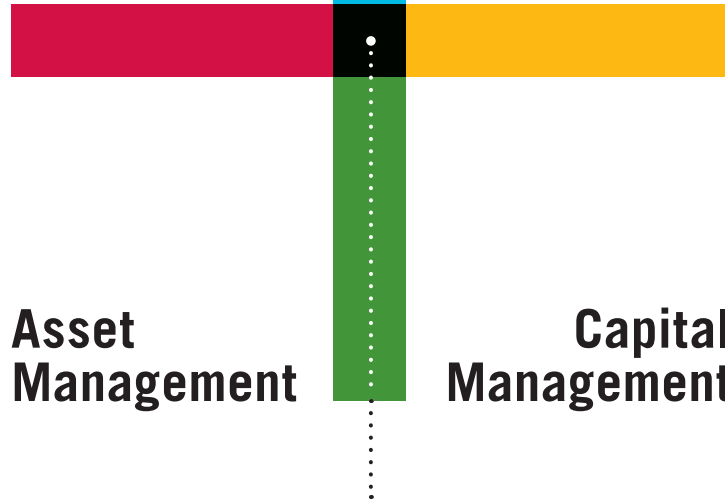


THE FACES OF WEINGARTEN



**New
Development**

Acquisitions



Robert Smith
Senior Vice President/
Director of New Development

Our People are at the Heart of our Strategy

Weingarten Realty Investors is successfully executing a growth strategy that is changing the face of our business. We are entering new markets, capturing new revenue opportunities and changing key aspects of the way we do business. Everything we have accomplished and all that we are becoming is due to 457 truly exceptional people who are focused on a common goal – to achieve new levels of growth and success while maintaining our core values of integrity, professionalism and excellence in managing our assets. In this report, we are proud to feature just a few of the “faces” of Weingarten, in honor of all of the people who are at the heart of our strategy and the foundation of our success.





Candace DuFour
Senior Vice President/
Director of Acquisitions
and Secretary



Steve Richter
Executive Vice President/
Chief Financial Officer



Johnny Hendrix
Executive Vice President/
Asset Management



Financial Highlights

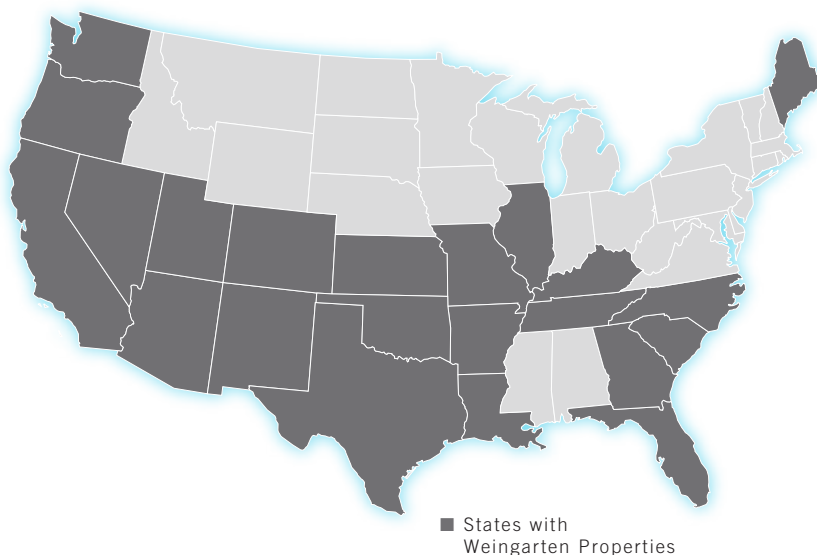
In thousands, except per share amounts

All per share and weighted average share information reflect share splits in 2004 and 2002

YEAR ENDED DECEMBER 31,	2006	2005	2004	2003	2002
Revenues	\$ 561,380	\$ 510,401	\$ 460,914	\$ 372,016	\$ 317,119
Funds from Operations:					
Net Income	305,010	219,653	141,381	116,280	131,867
Preferred Share Dividends	(10,101)	(10,101)	(7,470)	(15,912)	(19,756)
Redemption Costs of Series A Preferred Shares				(2,488)	
Net Income Available to Common Shareholders	294,909	209,552	133,911	97,880	112,111
Depreciation and Amortization	131,792	125,742	114,342	90,367	78,111
Gain on Sale of Properties	(172,056)	(87,561)	(26,316)	(7,273)	(18,614)
Funds from Operations – Basic	254,645	247,733	221,937	180,974	171,608
Funds from Operations Attributable to Operating Partnership Units	5,453	5,218	3,798	3,040	2,388
Funds from Operations – Diluted	\$ 260,098	\$ 252,951	\$ 225,735	\$ 184,014	\$ 173,996
Property (at cost)	\$ 4,445,888	\$ 4,033,579	\$ 3,751,607	\$ 3,200,091	\$ 2,695,286
Weighted Average Number of Common Shares Outstanding – Diluted	91,779	93,166	89,511	81,574	80,041
Per Common Share:					
Funds from Operations – Diluted	\$ 2.83	\$ 2.72	\$ 2.52	\$ 2.26	\$ 2.17
Net Income – Diluted	\$ 3.27	\$ 2.31	\$ 1.54	\$ 1.24	\$ 1.43
Cash Dividends	\$ 1.86	\$ 1.76	\$ 1.66	\$ 1.56	\$ 1.48

Corporate Profile

Weingarten Realty Investors (NYSE: WRI) is focused on delivering solid returns to shareholders by actively developing, acquiring and intensively managing properties in target markets across the United States. The company's portfolio of 389 high-quality properties spans 22 states and totals more than 65 million square feet under management. Weingarten is expanding in high-growth markets and locations with barriers to entry through acquisitions and a new development program. Weingarten's tenant base is one of the most diversified of any major REIT in its sector with the largest of its 5,500 tenants representing only 3% of rental revenue. To learn more about the company's operations and growth strategies, please visit www.weingarten.com.



2006 Summary of Achievements

CORPORATE

Launched new strategy to increase FFO growth.

Raised dividend by 5.7% to \$1.86 per common share.

Managed strategic debt rating change to support growth strategy.

Continued migrating NOI to high-growth areas in the eastern and western regions.

Exceeded 2006 goals:

- Completed \$1 billion of acquisitions;
- Expanded new developments to 30 projects representing final investment of \$650 million;
- Sold \$316 million of properties;
- Forged JV partnerships for nearly \$1 billion of investments.

NEW DEVELOPMENT

Pipeline increased to approximately \$900 million.



Phillips Crossing, anchored by Whole Foods and strategically located to service the affluent population of southwest Orlando, Florida, will total 139,000 square feet.

Merchant development activities contributed \$0.08 of FFO per share.

River Point at Sheridan, opening in spring 2008 in Sheridan, Colorado, will total 780,000 square feet. Anchor tenants include Super Target and Costco.

Tripled the number of properties under development and invested \$167 million.

Ridgeway Trace, in Memphis, Tennessee, will total 406,000 square feet and is Weingarten's first mixed-use development.

ACQUISITIONS

Added 1.3 million square feet of retail space in the southeast through the acquisition of five centers in Atlanta and suburban Orlando.

Completed a record-setting \$1 billion of acquisitions adding more than four million square feet.



Partnered with TIAA-CREF Global Real Estate in acquiring seven retail centers in South Florida, totaling 1.3 million square feet.

Acquired six centers in Oregon and Washington, totaling 651,000 square feet, in a JV with AEW Capital Management's institutional client.

CAPITAL MANAGEMENT



Formed three new joint ventures: AEW Capital Management, TIAA-CREF and Mercantile Real Estate Advisors/ the AFL-CIO Building Investment Trust.

Issued \$575 million of 3.95% convertible debentures and used a portion of the proceeds to repurchase 4.3 million common shares.

Recycled proceeds from a record level of dispositions totaling \$316 million into higher-growth opportunities.



Acquired five properties through an existing joint venture with AEW Capital Management.

ASSET MANAGEMENT

Rental income rose nearly 10% to \$554 million.

Completed over 1,200 new leases and renewals with an average rental rate increase of 11.6% on a GAAP basis.

Retail occupancy rose to 95%, and overall occupancy was 94.1%.

Same property NOI grew 3.4%.

Richard Summers
Vice President/
Director of Investor Relations



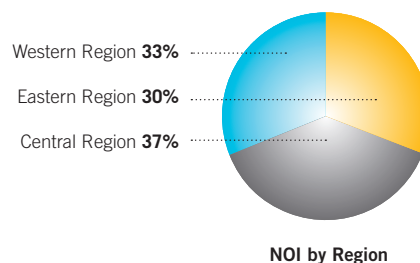
Letter to Our Shareholders



Weingarten Realty has a long history of success and is one of the most consistent performers of any company in our industry. We are proud of our past achievements, but our focus is on the future. During 2006, we began the implementation of a new strategy that will significantly increase future FFO growth.

Our new strategy includes significantly higher levels of acquisitions and new development, including a new merchant development initiative, greater use of joint ventures and dispositions to fund our growth, and continued excellence in managing our assets to maximize their value and profitability. In 2006, we made tremendous strides in executing all components of our strategy.

