

FIRST UNION

REAL ESTATE
INVESTMENTS

1996 Annual Report

Financial Highlights

Years ended December 31, (In thousands, except per share data)

	1996	1995
Revenues	\$ 81,867	\$ 79,205
Income before capital gain or loss, extraordinary loss and cumulative effect of accounting change	4,422	3,256
Net income before preferred dividend ⁽¹⁾	4,136	13,891
Net income applicable to shares of beneficial interest ⁽¹⁾	3,291	13,891
Funds from operations before preferred dividend ⁽²⁾	17,935	15,157
Funds from operations after preferred dividend ⁽²⁾	17,090	15,157
Dividends declared	7,684	7,542
Per share		
Income applicable to shares of beneficial interest before capital gain or loss, extraordinary loss and cumulative effect of accounting change	\$.21	\$.18
Net income applicable to shares of beneficial interest ⁽¹⁾	.19	.77
Dividends declared	.44	.41

Market Price and Dividend Record

	High	Low	Dividends Declared
1996 Quarters Ended			
December 31	\$ 12 ¹ / ₂	\$ 6 ³ / ₈	\$.11
September 30	7	6 ³ / ₈	.11
June 30	7 ³ / ₈	6 ³ / ₈	.11
March 31	8 ⁷ / ₈	6 ³ / ₈	.11
			<u>\$.44</u>
1995 Quarters Ended			
December 31	\$ 7 ⁵ / ₈	\$ 6 ⁷ / ₈	\$.11
September 30	7 ⁷ / ₈	7 ¹ / ₈	.10
June 30	8	7	.10
March 31	8 ⁵ / ₈	6 ¹ / ₂	.10
			<u>\$.41</u>

⁽¹⁾ In 1996, the Trust expensed \$286,000 of unamortized costs relating to a prior bank credit agreement. In 1995, the Trust recognized a capital gain of \$29.9 million, a \$14 million noncash unrealized loss on the carrying value of certain assets identified for disposition, \$910,000 of unamortized costs and prepayment premiums related to the early repayment of mortgage debt and a \$4.3 million noncash charge for the cumulative effect of a change in accounting method.

⁽²⁾ The amount of funds from operations is calculated as income before capital gain or loss, extraordinary loss and cumulative effect of accounting change, both before and after the preferred dividend, plus noncash charges for depreciation and amortization and after adjusting for an interest in a joint venture. A new definition of FFO, adopted by the National Association of Real Estate Investment Trusts, excludes depreciation and amortization of debt issue costs and other corporate assets. First Union adds back all expenses included in depreciation and amortization.

Company Profile

Founded in 1961, First Union Real Estate Investments (Trust) is an equity real estate investment trust (REIT) specializing in owning, operating and repositioning properties that have intrinsic value. Under new management since 1994, the Trust has improved the core fundamentals of the company as it strives to maximize total return to shareholders.

The Trust features a unique "stapled stock" structure which enables it to purchase and manage real estate asset classes that have additional profit opportunities from related operating businesses.

During 1996, the Trust successfully entered the equity market for the first time in nearly two decades and, with two joint venture partners, purchased a \$312 million portfolio of nine southwestern U.S. retail malls. These and other properties owned and managed by First Union are highlighted in this year's annual report beginning on page 10.

The Trust's shares are traded on the New York Stock Exchange (Ticker Symbol: FUR). As of December 31, 1996, there were 4,582 recordholders of the Trust's shares of beneficial interest. The Trust estimates the number of beneficial owners at approximately 15,000.

FUR
Listed
NYSE

Shawnee Mall



Shawnee Mall is a 442,000 square foot regional shopping mall which serves a multicounty trade area to the east of Oklahoma City. The mall is anchored by Dillard's, JCPenney, Sears and Wal-Mart. Opened in 1989, Shawnee is the newest mall in the recently acquired retail portfolio. The site on which the mall sits includes 13.6 acres of contiguous land available for future expansion as well as several large outparcels that will increase the value of the property after being developed. Shawnee Mall is the only enclosed regional shopping center serving this portion of Oklahoma and is the largest retail complex within its primary trade area. The city of Shawnee has experienced an above national average population and employment growth during the past five years.

Shawnee, Oklahoma 442,000 square feet

Anchor: Dillard's, JCPenney, Sears, Wal-Mart

North Valley Tech Center



North Valley Tech Center is a prime example of First Union's commitment to creating value for its shareholders. It is the repositioning story of 1996. The Tech Center, located in suburban Denver, was acquired by First Union in 1969 as an enclosed shopping mall. An over-building of retail space in north Denver led to a steady decline in occupancy levels at North Valley. In response to the increasing demand for high-tech office space, coupled with the overabundance of retail space in the market, First Union repositioned the mall into a business technical center. Leases have already been executed with several new tenants, signaling a rebirth of the complex. The largest lease signed to date totaling approximately 112,000 square feet is with TeleTech (photos above and below), a telemarketing industry leader in the out-sourcing of customer care and technical support functions. As additional leasing is completed, the remaining retailers will be gradually phased out. When the conversion of North Valley Tech Center is completed, the Trust intends to sell this facility, consistent with its liquidation strategy for this product type.



Denver, Colorado