manager, HRD*

Albert F. Edwards, *Director, Environmental Compliance and Assistant Director, Engineering, HRD*

Commercial and Office Development

Ruben A. Roca, *Vice President and Director, Retail Strategies*

Laurence A. Brocato, *Vice President and Associate Division Director, Commercial Development*

Michael J. Bryant, *Vice President and Associate Division Director, Commercial Development*

John R. Ragland, *Vice President and Associate Division Director, Commercial Development*

Warren W. Wilson, *Vice President and Director, New Business*

John A. Pattillo, Jr., *Vice President and Director, Construction*

Anthony A. Albanese, *Vice President, Senior Development Director*

Robert M. Byrne, *Vice President, Senior Development Director*

Rita G. Brandin, *Vice President, Development Director*

Christopher B. Carlaw, *Vice President, Development Director*

Frank R. Beck, *Development Director*

H. Kimberly Potember, *Development Director*

Stanley C. Burgess, *Director, Design Management*

Ardis S. Bond, *Senior Manager, Research*
Mark G. Thompson, *Senior Manager, Research*
C. Lawrence Whitman, *Associate Director, Design*
Thomas S. Brudzinski, *Associate Director, Design*
Robin A. Rosetti, *Director, Tenant Services*
Ann E. Walters-Pope, *Development Manager*
Frank W. Ziegler, *Development Manager*
James B. Brickell, *Senior Project Manager*
Charles D. Coleman, *Senior Project Manger*
Clarence G. Jackson, Jr., *Senior Project Manager*
William T. Rowe, *Senior Project Manager*
David R. Zastrow, *Senior Project Manager*
Gregory A. Goins, *Director, Capital Management*
Laura Preston, *Manager, Research*
William R. Byrd, *Project Manager*
Paul L. Janyska, *Project Manager*
Frank M. Noto, *Director, Landscaping*

The Howard Hughes Corporation (THHC)

Daniel C. Van Epp, *President, THHC; Senior Vice President of The Rouse Company, West Coast Community Development*

W. Stewart Gibbons, *Executive Vice President, Summerlin, THHC*

Kevin T. Orrock, *Executive Vice President and Treasurer, THHC*

Richard E. Myers, *Senior Vice President, Leasing and Commercial Land Sales, THHC*

John T. Potts, *Senior Vice President, Summerlin Development, THHC*

Venetta F. Appleyard, *Vice President, Financial Services and Assistant Treasurer, THHC*