- We completed \$1 billion of acquisitions, a new record.
- We substantially expanded our new development program, with 30 projects currently under development representing a final investment for the company of \$650 million and an additional development pipeline of nine properties under contract.
- We sold \$316 million of properties, a record level of dispositions that provided funds for reinvestment in higher-growth opportunities.
- We forged three new institutional joint venture partnerships that will have a total investment of nearly \$1 billion when fully funded.
- We have significantly improved the quality of our portfolio so that a greater percentage of our net operating income is coming from properties with barriers to entry in high-growth markets.
- We delivered solid financial and operating performance, and maintained a strong balance sheet.
- We achieved these results while laying a solid foundation for future growth.



FOUNDATION FOR GROWTH

During 2006, we demonstrated a strong sense of purpose in executing our new strategy and investing in people and infrastructure to support its success. We devoted significant financial and management resources to putting the right people, policies and processes in place. While these initiatives impacted our short-term results, they are a great investment in our future.

We hired and trained 91 new associates, a 25% increase. More importantly, we gave a lot of strategic thought to how we take thoughtful risks and move this company forward at a faster pace and in the direction that we want to go without losing the discipline and the core values that have always set Weingarten apart.

Andrew M. Alexander
President/Chief Executive Officer

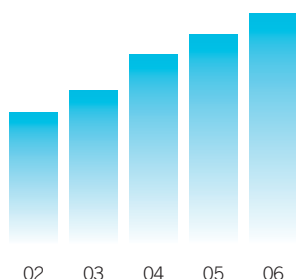
"We have given a lot of strategic thought to how we take thoughtful risks and move this company forward at a faster pace and in the direction that we want to go without losing the discipline and the core values that have always set Weingarten apart. We have changed the way we think about and conduct our business, pushing more of the decision-making to the very capable people we have throughout our company."



We have evolved the way we think about and conduct our business, decentralizing our organizational structure and pushing more of the decision-making to the very capable people we have throughout our company. In particular, we have placed more responsibility and authority in the regions, because we believe that associates closest to the properties can make the best decisions.

We realigned our organization, creating multi-functional teams for each of our three major geographic regions and giving them the resources and autonomy to move quickly in capturing opportunities. At the same time, we continue to provide the corporate oversight and support they need to succeed.

\$317 \$372 \$461 \$510 \$561



Total Revenues
(Dollars in Millions)

SOLID PERFORMANCE

Weingarten continues to deliver a solid financial performance and attractive returns to shareholders even as we make investments in our future growth. We increased our FFO per share from \$2.72 to \$2.83 and raised the dividend from \$1.76 per share to \$1.86 in 2006. In the first quarter of 2007, we raised the dividend by an additional 6.5% to \$1.98 per share, reflecting our optimism about the future. We have increased dividends for 22 consecutive years, ever since the company's IPO in 1985.

Our capital structure is strong, and our debt ratings remain among the highest in the industry despite our strategic decision to accept a ratings downgrade in order to decrease our need to issue additional equity in the future.

Weingarten is a very different company than it was just five years ago when we derived nearly two-thirds of our net operating income from our central region. Today we are a national REIT with high-quality assets in 22 states, 12 regional offices and net operating income that is well balanced, with 33% from our western region and 30% from our eastern region. We are pleased with the markets in which we operate, our position within those markets and our portfolio, which is attractive and continuing to improve as we add new properties and dispose of older, lower-growth or non-core properties.

A NEW WORLD

We have seen unprecedented change in our business environment in recent years with a seemingly unlimited amount of capital pursuing a finite number of good investment opportunities. We recognize that, in this new world, the attributes that made Weingarten a great company and the strategy that drove our success for so many years are no longer sufficient to produce the FFO growth that is expected of a top-tier REIT.

We are determined to remain an industry leader by pursuing growth on multiple fronts, taking prudent risks and utilizing our financial strength, depth of talent, industry expertise and retailer relationships in new ways to achieve our goals. At the same time, we appreciate the risk inherent in real estate investments and the need to pursue a strategy that can succeed in any environment. We are maintaining the discipline, skillful execution and financial strength that have always been hallmarks of Weingarten Realty.

CHANGE IS JUST BEGINNING

Already, the change has been significant and Wall Street has begun to take notice. Several of the analysts who follow our company have upgraded our ratings, acknowledging the progress we have made in executing our strategy shift. We believe these upgrades reflect the fact that Weingarten is an attractively priced stock with substantial upside potential from our new growth strategy.

We are committed to maintaining the momentum we have achieved by leveraging our key strengths to create growth. We are astute investors with superior market insight, the financial strength to move quickly in capturing opportunities, a history of success and a reputation for delivering on our promises.

But our people are the true power behind our progress. At the end of the day, our success will be a reflection of the skill and dedication of results-oriented people who have the authority to act and are accountable for bringing their projects to a successful



"Our people are the true power behind our progress. At the end of the day, our success will be driven by results-oriented people who have the authority to act and are accountable for bringing their projects to a successful conclusion. We have quality people known for their high standards of business conduct as well as their expertise. We are committed to maintaining that distinction as we expand."

Stanford Alexander
Chairman

Martin Debrovner
Vice Chairman



"Weingarten is a very different company than it was just five years ago. Today we are a national REIT with high-quality assets in 22 states, 12 regional offices and net operating income that is well balanced, with 33% from the western region and 30% from the eastern region. I am pleased with the markets we're in, our position within those markets and our portfolio, which is attractive and continuing to improve."

conclusion. We know that our people are up to the task. We believe we have the best team in the industry – quality people who are known for their high standards of business conduct as well as their expertise – and we are committed to maintaining that distinction as we expand our organization.

As much as we have changed in the past year and will change in the future, the core values that have driven our success and that guide our business will remain constant. We will continue to demonstrate professionalism, integrity and a passion for excellence in everything we do.

The year 2006 was remarkably successful. We began "turning the ship" while also steering it very effectively to exceed our goals for the year. We have made an excellent start in creating a foundation for our growth, and we will continue to build on that foundation in 2007 and beyond.

We greatly appreciate the support of our investors and the outstanding contributions of our Board and our associates – the "faces" of Weingarten to whom this annual report is dedicated. We are gratified that they share our vision and confidence as we evolve, grow and build a great future.

A handwritten signature in black ink that reads "Andrew M. Alexander".

Andrew M. Alexander
President/Chief Executive Officer

A handwritten signature in black ink that reads "Stanford Alexander".

Stanford Alexander
Chairman

A handwritten signature in black ink that reads "Martin Debrovner".

Martin Debrovner
Vice Chairman

Blair Presnell
Regional Director
of Construction

*Bottom of page,
from left to right:*

Carol Fasano
Associate Counsel

Tammy Coker
Director of
New Development
Services Group

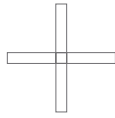
Terry Marks
Regional Director of
New Development

Development is underway on
30 of Weingarten's projects
and new properties are sche-
duled to come online beginning
in late 2007.

Our **New Development** pipeline approaches \$900 million.



Raintree Ranch Center, opening in 2007, is the focal point for high-end retail within the south valley of Phoenix. Whole Foods, the largest retailer of natural and organic foods in the U.S. and Europe, will anchor the 140,000 square foot center with a new 60,000 square foot prototype store.



In the current environment, new development offers significantly higher risk-adjusted returns and is a key component of our growth strategy. Drawing on our long history as a successful developer, the strength of our relationships with national retailers and our unmatched market research, we ramped up new development activities in 2006 with a long-term goal of \$300 million of annual project completions starting in 2009.

We got off to a fast start in 2006. Currently we have 30 properties at various stages of development representing a final investment of \$650 million for the company. This is up from 10 projects at the end of 2005. We will begin bringing projects on line in late 2007. We also made great headway in creating the \$1 billion development pipeline that will be needed to achieve our new development goals. At the end of the year, we had nine development sites under contract with a projected final investment of \$218 million and more than 20 sites under preliminary pursuit.

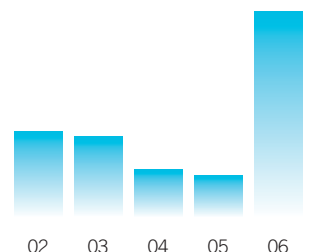
Recognizing the localized nature of development activities, we have created a strong national platform for growth. We added people and expertise in the regions and opened two new offices during 2006. We currently have 12 regional offices, and we are making plans to further expand our national development infrastructure.

Our new development program includes merchant development projects that will be sold upon completion. Through these projects, either non-core property types or located in non-core markets, we are utilizing our expertise and resources to capture attractive opportunities and to strengthen key relationships with national retailers who are expanding outside our current geographic footprint.

"Weingarten has long and strong roots in the development arena, a track record of successful completions, national retailer relationships and a network of regional offices that provide a platform for growth. With superior financial strength and resources, we can readily access capital, assume the risk associated with new development and stay the course through the lengthy entitlement process."

Robert Smith
Senior Vice President/
Director of New Development

\$70 \$64 \$38 \$33 \$167



New Development Investment
(Dollars in Millions)

Indian Harbour Place Shopping Center, acquired in 2006 in a joint venture with AEW on behalf of its institutional investor, is a 164,000 square foot center in Brevard County, Florida, with two strong anchors, Publix and Bealls.

From left to right:

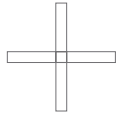
Wai-Cheng McKenzie
Associate Director of Acquisitions

Anne Burke
Associate Counsel

Nick Tortorice
Senior Acquisitions Analyst



Our **Acquisitions** totaled a record-setting \$1 billion in 2006.



“Partnering with institutional investors is a key part of our acquisition strategy. We benefit from access to lower-cost capital, which improves returns, the ability to pursue larger and more complex transactions, and more rapid growth in the size of portfolio we have under management. At the same time, we can add value for our joint venture partners through our track record of success in buying, managing and operating properties.”