John F. Cahlan, *Vice President and Associate General Counsel, THHC*

Judy S. Cebulko, *Vice President, Property Management, THHC*

Jeffery S. Geen, *Vice President and Associate General Counsel, THHC*

Charles A. Kubat, *Vice President, Planning and Design, THHC*

Thomas G. Warden, *Vice President, Community Relations, THHC*

Gregory E. Zimmerman, *Vice President and Associate General Counsel, THHC*

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	1,066,000	317,000
Bayside Marketplace, Miami, FL (b)	4/87	—	227,000	227,000
Beachwood Place, Cleveland, OH (a)	8/78	Saks Fifth Avenue; Dillard's; Nordstrom	914,000	350,000
Cherry Hill Mall, Cherry Hill, NJ (a)	10/61	Strawbridge's; Macy's; JCPenney	1,283,000	534,000
The Mall in Columbia, Columbia, MD (e)	8/71	Nordstrom; Hecht's; JCPenney; Sears; Lord & Taylor	1,262,000	450,000
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; Boscov's; Sears	748,000	253,000
Faneuil Hall Marketplace, Boston, MA (a)	8/76	—	217,000	217,000
Fashion Place, Salt Lake City, UT (d)	10/98	Dillard's; Nordstrom; Sears	935,000	369,000
Fashion Show, Las Vegas, NV (a)	6/96	Neiman Marcus; Saks Fifth Avenue; Macy's; Dillard's; Robinsons-May	869,000	309,000
Franklin Park, Toledo, OH (b)	7/71	Marshall Field's; JCPenney; Jacobson's; Dillard's; JCPenney Home Store	1,109,000	323,000
The Gallery at Market East, Philadelphia, PA (a)	8/77	Strawbridge's; JCPenney; Kmart	1,009,000	193,000
Governor's Square, Tallahassee, FL (a)	8/79	Burdines; Dillard's; Sears; JCPenney	1,043,000	339,000
The Grand Avenue, Milwaukee, WI (a)	8/82	The Boston Store	492,000	242,000
Harborplace, Baltimore, MD (a)	7/80	—	143,000	143,000
Highland Mall, Austin, TX (b)	8/71	Dillard's (two stores); Foley's; JCPenney	1,086,000	368,000
Hulen Mall, Ft. Worth, TX (a)	8/77	Foley's; Montgomery Ward; Dillard's	938,000	327,000
The Jacksonville Landing, Jacksonville, FL (a)	6/87	—	125,000	125,000
Mall St. Matthews, Louisville, KY (a)	3/62	Dillard's (two stores); JCPenney; Lord & Taylor	1,110,000	361,000
Mondawmin Mall (a)/Metro Plaza (b) Baltimore, MD	1/78; 12/82	—	442,000	442,000
Moorestown Mall, Moorestown, NJ (a)	12/97	Strawbridge's; Boscov's; Sears	913,000	339,000
North Star, San Antonio, TX (b)	9/60	Dillard's; Foley's; Saks Fifth Avenue; Macy's; Mervyn's California	1,254,000	465,000
Oakwood Center, Gretna, LA (a)	10/82	Sears; Dillard's; JCPenney; Mervyn's California	947,000	349,000
Oviedo Marketplace, Orlando, FL (a)	3/98	Dillard's; Parisian; Regal Cinema	830,000	335,000
Owings Mills, Baltimore, MD (a)	7/86	Macy's; Hecht's; JCPenney; Lord & Taylor; Sears; General Cinema 17	1,223,000	410,000
Paramus Park, Paramus, NJ (a)	3/74	Macy's; Sears	779,000	312,000
Perimeter Mall, Atlanta, GA (b)	8/71	Rich's; JCPenney; Macy's; Nordstrom	1,416,000	436,000
Plymouth Meeting, Plymouth Meeting, PA (a)	2/66	Strawbridge's; Boscov's; General Cinema 12	813,000	365,000
Riverwalk, New Orleans, LA (a)	8/86	—	175,000	175,000

Retail Centers in Operation *(Continued)*

Consolidated Centers (note 1)	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Retail Square Footage Total Center	Mall Only
South Street Seaport, New York, NY (a)	7/83	—	261,000	261,000
Tampa Bay Center, Tampa, FL (b)	8/76	Sears	895,000	325,000
White Marsh, Baltimore, MD (b)	8/81	Macy's; JCPenney; Hecht's; Sears; Lord & Taylor	1,146,000	357,000
Willowbrook, Wayne, NJ (b)	9/69	Lord & Taylor; Macy's; Stern's; Sears	1,528,000	500,000
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)	—	—	914,000	914,000
Community Centers in Summerlin, NV (2) (b)	—	—	238,000	238,000
		Total Consolidated Centers in Operation*	31,036,000	12,659,000

Nonconsolidated/Managed Centers

Center	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Total Center	Mall Only
Bridgewater Commons, Bridgewater, NJ (d)	12/98	Lord & Taylor; Macy's; Stern's	888,000	385,000
Collin Creek, Plano, TX (d)	9/95	Dillard's; Foley's; JCPenney; Sears; Mervyn's California	1,121,000	331,000
Park Meadows, Littleton, CO (d)	7/98	Dillard's; Foley's; Lord & Taylor; Nordstrom; JCPenney	1,557,000	606,000
Randhurst, Mt. Prospect, IL (d)	7/81	Carson, Pirie, Scott; JCPenney; Montgomery Ward; Kohl's	1,335,000	612,000
Ridgedale Center, Minneapolis, MN (d)	1/89	Dayton's Women's; JCPenney; Sears; Dayton's Men & Home	1,036,000	343,000
Sherway Gardens, Toronto, ONT (c)	12/78	Sears; The Bay; Holt Renfrew; Sporting Life	972,000	444,000
Southland Center, Taylor, MI (d)	1/89	Hudson's; Mervyn's California; JCPenney	905,000	322,000
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; Publix; AMC Theatre	597,000	344,000
Towson Town Center, Baltimore, MD (d)	10/98	Hecht's; Nordstrom	968,000	538,000
		Total Nonconsolidated/Managed Centers in Operation	10,608,000	4,547,000
		Total Retail Centers in Operation*	41,644,000	17,206,000

**Not including 776,000 square feet of retail space in five mixed-use properties listed on the following page.*

Properties Held for Sale

Retail Centers

Center	Date of Opening or Acquisition	Department Stores/Anchor Tenants	Total Center	Mall Only
Midtown Square, Charlotte, NC (a)	10/59	Burlington Coat Factory	235,000	190,000
Westdale, Cedar Rapids, IA (d)	10/98	JCPenney; Ward's; Von Maur; Younkers	912,000	383,000
		Total Properties Held for Sale	1,147,000	573,000