Candace DuFour

Senior Vice President/Director of Acquisitions and Secretary

Intense competition for good assets has created a challenging acquisition environment. Still, acquisitions remain critical to Weingarten's growth and a key component of our strategy. We continue to identify and capture opportunities that meet our financial criteria and advance our long-term goal of completing \$1 billion of acquisitions annually starting in 2008.

Capitalizing on the large amount of property that came to market in 2006, we completed \$1 billion of acquisitions, including our joint venture partners' interests, nearly double the volume of any previous year. Properties acquired in 2006 include 34 shopping centers and seven industrial properties that added more than four million square feet.

In addition to improving the quality of our portfolio, acquisitions are helping us continue to migrate our NOI to high-growth areas in the east and west. More than 90% of our 2006 acquisitions were in eastern and western regions.

During 2006, just over half of our acquisitions were through institutional joint ventures. We acquired seven neighborhood/community centers in South Florida for \$325 million in a joint venture with TIAA-CREF Global Real Estate. We partnered with AEW Capital Management on behalf of its institutional client to acquire four grocery-anchored centers and two power centers in Oregon and Washington, our first entry into the Pacific Northwest.

We are pleased with our 2006 results, which reached the goal we have set for 2008 and beyond. The number of acquisitions we complete in coming years will depend, to a large extent, on interest rates and market opportunities. We will continue to invest with discipline, emphasizing quality over quantity and focusing on joint ventures to ensure that the acquisitions we make will contribute to our financial and strategic goals.



Mendenhall Commons, an 80,000 square foot center anchored by Kroger, serves a highly populated residential area to the east of downtown Memphis, Tennessee. More than 73,000 people live within a three-mile radius of this strategic location that boasts traffic counts of nearly 16,000 cars per day.

Rainier Square Plaza and five other centers in Washington and Oregon were acquired in partnership with AEW Capital Management on behalf of its institutional client, marking Weingarten's first entry into the Pacific Northwest.



From left to right:

Mike Mangan
Director of Treasury Services

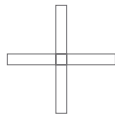
Dana Wolfe
Associate Director of Capital Markets

Kim Bowers
Financial Reporting Manager

Our strategic **Capital Management** diversifies sources of funding growth.

"The three new institutional joint ventures we formed in 2006 are with outstanding partners and included a second JV with AEW Capital Management on behalf of an institutional client. This speaks well of our abilities and the strength of the relationships we are forging."

Stephen C. Richter
Executive Vice President/
Chief Financial Officer

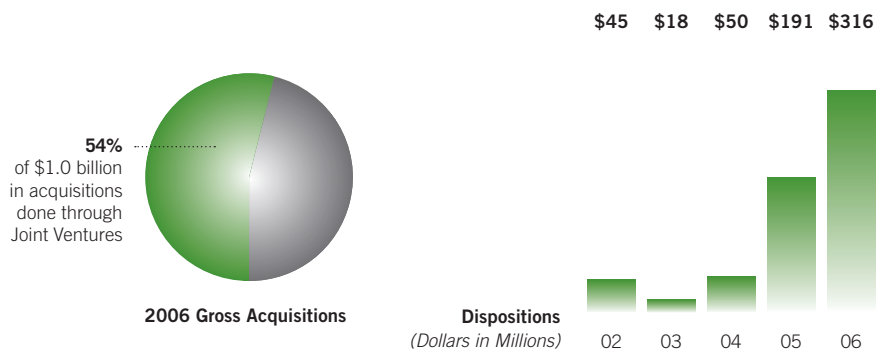


The same market conditions that have created a fiercely competitive environment for acquisitions have presented us with attractive new vehicles for funding our growth. An increased focus on real estate investments by U.S. institutions and an influx of funds from overseas have expanded the pool of asset buyers and created a demand for partners with industry expertise. By diversifying our capital sources through dispositions and joint ventures, we have reduced our need to issue new equity.

DISPOSITIONS AND CAPITAL RECYCLING: Capitalizing on strong demand and favorable prices for real estate assets during 2006, we completed a record level of asset sales, generating \$316 million of total proceeds and \$150 million of gains. Dispositions are pruning our portfolio of properties that do not meet our geographic or growth targets and providing capital to recycle into higher-growth opportunities.

INSTITUTIONAL JOINT VENTURES: During 2006, we forged three new joint venture partnerships and acquired five properties through a previously announced partnership. We also acquired assets through newly formed joint ventures with AEW Capital Management and TIAA-CREF. A joint venture formed in 2006 with Mercantile Real Estate Advisors and its client, the AFL-CIO Building Investment Trust, plans to invest \$375 million over the next two years in industrial properties.

CAPITAL MARKETS: Capital markets offerings continue to be an important source of funding, which we successfully tapped in 2006. The largest offering of the year, and in the company's history, was \$575 million of 3.95% convertible debentures with a portion of the proceeds used to repurchase approximately 4.3 million of the company's common shares. Our capital structure is strong, and our debt ratings remain among the highest in the industry, providing superior access to capital and the ability to move quickly in capturing opportunities.



Alicia Taylor
Senior Property Manager

Weingarten people have a reputation for professionalism and doing what they say they will do. We believe we have the best team in the industry, and we are committed to maintaining this distinction and the core values that have driven our success as we grow.

From left to right:

Gary Wankum
Regional Director of Construction

MaryJo Giammalva
Industrial Leasing Executive

Robert Shaklovitz
Associate Counsel



Vonn Tran
Senior Leasing Executive

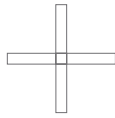


Our **Asset Management** group creates value through excellent execution.

"We have built a tradition of excellence in execution and superior service that we are determined to maintain as the company grows. To ensure that our current portfolio receives the same single-minded focus and hands-on management that it always has, we have structured our leasing and management organization with dedicated teams focused only on our existing properties."

Johnny Hendrix

Executive Vice President/Asset Management



With a portfolio of 389 properties totaling 65 million square feet under management, producing growth from our existing assets is a vital component of our strategy. We are committed to managing our properties in a way that maximizes their value to Weingarten and to the tenants we serve. We believe this is the key to retaining our valued tenants and expanding our business relationships with them.

In keeping with a company-wide move to decentralize, we have added people and capabilities in the regional offices and created multi-functional teams for each of our three major geographic regions. In this way, we are vesting more decision-making authority in the people who are closest to our properties and know them best. We also are better able to move quickly in a fast-paced world.

The occupancy rate of our properties, which has never dipped below 90% in the history of our company, remains strong. Overall occupancy stood at 94.1% at the end of 2006. Rental income increased 10% in 2006 to \$554 million and same property NOI rose a solid 3.4%.

Our operating results reflect the success with which Weingarten has competed in the marketplace even before the full implementation of our new strategy. Through greatly expanded acquisition, new development and disposition programs, we are significantly increasing the average population density around our centers and dramatically improving the quality of our portfolio. We are developing and acquiring property types that match market trends and tenant demands, focusing increasingly on larger projects and adding power, lifestyle and mixed-use centers to the mix. We expect these enhancements to improve our competitive position in the years to come.



Chino Hills Marketplace, a 320,000 square foot center in suburban Los Angeles, is the neighborhood shopping hub for residents of Chino Hills, a high-income area with strong residential growth.

Officers

MANAGEMENT TEAM

From left to right:

Johnny L. Hendrix
Executive Vice President/Asset Management

Martin Debrovner
Vice Chairman

Stanford Alexander
Chairman

Andrew M. Alexander
President/Chief Executive Officer

Stephen C. Richter
Executive Vice President/Chief Financial Officer



Patricia A. Bender
Senior Vice
President/Director
of Leasing

M. Candace DuFour
Senior Vice
President/Director
of Acquisitions and
Secretary

Gary Greenberg
Senior Vice
President/Capital
Markets

W. Greg Murphy
Senior Vice
President/Director of
Industrial Properties

Robert Smith
Senior Vice
President/Director
of New Development

Jeffrey A. Tucker
Senior Vice
President/General
Counsel

Steven R. Weingarten
Senior Vice
President/Director
of Anchor Tenants

Bill Crook
Vice President/
Associate General
Counsel for New
Development

Gerald Crump
Vice President/
Regional Director
of Leasing

John DeMeritt
Vice President/
Regional Director
of Leasing

Alan Ferguson
Vice President/
Regional Director
of Leasing

Timothy M. Frakes
Vice President/
Senior Regional
Director of New
Development

F. William Goeke III
Vice President/
Director of Property
Management

Jeff Harrison
Vice President/
Regional Director
of Leasing

Robin Hilliard
Vice President/
Associate Director
of Leasing

Daniel J. Holland
Vice President/
Regional Director
of Acquisitions

Marc Kasner
Vice President/
Associate General
Counsel for
Acquisitions and
Dispositions