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		144,000
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		139,000
Office Tower		265,000
Renaissance Hotel		622 rooms
Pioneer Place (a)	Portland, OR	
Saks Fifth Avenue		60,000
Retail Pavilion		158,000
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 Pavilion		111,000
Office Tower		342,000

Consolidated Office and Other Properties (note 1)	Location	Square Feet
Columbia Office (12 buildings) (a) (e)	Columbia, MD	1,099,000
Columbia Industrial (8 buildings) (e)	Columbia, MD	428,000
Hughes Center (14 buildings) (a)	Las Vegas, NV	1,176,000
Hughes Airport Center (34 buildings) (e)	Las Vegas, NV	1,745,000
Hughes Cheyenne Center (3 buildings) (a)	Las Vegas, NV	368,000
Summerlin Commercial (14 buildings) (a)	Summerlin, NV	900,000
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	1,818,000
Rutherford Business Center (24 buildings) (a)	Baltimore, MD	873,000
Other Office Projects (5 buildings) (a)	Various	501,000
	Total Office, Mixed-Use and Other Properties in Operation**	12,844,000

*** Including 776,000 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	Mall Only
The Mall in Columbia Expansion, Columbia, MD	L.L. Bean	125,000	125,000
Exton Square Expansion, Exton, PA	JCPenney	238,000	120,000
Oviedo Marketplace Expansion, Orlando, FL	Sears	125,000	—
Moorestown Mall Expansion, Moorestown, NJ	Lord & Taylor	120,000	—
Perimeter Mall Expansion, Atlanta, GA	—	78,000	78,000
Fashion Show Expansion, Las Vegas, NV	Neiman Marcus; Saks Fifth Avenue; Macy's; Robinsons-May; Lord & Taylor; Dillard's; Bloomingdale's Home	1,000,000	280,000
Bridgewater Commons Expansion, Bridgewater, NJ	Bloomingdale's	400,000	150,000
Fashion Place Expansion, Salt Lake City, UT	Nordstrom; Dillard's	475,000	115,000
Summerlin Town Center, Summerlin, NV	Robinsons-May; Lord & Taylor; Dillard's; Macy's	1,050,000	350,000
La Cantera, San Antonio, TX	Dillard's; Foley's	1,300,000	400,000
Maple Grove, Minneapolis, MN	Dayton's; Nordstrom	1,000,000	350,000
Cincinnati, Cincinnati, OH	Nordstrom	800,000	350,000
Nashville, Nashville, TN	Nordstrom	800,000	350,000
West Kendall, Dade County, FL	Dillard's; Sears; Burdine's	1,200,000	350,000
	Total Retail Centers Under Construction or in Development	8,711,000	3,018,000

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 Film Center	155,000
Arizona Center Expansion, Phoenix, AZ	Embassy Suites	350 rooms
The Village of Merrick Park, Coral Gables, FL	Neiman Marcus; Nordstrom	360,000
	Specialty retail shops	435,000
	Office	110,000
Corporate Pointe, Summerlin, NV	Office/Industrial	112,000
	Total Office, Mixed-Use and Other Properties Under Construction or in Development	1,172,000

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 (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 40%.

(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.

Board of Directors

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

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

Platt W. Davis, III, (a)
Partner, Vinson & Elkins, L.L.P.

Anthony W. Deering, (b)
Chairman of the Board of Directors and Chief Executive Officer of the Company

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)
Vice President and General Manager of Pitney Bowes Professional Services, Inc.

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

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

Roger W. Schipke, (a)
Private investor; Former 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 11, 2000 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 Rudnick & Wolfe L.L.P.
Baltimore, Maryland 21209

Auditor

KPMG LLP
Baltimore, Maryland 21202

Corporate Headquarters

The Rouse Company
Columbia, Maryland 21044
410-992-6000

Web Site

http://www.therousecompany.com

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THE ROUSE COMPANY'S BOARD OF DIRECTORS

Left to right: *Alexander B. Trowbridge, Anthony W. Deering, Jeremiah E. Casey, Juanita T. James, Rohit M. Desai, Roger W. Schipke, David H. Benson, Gerard J.M. Vlak, Platt W. Davis, III, Hanne M. Merriman, Mathias J. DeVito and Thomas J. McHugh*

THE ROUSE COMPANY
COLUMBIA, MARYLAND 21044