Alan R. Kofoed
Vice President/
Construction

Kelly Landwermyer
Vice President/
Director of
Industrial Properties

Greg Lotzar
Vice President/
Associate Director
of Leasing

Scott Morway
Vice President/
Senior Regional
Director of New
Development

Lee Pearson
Vice President/Chief
Information Officer

Mitchell Rippe
Vice President/
Regional Director
of Acquisitions

Joe D. Shafer
Vice President/Chief
Accounting Officer

Neil Soskin
Vice President/
Regional Director
of Leasing

Mark D. Stout
Vice President/
Associate General
Counsel

Richard Summers
Vice President/
Director of
Investor Relations

Mickey Townsell
Vice President/
Director of Human
Resources

George A. Weatherall
Vice President/
Senior Regional
Director of New
Development

Brian Wechsler
Vice President/
Regional Director of
New Development

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Selected Financial Data

Amounts in thousands, except per share amounts

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Revenues (primarily real estate rentals)	\$ 561,380	\$ 510,401	\$ 460,914	\$ 372,016	\$ 317,119
Expenses:					
Depreciation and amortization	127,613	117,062	103,870	80,776	65,803
Other	180,751	152,932	143,178	113,128	97,253
Total	308,364	269,994	247,048	193,904	163,056
Operating income	253,016	240,407	213,866	178,112	154,063
Interest expense	(146,943)	(130,761)	(117,096)	(90,269)	(67,171)
Interest and other income	9,045	2,867	1,390	1,563	1,053
Loss on redemption of preferred shares			(3,566)	(2,739)	
Equity in earnings of joint ventures, net	14,655	6,610	5,384	4,681	3,930
Income allocated to minority interests	(6,414)	(6,060)	(4,928)	(2,723)	(3,553)
Gain on land and merchant development sales	7,166	804			
Gain on sale of properties	22,467	22,306	1,562	665	188
Provision for income taxes	(1,366)				
Income from continuing operations	151,626	136,173	96,612	89,290	88,510
Income from discontinued operations ⁽¹⁾	153,384	83,480	44,769	26,990	43,357
Net income	\$ 305,010	\$ 219,653	\$ 141,381	\$ 116,280	\$ 131,867
Net income available to common shareholders	\$ 294,909	\$ 209,552	\$ 133,911	\$ 97,880	\$ 112,111
Per share data – basic:					
Income from continuing operations	\$ 1.61	\$ 1.41	\$ 1.04	\$.92	\$.89
Net income	\$ 3.36	\$ 2.35	\$ 1.55	\$ 1.24	\$ 1.44
Weighted average number of shares	87,719	89,224	86,171	78,800	77,866
Per share data – diluted:					
Income from continuing operations	\$ 1.60	\$ 1.41	\$ 1.04	\$.92	\$.89
Net income	\$ 3.27	\$ 2.31	\$ 1.54	\$ 1.24	\$ 1.43
Weighted average number of shares	91,779	93,166	89,511	81,574	80,041
Property (at cost)	\$ 4,445,888	\$ 4,033,579	\$ 3,751,607	\$ 3,200,091	\$ 2,695,286
Total assets	\$ 4,375,540	\$ 3,737,741	\$ 3,470,318	\$ 2,923,094	\$ 2,423,241
Debt	\$ 2,900,952	\$ 2,299,855	\$ 2,105,948	\$ 1,810,706	\$ 1,330,369
Other data:					
Cash flows from operating activities	\$ 242,592	\$ 200,525	\$ 203,886	\$ 162,316	\$ 167,095
Cash flows from investing activities	\$ (314,686)	\$ (105,459)	\$ (349,654)	\$ (331,503)	\$ (182,161)
Cash flows from financing activities	\$ 100,407	\$ (97,791)	\$ 170,928	\$ 168,623	\$ 23,451
Cash dividends per common share	\$ 1.86	\$ 1.76	\$ 1.66	\$ 1.56	\$ 1.48
Funds from operations: ⁽²⁾					
Net income available to common shareholders	\$ 294,909	\$ 209,552	\$ 133,911	\$ 97,880	\$ 112,111
Depreciation and amortization	131,792	125,742	114,342	90,367	78,111
Gain on sale of properties	(172,056)	(87,561)	(26,316)	(7,273)	(18,614)
Total	\$ 254,645	\$ 247,733	\$ 221,937	\$ 180,974	\$ 171,608

⁽¹⁾ SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" requires the operating results and gain (loss) on the sale of operating properties to be reported as discontinued operations.

⁽²⁾ The National Association of Real Estate Investment Trusts defines funds from operations as net income (loss) available to common shareholders computed in accordance with generally accepted accounting principles, excluding gains or losses from sales of operating properties and extraordinary items, plus depreciation and amortization of real estate assets, including our share of unconsolidated partnerships and joint ventures. We calculate FFO in a manner consistent with the NAREIT definition. We believe FFO is an appropriate supplemental measure of operating performance because it helps investors compare our operating performance relative to other REITs. There can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs. FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO does not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the comparative summary of selected financial data appearing elsewhere in this report. Historical results and trends which might appear should not be taken as indicative of future operations. Our results of operations and financial condition, as reflected in the accompanying financial statements and related footnotes, are subject to management's evaluation and interpretation of business conditions, retailer performance, changing capital market conditions and other factors which could affect the ongoing viability of our tenants.

Forward-Looking Statements

This Annual Report, together with other statements and information publicly disseminated by us, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to, (i) general economic and local real estate conditions, (ii) the inability of major tenants to continue paying their rent obligations due to bankruptcy, insolvency or general downturn in their business, (iii) financing risks, such as the inability to obtain equity, debt, or other sources of financing on favorable terms, (iv) changes in governmental laws and regulations, (v) the level and volatility of interest rates, (vi) the availability of suitable acquisition opportunities and (vii) changes in operating costs. Accordingly, there is no assurance that our expectations will be realized.

Executive Overview

Weingarten Realty Investors is a real estate investment trust organized under the Texas Real Estate Investment Trust Act. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of properties that includes neighborhood and community shopping centers and industrial properties of approximately 65 million square feet. We have a diversified tenant base with our largest tenant comprising only 3% of total rental revenues during 2006.

We focus on increasing Funds from Operations and growing dividend payments to our common shareholders. We do this through hands-on leasing, management and selected redevelopment of the existing portfolio of properties, through disciplined growth from selective acquisitions and new developments, and through the disposition of assets that no longer meet our ownership criteria. We do this while remaining committed to maintaining a conservative balance sheet, a well-staggered debt maturity schedule and strong credit agency ratings.

We continue to maintain a strong, conservative capital structure, which provides ready access to a variety of attractive capital sources. We carefully balance obtaining low cost financing with minimizing exposure to interest rate movements and matching long-term liabilities with the long-term assets acquired or developed.

At December 31, 2006, we owned or operated under long-term leases, either directly or through our interest in joint ventures or partnerships, a total of 363 developed income-producing properties and 26 properties under various stages of construction and development. The total number of centers includes 322 neighborhood and community shopping centers located in Arizona, Arkansas, California, Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Maine, Missouri, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Utah, Texas and Washington. We also owned 67 industrial projects located in California, Florida, Georgia, Tennessee and Texas.

We also owned interests in 15 parcels of unimproved land held for future development that totaled approximately 5.7 million square feet.

We have approximately 7,400 leases with 5,500 different tenants at December 31, 2006.

Leases for our properties range from less than a year for smaller spaces to over 25 years for larger tenants. Rental revenues generally include minimum lease payments, which often increase over the lease term, reimbursements of property operating expenses, including ad valorem taxes, and additional rent payments based on a percentage of the tenants' sales. The majority of our anchor tenants are supermarkets, value-oriented apparel/discount stores and other retailers or service providers who generally sell basic necessity-type goods and services. We believe stability of our anchor tenants, combined with convenient locations, attractive and well-maintained properties, high quality retailers and a strong tenant mix, should ensure the long-term success of our merchants and the viability of our portfolio.

In assessing the performance of our properties, management carefully tracks the occupancy of the portfolio. Occupancy for the total portfolio was 94.1% at December 31, 2006 compared to 94.2% at December 31, 2005. We expect occupancy to remain at this high level or improve slightly in 2007. Another important indicator of performance is the spread in rental rates on a same-space basis as we complete new leases and renew existing leases. We completed 1,264 new leases or renewals during 2006 totaling 6.1 million square feet, increasing rental rates an average of 7.5% on a cash basis.

In the first quarter of 2006, we articulated a new long-term growth strategy with a planned three-year implementation. The key elements of this strategy are as follows:

- A much greater focus on new development, including merchant development, with \$300 million in annual new development completions beginning in 2009.
- Increased use of joint ventures for acquisitions, including the recapitalization (or partial sale) of existing assets, which provide the opportunity to further increase returns on investment through the generation of fee income from leasing and management services we will provide to the venture.
- Further recycling capital through the active disposition of non-core properties and reinvesting the proceeds into properties with barriers to entry within high growth metropolitan markets. This, combined with our continuous focus on our assets, produces a higher quality portfolio with higher occupancy rates and much stronger internal revenue growth.

During 2006 we made excellent progress in the execution of this long-term growth strategy as described in the following sections on new development, acquisitions and joint ventures, and dispositions.

NEW DEVELOPMENT

At December 31, 2006, we had 26 properties in various stages of development, up from 10 properties under development at the end of 2005. We have invested \$204 million to-date on these projects and, at completion, we estimate our total investment to be \$485 million. These properties are slated to open over the next two years with a projected return on investment of approximately 9% when completed.

In addition to these projects, we have significantly increased our development pipeline with nine development sites under contract, which will represent an investment of approximately \$218 million. In addition to the nine development sites under contract, we have another 22 development sites under preliminary pursuit.

Merchant development is a new program in which we develop a project with the objective of selling all or part of it, instead of retaining it in our portfolio on a long-term basis. We generated \$6.9 million (after-tax) from this program in 2006, adding \$0.08 of earnings and FFO per share.

We are making excellent progress in new development including merchant development activities. During 2006, we almost tripled the number of properties under development and invested \$167 million in our new development program.

ACQUISITIONS AND JOINT VENTURES

In 2006 we completed a record \$1 billion of acquisitions, including \$194 million bought on behalf of joint venture partners. Properties acquired in 2006 included 34 shopping centers and seven industrial properties that added a total of 4.0 million square feet under management. During 2006, just over half of our acquisitions were with institutional joint ventures.

We formed the following new joint venture partnerships in 2006:

- We acquired seven neighborhood/community shopping centers in South Florida in a new joint venture with TIAA-CREF Global Real Estate;
- In partnership with AEW Capital Management, on behalf of its institutional client, we acquired four grocery-anchored centers and two power centers in Oregon and Washington, marking our entry into two desirable markets – Portland, Oregon and Seattle/Tacoma, Washington;
- We also formed a joint venture with Mercantile Real Estate Advisors and its client, the AFL-CIO Building Investment Trust, to acquire and operate industrial properties within target markets across the United States. We sold \$123 million of our existing assets to the joint venture upon formation. Including the \$123 million, the partners plan to invest up to \$500 million in total capital over the next two years.

Acquisitions are critical to our growth and a key component of our strategy. However, intense competition for good quality assets has driven asset prices up and returns down. Partnering with institutional investors through joint ventures enables us to acquire high quality assets in our target markets while also meeting our financial return objectives. We benefit from access to lower-cost capital as well as leveraging our expertise to provide fee-based services, such as the acquisition, leasing and management of properties, to the joint ventures.

DISPOSITIONS

During 2006 we sold 21 shopping centers and four industrial projects representing 3.6 million square feet from our share of the portfolio. Sale proceeds from these dispositions totaled \$316 million and generated gains of \$150 million. We also sold an 80% interest in two property portfolios to two joint ventures totaling \$358 million. The proceeds from these dispositions, combined with the joint venture program, provided more than 70% of the capital required for the 2006 acquisitions and reduced the need to issue additional common equity or incur additional debt.

Capitalizing on strong demand and favorable prices for real estate assets during 2006, we completed a record level of asset sales. Dispositions are part of an on-going portfolio management process where we prune our portfolio of properties that do not meet our geographic or growth targets and provide capital to recycle into properties that have barrier-to-entry locations within high growth metropolitan markets. Over time we expect this to produce a portfolio with higher occupancy rates and much stronger internal revenue growth.

Summary of Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily

apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

REVENUE RECOGNITION

Rental revenue is generally recognized on a straight-line basis over the life of the lease, which begins the date the leasehold improvements are substantially complete, if owned by us, or the date the tenant takes control of the space, if the leasehold improvements are owned by the tenant. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recorded. Revenue based on a percentage of tenants' sales is recognized only after the tenant exceeds their sales breakpoint.

PARTIALLY OWNED JOINT VENTURES AND PARTNERSHIPS

To determine the method of accounting for partially owned joint ventures or partnerships, we first apply the guidelines set forth in FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities." Based upon our analysis, we have determined that we have no variable interest entities.

Partially owned joint ventures or partnerships over which we exercise financial and operating control are consolidated in our financial statements. In determining if we exercise financial and operating control, we consider factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights. Partially owned joint ventures and partnerships where we have the ability to exercise significant influence, but do not exercise financial and operating control, are accounted for using the equity method.

PROPERTY

Real estate assets are stated at cost less accumulated depreciation, which, in the opinion of management, is not in excess of the individual property's estimated undiscounted future cash flows, including estimated proceeds from disposition. Depreciation is computed using the straight-line method, generally over estimated useful lives of 18-40 years for buildings and 10-20 years for parking lot surfacing and equipment. Major replacements where the betterment extends the useful life of the asset are capitalized and the replaced asset and corresponding accumulated depreciation are removed from the accounts. All other maintenance and repair items are charged to expense as incurred.

Acquisitions of properties are accounted for utilizing the purchase method and, accordingly, the results of operations of an acquired property are included in our results of operations from the respective dates of acquisition. We have used estimates of future cash flows and other valuation techniques to allocate the purchase price of acquired property among land, buildings on an “as if vacant” basis, and other identifiable intangibles. Other identifiable intangible assets and liabilities include the effect of out-of-market leases, the value of having leases in place (lease origination and absorption costs), out-of-market assumed mortgages and tenant relationships.

Property also includes costs incurred in the development of new operating properties and properties in our merchant development program. These properties are carried at cost and no depreciation is recorded on these assets. These costs include preacquisition costs directly identifiable with the specific project, development and construction costs, interest and real estate taxes. Indirect development costs, including salaries and benefits, travel and other related costs that are clearly attributable to the development of the property, are also capitalized. The capitalization of such costs ceases at the earlier of one year from the completion of major construction or when the property, or any completed portion, becomes available for occupancy.

Property also includes costs for tenant improvements paid by us, including reimbursements to tenants for improvements that are owned by us and will remain our property after the lease expires.

Our properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property may not be recoverable. In such an event, a comparison is made of either the current and projected operating cash flows of each such property into the foreseeable future on an undiscounted basis or the estimated net sales price to the carrying amount of such property. Such carrying amount is adjusted, if necessary, to the estimated fair value to reflect an impairment in the value of the asset.

Some of our properties are held in single purpose entities. A single purpose entity is a legal entity typically established at the request of a lender solely for the purpose of owning a property or group of properties subject to a mortgage. There may be restrictions limiting the entity’s ability to engage in an activity other than owning or operating the property, assume or guaranty the debt of any other entity, or dissolve itself or declare bankruptcy before the debt has been repaid. Most of our single purpose entities are 100%-owned by us and are consolidated in our financial statements.

INTEREST CAPITALIZATION

Interest is capitalized on land under development and buildings under construction based on rates applicable to borrowings outstanding during the period and the weighted average balance of qualified assets under development/construction during the period.

DEFERRED CHARGES

Debt and lease costs are amortized primarily on a straight-line basis, which approximates the effective interest method, over the terms of the debt and over the lives of leases, respectively. Lease costs represent the initial direct costs incurred in origination, negotiation and processing of a lease agreement. Such costs include outside broker commissions and other independent third party costs as well as salaries and benefits, travel and other related internal costs incurred in completing the leases. Costs related to supervision, administration, unsuccessful origination efforts and other activities not directly related to completed lease agreements are charged to expense as incurred.

SALES OF REAL ESTATE

Sales of real estate include the sale of shopping center pads, property adjacent to shopping centers, shopping center properties, merchant development properties and investments in real estate ventures.

We recognize profit on sales of real estate, including merchant development sales, in accordance with SFAS No. 66, “Accounting for Sales of Real Estate.” Profits are not recognized until (a) a sale is consummated; (b) the buyer’s initial and continuing investments are adequate to demonstrate a commitment to pay; (c) the seller’s receivable is not subject to future subordination; and (d) we have transferred to the buyer the usual risks and rewards of ownership in the transaction, and we do not have a substantial continuing involvement with the property.

We recognize gains on the sale of real estate to joint ventures in which we participate to the extent we receive cash from the joint venture.

ACCRUED RENT AND ACCOUNTS RECEIVABLE

Receivable balances outstanding include base rents, tenant reimbursements and receivables attributable to the straight-lining of rental commitments. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon an analysis of balances outstanding, historical bad debt levels, tenant credit worthiness and current economic trends.

INCOME TAXES

We have elected to be treated as a Real Estate Investment Trust (REIT) under the Internal Revenue Code of 1986, as amended. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute to our shareholders. To be taxed as a REIT we must meet a number of requirements including meeting defined percentage tests concerning the amount of our assets and revenues that come from, or are attributable to, real estate operations. As long as we distribute at least 90% of the taxable income of the REIT to our shareholders as dividends, we will not be taxed on the portion of our income we distribute as dividends unless we have ineligible transactions.

The Tax Relief Extension Act of 1999 gave REITs the ability to conduct activities which a REIT was previously precluded from doing as long as they are performed in entities which have elected to be treated as taxable REIT subsidiaries under the IRS code. These activities include buying or developing properties with the express purpose of selling them. We conduct certain of these activities in taxable REIT subsidiaries that we have created. We calculate and record income taxes in our financial statements based on the activities in those entities. We also record deferred taxes for the temporary tax differences that have resulted from those activities as required under SFAS No. 109, "Accounting for Income Taxes."

Results of Operations

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005

REVENUES

Total revenues were \$561.4 million for the year ended 2006 versus \$510.4 million for the year ended 2005, an increase of \$51.0 million or 10%. This increase resulted primarily from an increase in rental revenues of \$50.4 million.

Property acquisitions and new development activity contributed \$35.6 million of the rental income increase. The remaining increase of \$14.8 million resulted from 1,264 renewals and new leases, comprising 6.1 million square feet at an average rental rate increase of 7.5%.

Occupancy (leased space) of the portfolio as compared to the prior year was as follows:

	December 31,	
	2006	2005
Shopping Centers	95.0%	94.6%
Industrial	91.2%	93.1%
Total	94.1%	94.2%

EXPENSES

Total expenses for 2006 were \$308.4 million versus \$270.0 million in 2005, an increase of \$38.4 million or 14.2%.

The increases in 2006 for depreciation and amortization expense (\$10.5 million), operating expenses (\$14.8 million), ad valorem taxes (\$6.6 million) and general and administrative expenses (\$6.4 million) were primarily a result of the properties acquired and developed during the year, an increase in property insurance expenses as a result of the hurricanes experienced in 2005, and increases associated with headcount increases related to the growth of the portfolio. Overall, direct operating costs and expenses (operating and ad valorem tax expense) of operating our properties as a percentage of rental revenues were 28% in 2006 and 27% in 2005.

INTEREST EXPENSE

Interest expense totaled \$146.9 million for 2006, up \$16.1 million or 12.3% from 2005. The components of interest expense were as follows (in thousands):

	Year Ended December 31,	
	2006	2005
Gross interest expense	\$ 161,894	\$ 140,317
Over-market mortgage adjustment of acquired properties	(7,335)	(6,927)
Capitalized interest	(7,616)	(2,629)
Total	\$ 146,943	\$ 130,761

Gross interest expense totaled \$161.9 million in 2006, up \$21.6 million or 15.4% from 2005. The increase in gross interest expense was due to an increase in the average debt outstanding from \$2.2 billion in 2005 to \$2.5 billion in 2006 at a weighted average interest rate of 6.0% in 2006 and 6.1% for 2005. Capitalized interest increased \$5.0 million due to an increase in new development activity, and the over-market mortgage adjustment increased by \$.4 million.

INTEREST AND OTHER INCOME

Interest and other income was \$9.0 million in 2006 versus \$2.9 million in 2005, an increase of \$6.1 million or 210%. This increase was attributable to interest earned from a qualified escrow account for the purposes of completing like-kind exchanges, construction loans associated with our new development activities, excess proceeds from our \$575 million Convertible Debt Offering and assets held in a grantor trust related to our deferred compensation plan.

EQUITY IN EARNINGS OF JOINT VENTURES

Our equity in earnings of joint ventures was \$14.7 million in 2006 versus \$6.6 million in 2005, an increase of \$8.1 million or 123%. This increase was attributable primarily to our share of the gains generated from the disposition of two shopping centers in Texas totaling \$4.0 million, a gain of \$1.1 million associated with land and merchant development activities in Texas and Washington and incremental income from our investments in newly formed joint ventures in 2005 and 2006 for the acquisition and development of retail and industrial properties.

GAIN ON SALE OF PROPERTIES

The gain of \$22.5 million and \$22.3 million in 2006 and 2005, respectively, resulted primarily from the sale of an 80% interest in five industrial properties in the San Diego, Memphis and Atlanta markets and two retail centers in Louisiana, respectively, in which we retained a continuing 20% operating interest.

GAIN ON LAND AND MERCHANT DEVELOPMENT SALES

Gain on land and merchant development sales of \$7.1 million in 2006 resulted from the gain from the sale of the Timber Springs shopping center in Orlando, Florida and the sale of three parcels of land in Arizona (1) and Texas (2). The activity in 2005 resulted from the sale of a parcel of land in Orlando, Florida.

PROVISION FOR INCOME TAXES

The amount reported in 2006 includes the tax expense in our taxable REIT subsidiary and the deferred tax impact attributable to the Texas margin tax enacted in the second quarter of 2006.

INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations was \$153.4 million in 2006 versus \$83.5 million in 2005, an increase of \$69.9 million or 83.7%. This increase was due to the disposition of 23 properties totaling 3.5 million square feet that provided sales proceeds of \$308.2 million and generated gains of \$145.5 million. The 2005 caption includes the operating results of properties disposed in 2006 and 2005 as well as the gain from the disposition of 16 properties and a vacant building totaling 1.3 million square feet that provided sales proceeds of \$133.8 million and generated gains of \$65.5 million.

Results of Operations**Comparison of the Year Ended December 31, 2005 to the Year Ended December 31, 2004****REVENUES**

Total revenues increased by \$49.5 million or 10.7% in 2005 (\$510.4 million in 2005 versus \$460.9 million in 2004). This increase resulted primarily from the increase in rental revenues of \$51.4 million and a decrease in other income of \$1.9 million. Property acquisitions and new development activity contributed \$41.3 million of the rental income increase with \$14.2 million resulting from our existing properties, based on the occupancy and average rental rate factors described below. Offsetting these rental income increases was a decrease of \$4.1 million, which resulted from the sale of an 80% interest in two retail centers in Louisiana.

Occupancy (leased space) of the portfolio as compared to the prior year was as follows:

	December 31,	
	2005	2004
Shopping Centers	94.6%	94.8%
Industrial	93.1%	92.6%
Total	94.2%	94.3%

In 2005 we completed 1,298 renewals and new leases comprising 6.8 million square feet at an average rental rate increase of 7.0%.

Other income decreased by \$1.9 million or 22.9% in 2005 (\$6.4 million in 2005 versus \$8.3 million in 2004). This decrease was due primarily to a decrease in lease cancellation payments from various tenants.

EXPENSES

Total expenses increased by \$23.0 million or 9.3% in 2005 (\$270.0 million in 2005 versus \$247.0 million in 2004).

The increases in 2005 for depreciation and amortization expense (\$13.2 million), operating expenses (\$5.1 million) and ad valorem taxes (\$6.9 million) were primarily a result of the properties acquired and developed during the year. Overall, direct operating costs and expenses (operating and ad valorem tax expense) of operating our properties as a percentage of rental revenues were 27% in both 2005 and 2004.

General and administrative expenses increased by \$1.3 million or 8.1% in 2005 (\$17.4 million in 2005 versus \$16.1 million in 2004). This increase resulted primarily from normal compensation increases as well as increases in staffing necessitated by the growth in the portfolio. General and administrative expense as a percentage of rental revenues was 3% in 2005 and 4% in 2004.

Impairment loss of \$3.6 million in 2004 related to a parcel of land held for development in Houston, Texas, which was sold in December 2004, and one retail property in Houston and one retail property in Port Arthur, Texas.

INTEREST EXPENSE

Interest expense increased by \$13.7 million or 11.7% in 2005 (\$130.8 million in 2005 versus \$117.1 million in 2004). The components of interest expense were as follows (in thousands):

	Year Ended December 31,	
	2005	2004
Gross interest expense	\$ 140,317	\$ 125,069
Interest on preferred shares subject to mandatory redemption		2,007
Over-market mortgage adjustment of acquired properties	(6,927)	(4,988)
Capitalized interest	(2,629)	(4,992)
Total	\$ 130,761	\$ 117,096

Gross interest expense increased \$15.2 million (\$140.3 million in 2005 versus \$125.1 million in 2004) due to an increase in the average debt outstanding from \$2.0 billion in 2004 to \$2.2 billion in 2005 and an increase in the weighted average interest rate between the two periods from 5.9% in 2004 to 6.1% in 2005. The increase in the over-market mortgage adjustment of \$1.9 million resulted from our property acquisitions. Capitalized interest decreased \$2.4 million due to completion of new development projects in 2004.

LOSS ON REDEMPTION OF PREFERRED SHARES

Loss on redemption of preferred shares of \$3.6 million in 2004 represents the unamortized original issuance costs related to the Series C Cumulative Preferred Shares redeemed in April 2004.

EQUITY IN EARNINGS OF JOINT VENTURES

Equity in earnings of joint ventures increased by \$1.2 million or 22.2% in 2005 (\$6.6 million in 2005 versus \$5.4 million in 2004). This increase is due primarily to the acquisition of three retail properties in two newly formed unconsolidated joint ventures during 2005 and a gain from the disposition of an unimproved land tract. Also contributing to this increase is the sale of an 80% interest in two retail properties during 2005, which are held in tenancy-in-common arrangements in which we retained a 20% interest, and the acquisitions of five retail properties in 2004, each through a 50% unconsolidated joint venture.

INCOME ALLOCATED TO MINORITY INTERESTS

Income allocated to minority interests increased by \$1.2 million or 24.5% in 2005 (\$6.1 million in 2005 versus \$4.9 million in 2004). This increase resulted primarily from the acquisition of five retail properties during 2004 and three retail properties in June 2005 through limited partnerships utilizing the DownREIT structure. These limited partnerships are included in our consolidated financial statements because we exercise financial and operating control.

GAIN ON SALE OF PROPERTIES

Gain on sale of properties increased by \$20.8 million in 2005 (\$22.3 million in 2005 versus \$1.5 million in 2004). The increase was due primarily to the sale of an 80% interest in two shopping centers in Lafayette and Shreveport, Louisiana totaling 295,000 square feet. Due to our continuing involvement with the leasing and managing of operations for both properties, the operating results of these properties have not been reclassified and reported as discontinued operations. The gain on the sale of our 80% interest in these two properties totaled \$21.7 million.

GAIN ON LAND AND MERCHANT DEVELOPMENT SALES

Gain on land sales of \$.8 million represents the gain from the sale of an unimproved land tract in Orlando, Florida.

INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations increased by \$38.7 million (\$83.5 million in 2005 versus \$44.8 million in 2004). Included in this caption for 2005 are the operating results of properties disposed in 2006 and the disposition of 16 properties and a vacant building totaling 1.3 million square feet that provided sales proceeds of \$133.8 million and generated gains of \$65.5 million. Included in this caption for 2004 are the operating results of properties disposed in 2006 and 2005 plus the disposition of five properties and one free-standing building totaling .7 million square feet in 2004. The 2004 dispositions provided sales proceeds of \$49.9 million and generated gains of \$24.9 million.

Effects of Inflation

We have structured our leases in such a way as to remain largely unaffected should significant inflation occur. Most of the leases contain percentage rent provisions whereby we receive increased rentals based on the tenants' gross sales. Many leases provide for increasing minimum rentals during the terms of the leases through escalation provisions. In addition, many of our leases are for terms of less than ten years, which allow us to adjust rental rates to changing market conditions when the leases expire. Most of our leases also require the tenants to pay their proportionate share of operating expenses and ad valorem taxes. As a result of these lease provisions, increases due to inflation, as well as ad valorem tax rate increases, generally do not have a significant adverse effect upon our operating results as they are absorbed by our tenants.

Capital Resources and Liquidity

Our primary liquidity needs are payment of our common and preferred dividends, maintaining and operating our existing properties, payment of our debt service costs, and funding planned growth. We anticipate that cash flows from operating activities will continue to provide adequate capital for all common and preferred dividend payments and debt service costs, as well as the capital necessary to maintain and operate our existing properties.

Primary sources of capital for funding our acquisitions and new development programs are our \$400 million revolving credit facility, cash generated from sales of properties that no longer meet our investment criteria, cash flow generated by our operating properties and proceeds from capital issuances as needed. Amounts outstanding under the revolving credit agreement are retired as needed

with proceeds from the issuance of long-term unsecured debt, common and preferred equity, cash generated from dispositions of properties, and cash flow generated by our operating properties. As of December 31, 2006 the balance outstanding on our \$400 million revolving credit facility was \$18.0 million, and there were no borrowings under our \$20 million credit facility, which we use for cash management purposes.

Our capital structure also includes nonrecourse secured debt that we assume in conjunction with our acquisitions program. We also have nonrecourse debt secured by acquired or developed properties held in several of our joint ventures. We hedge the future cash flows of certain debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate swaps with major financial institutions. We generally have the right to sell or otherwise dispose of our assets except in certain cases where we are required to obtain a third party consent, such as assets held in entities in which we have less than 100% ownership.

INVESTING ACTIVITIES: ACQUISITIONS

Retail Properties. During 2006 we invested approximately \$781 million in the acquisition of operating retail properties. Approximately \$402 million was invested in 17 shopping centers and \$54 million was invested in two unconsolidated joint ventures to acquire 11 retail properties. We also invested \$325 million in the Woolbright properties portfolio, 80% of which was subsequently bought from us as part of a joint venture arrangement with TIAA-CREF Global Real Estate. These combined acquisitions added 4.0 million square feet to our share of the portfolio.

In March 2006 we acquired Fresh Market Shoppes Shopping Center, an 87,000 square foot shopping center located in Hilton Head, South Carolina. Fresh Market and Bonefish Grill anchor this specialty retail center. We also acquired The Shoppes at Paradise Isle, a 172,000 square foot shopping center located in Destin, Florida. Best Buy, Linens 'n Things, PetSmart and Office Depot anchor this property. Both of these shopping centers were acquired through a 25%-owned unconsolidated joint venture.

In April 2006 Valley Shopping Center, a 103,000 square foot shopping center anchored by Raley's Supermarket, was acquired. The center has below-market rents providing strong growth opportunities and is in close proximity to our regional office in Sacramento.

In May 2006 Brownsville Commons, an 82,000 square foot shopping center including a 54,000 square foot (corporate owned) Kroger supermarket, was acquired in Powder Springs, Georgia, a suburb of Atlanta. The Shoppes of Parkland, was also acquired, which is a 146,000 square foot shopping center located in Parkland, Florida and is anchored by BJ's Wholesale. This center services two upper income neighborhoods, Parkland and Boca Raton.

In June 2006 we purchased a property in California and acquired a shopping center in Florida through a 25%-owned unconsolidated joint venture. Freedom Centre, anchored by Ralph's and Rite Aid, is a 151,000 square foot shopping center located in Freedom, California. Indian Harbour Place is a 164,000 square foot shopping center located in Melbourne, Florida and is anchored by Publix.

In July 2006 we acquired Mendenhall Commons, an 80,000 square foot grocery-anchored neighborhood shopping center located in the affluent East Memphis submarket of Memphis, Tennessee. Kroger anchors the center. We also acquired the Regency Shopping Center, located in Lexington, Kentucky, and Little Brier Creek Lane in Raleigh, North Carolina. Regency Shopping Center is a 136,000 square foot shopping center, which is anchored by Kroger (corporate owned), Michaels and TJ Maxx. Little Brier Creek Lane is a 63,000 square foot shopping center anchored by Pei Wei.

Quesada Commons, a 59,000 square foot shopping center, and Shoppes of Port Charlotte, a 41,000 square foot shopping center, were acquired through a 25%-owned unconsolidated joint venture in July 2006. Both centers are located in Port Charlotte, Florida and are recently constructed shopping centers. Publix, Florida's dominant supermarket chain, anchors Quesada Commons, and PETCO and Panera Bread anchor the Shoppes of Port Charlotte.

In August 2006 we acquired the North American Properties portfolio consisting of five retail properties, including four properties in metropolitan Atlanta, Georgia and one in Sanford, Florida, a suburb north of Orlando. The properties are all new construction and are anchored by strong national tenants as described in the table below:

Center Name	Square Feet of Property*	Location	Anchors	Occupancy at Acquisition Date
Brookwood Marketplace	253,000	Suwanee (Atlanta), GA	SuperTarget*, Home Depot, OfficeMax	96%
Camp Creek Phase II	196,000	Atlanta, GA	SuperTarget*, Circuit City	99%
Lakeside Marketplace	322,000	Acworth (Atlanta), GA	SuperTarget*, Circuit City, Ross Dress for Less, PETCO, OfficeMax	100%
Publix at Princeton Lakes	68,000	Atlanta, GA	Publix	100%
Marketplace at Seminole Towne Center	494,000	Sanford (Orlando), FL	SuperTarget*, Circuit City, Linens 'n Things, Marshalls, PETCO	99%

* Target owns its own property and is not part of the transaction.

The purchase agreement allows for the subsequent development and leasing of an additional phase of Brookwood Marketplace by the property seller. If the terms of the purchase agreement are met by the seller, the purchase price would be increased by approximately \$6.9 million. This agreement expires in August 2008.

In September 2006 Dallas Commons and Reynolds Crossing were acquired in Atlanta, Georgia. Dallas Commons is a 95,000 square foot shopping center and Reynolds Crossing is an 116,000 square foot shopping center. Both centers are anchored by a 70,000 square foot (corporate owned) Kroger supermarket.

The Woolbright Properties Portfolio was acquired, which consisted of seven neighborhood/community anchored retail shopping centers. Five of the centers were purchased in September 2006 with Alafaya Square and the Marketplace at Dr. Phillips purchased in early October 2006. This acquisition added 1.3 million square feet to our portfolio, and represented a total investment of \$325 million. All seven properties are located in highly desirable locations within Florida's three largest metropolitan markets of South Florida, Orlando, and Tampa/St. Petersburg. The centers are leased to a diverse mix of strong national retailers as described in the table below:

Center Name	Square Feet of Property	Location	Anchors	Occupancy at Acquisition Date
Alafaya Square	176,000	Oviedo (Orlando), FL	Publix, Planet Fitness	100%
Marketplace at Dr. Phillips	328,000	Orlando, FL	Albertson's, Stein Mart, HomeGoods, Office Depot	99%
East Lake Woodlands	145,000	Palm Harbor (Tampa), FL	Publix, Walgreens	91%
International Drive Value Center	186,000	Orlando, FL	Bed Bath & Beyond, Ross Dress for Less, TJ Maxx	100%
Kendall Corners	96,000	Miami, FL	Ashley Furniture	100%
Palm Lakes Plaza	114,000	Maragate (Ft. Lauderdale), FL	Publix, CVS	99%
South Dade Shopping Center	220,000	Miami, FL	Publix, Bed Bath & Beyond, PETCO	100%

In November 2006, 80% of the Woolbright Properties Portfolio was sold as part of a joint venture arrangement with TIAA-CREF Global Real Estate.

In November 2006 we purchased six properties, four in Washington and two in Oregon through a 20%-owned unconsolidated joint venture. The centers are leased to a diverse mix of strong national retailers as described in the table below:

Center Name	Square Feet of Property	Location	Anchors	Occupancy at Acquisition Date
Mukilteo Speedway Center	90,000	Lynnwood (Seattle), WA	Food Emporium, Bartell Drug	96%
Meridian Town Center	143,000	Puyallup (Tacoma), WA	Safeway, JoAnn's	100%
Rainier Square Plaza	107,000	Seattle, WA	Safeway, Long Drugs	100%
South Hill Center	134,000	Puyallup (Tacoma), WA	Best Buy, Bed Bath & Beyond, Ross Dress for Less	99%
Clackamas Square	137,000	Portland, OR	TJ Maxx	100%
Raleigh Hills Plaza	40,000	Portland, OR	Walgreens, New Season Market	100%

In December 2006 we acquired Galleria Shopping Center in Charlotte, North Carolina and Charleston Commons in Las Vegas, Nevada. Galleria is a 316,000 square foot shopping center anchored by Cato Corporation and Dollar Tree. Charleston Commons, a 338,000 square foot shopping center, is anchored by Wal-Mart, OfficeMax, Ross Dress for Less and PetSmart. We also acquired our partner's share of Heritage Station, which is located in Wake Forest, North Carolina. Heritage Station is a 62,000 square foot shopping center that is anchored by Harris Teeter.

Industrial Properties. During 2006 we invested approximately \$82 million in the acquisition of seven industrial properties totaling 1.4 million square feet.

In February 2006 we acquired the McGraw-Hill Distribution Center, a single tenant warehouse of 418,000 square feet located in DeSoto, Texas.

In June 2006 we acquired two vacant industrial warehouse buildings in San Diego, California at 1725 and 1855 Dornoch Court. These state-of-the-art buildings, aggregating 317,000 square feet, are located within one and a half miles of our Siempre Viva Business Park. Based on the high demand for top quality space in this area, we anticipate leasing both newly acquired buildings within the next year.

In October 2006 we acquired Midpoint I-20 Distribution Center, a 253,000 square foot property located in Arlington, Texas.

In November 2006 we acquired Hopewell Industrial Center in Tampa, Florida and Freeport Commerce Center in Irving, Texas. These centers aggregate 224,000 and 51,000 square feet, respectively.

In December 2006 we acquired 1919 North Loop West, an office building adjacent to our corporate headquarters in Houston, Texas where we intend to relocate some of our administrative operations. The building contains 140,000 square feet.

The cash requirements for these acquisitions were initially financed under our revolving credit facilities, using available cash generated from dispositions of properties or using cash flow generated by our operating properties.

INVESTING ACTIVITIES: DISPOSITIONS

Retail Properties. In 2006 we sold 19 wholly-owned shopping centers totaling 2.9 million square feet of building area. Sales proceeds from these retail dispositions totaled \$292 million and generated gains of \$141 million. We also sold two joint venture properties totaling 97,000 square feet, and sales proceeds totaled \$8 million and generated gains of \$4 million.

Industrial Properties. During 2006 we sold four industrial properties totaling 616,000 square feet. We also formed an industrial joint venture where five properties totaling 2.1 million square feet were

contributed to a joint venture, and we retained a 20% interest. Sales proceeds from these dispositions totaled \$115 million and generated gains of \$26 million.

INVESTING ACTIVITIES: NEW DEVELOPMENT AND CAPITAL EXPENDITURES

At December 31, 2006, we had 26 projects under construction or in preconstruction stages. The total square footage is approximately 7.6 million. These properties are slated to open over the next two years.

Our new development projects are financed initially under our revolving credit facilities, using available cash generated from dispositions of properties or using cash flow generated by our operating properties.

Capital expenditures for additions to the existing portfolio, acquisitions, new development and our share of investments in unconsolidated joint ventures totaled \$1.1 billion in 2006 and \$455.1 million in 2005.

FINANCING ACTIVITIES: DEBT

Total debt outstanding increased to \$2.9 billion at December 31, 2006 from \$2.3 billion at December 31, 2005, due primarily to funding of acquisitions and new development activity. Total debt at December 31, 2006 includes \$2.8 billion of which interest rates are fixed and \$115 million, which bears interest at variable rates, including the effect of \$75 million of interest rate swaps. Additionally, debt totaling \$1 billion was secured by operating properties while the remaining \$1.9 billion was unsecured.

In February 2006 we amended and restated our \$400 million unsecured revolving credit facility held by a syndicate of banks. This amended facility has an initial four-year term and provides a one-year extension option available at our request. Borrowing rates under this facility float at a margin over LIBOR, plus a facility fee. The borrowing margin and facility fee, which are currently 37.5 and 12.5 basis points, respectively, are priced off a grid that is tied to our senior unsecured credit rating. This facility includes a competitive bid feature where we are allowed to request bids for borrowings up to \$200 million from the syndicate banks. Additionally, the facility contains an accordion feature, which allows us to increase the facility amount up to \$600 million. The available balance under our revolving credit agreement was \$371.9 million and \$175.1 million at December 31, 2006 and 2005, respectively. As of February 15, 2007, there was no outstanding balance under this facility. We also maintain a \$20 million unsecured and uncommitted overnight facility that is used for cash management purposes and as of February 15, 2007 there were no borrowings under this facility. We are in full compliance with the covenants of our \$400 million unsecured revolving credit facility.

In August 2006 we issued \$575 million of 3.95% convertible senior notes due 2026. The net proceeds from the sale of the debentures were used for general business purposes, including the repurchase of 4.3 million of our common shares of beneficial interest and to reduce amounts outstanding under our revolving credit facilities. The debentures are convertible under certain circumstances for our common shares of beneficial interest at an initial conversion rate of 20.3770 common shares per \$1,000 of principal amount of debentures (an initial conversion price of \$49.075). Upon the conversion of notes, we will deliver cash for the principal return, as defined, and cash or common shares, at our option, for the excess of the conversion value, as defined, over the principal return. The debentures are redeemable for cash at our option beginning in 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures for cash equal to the principal of the notes plus accrued and unpaid interest in 2011, 2016 and 2021 and in the event of a change in control.

In December 2006 we issued \$75 million of ten year unsecured fixed rate medium term notes at 6.1% including the effect of an interest rate swap that hedged the transaction. Proceeds from this issuance were used to repay balances under our revolving credit facilities, to cash settle a forward hedge and for general business purposes.

At December 31, 2006, we had five interest rate swap contracts designated as fair value hedges with an aggregate notional amount of \$75 million that convert fixed rate interest payments at rates ranging from 4.2% to 6.8% to variable interest payments. Also, at December 31, 2006, we had two forward-starting interest rate swap contracts with an aggregate notional amount of \$118.6 million. These contracts have been designated as cash flow hedges and mitigate the risk of increasing interest rates on forecasted long-term debt issuances over a maximum period of two years.

In May 2006 we entered into a forward-starting interest rate swap with a notional amount of \$74.0 million. In December 2006 we terminated this rate swap in conjunction with the issuance of \$75.0 million of medium term notes. The termination fee of \$4.1 million is being amortized over the life of the medium term note.

In June 2006 a \$5 million swap matured in conjunction with the maturity of the associated medium term note. This contract was designated as a fair value hedge.

The interest rate swaps increased interest expense and decreased net income by \$.5 million, \$1.3 million and \$3.5 million in 2006, 2005 and 2004, respectively, and increased the average interest rate of our debt by .02%, .1% and .2% in 2006, 2005 and 2004, respectively. We could be exposed to credit losses in the event of nonperformance by the counter-party; however, management believes the likelihood of such nonperformance is remote.

In conjunction with acquisitions completed during 2006 and 2005, we assumed \$140.7 million and \$135.3 million, respectively, of non-recourse debt secured by the related properties.

FINANCING ACTIVITIES: EQUITY

Common and preferred dividends increased to \$173.0 million in 2006, compared to \$167.2 million for 2005. The dividend rate for our common shares of beneficial interest for each quarter of 2006 was \$.465 compared to \$.44 for the same periods in 2005. Our dividend payout ratio on common equity for 2006, 2005 and 2004 approximated 64.0%, 63.4% and 65.3%, respectively, based on basic funds from operations for the respective periods.

In February 2006 our board of trust managers authorized up to \$100 million for the purchase of outstanding common shares of beneficial interest in 2006. Share repurchases may be made in the open market or in privately negotiated transactions. In July 2006 our board of trust managers authorized the repurchase of our common shares of beneficial interest to a total of \$207 million, and we used \$167.6 million of the net proceeds from the \$575 million debt offering to purchase 4.3 million common shares of beneficial interest at \$39.26 per share.

On January 30, 2007, we issued \$200 million of depositary shares. Each depositary share represents one-hundredth of a 6.5% Series F Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part, on or after January 30, 2012 at our option, at a redemption price of \$25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series F Preferred Shares pay a 6.5% annual dividend and have a liquidation value of \$2,500 per share. Net proceeds of \$194.4 million were used to repay amounts outstanding under our credit facilities and for general business purposes.

In September 2004 the SEC declared effective two additional shelf registration statements totaling \$1.55 billion, of which \$1.35 billion was available as of February 15, 2007. In addition, we have \$85.4 million available as of February 15, 2007 under our \$1 billion shelf registration statement, which became effective in April 2003. We will continue to closely monitor both the debt and equity markets and carefully consider our available financing alternatives, including both public and private placements.

Contractual Obligations

The following table summarizes our principal contractual obligations as of December 31, 2006 (in thousands):

	2007	2008	2009	2010	2011	Thereafter	Total
Mortgages and Notes Payable: ⁽¹⁾							
Unsecured Debt	\$ 196,651	\$ 154,680	\$ 121,802	\$ 138,090	\$ 665,301	\$ 1,207,200	\$ 2,483,724
Secured Debt	93,857	246,031	129,297	111,517	136,720	626,882	1,344,304
Ground Lease Payments	1,876	1,782	1,737	1,691	1,626	39,459	48,171
Obligations to Acquire Projects	218,322						218,322
Obligations to Develop Projects	149,614	71,312	37,891	22,796			281,613
Total Contractual Obligations	\$ 660,320	\$ 473,805	\$ 290,727	\$ 274,094	\$ 803,647	\$ 1,873,541	\$ 4,376,134

⁽¹⁾ Includes principal and interest with interest on variable-rate debt calculated using rates at December 31, 2006 excluding the effect of interest rate swaps.

As of December 31, 2006 and December 31, 2005, we did not have any off-balance sheet arrangements that would materially affect our liquidity or availability of, or requirement for, our capital resources. We have not guaranteed the debt of any of our joint ventures in which we own an interest.

Funds from Operations

The National Association of Real Estate Investment Trusts defines funds from operations as net income (loss) available to common shareholders computed in accordance with generally accepted accounting principles, excluding gains or losses from sales of real estate assets and extraordinary items, plus depreciation and amortization of operating properties, including our share of unconsolidated partnerships and joint ventures. We calculate FFO in a manner consistent with the NAREIT definition.

We believe FFO is an appropriate supplemental measure of operating performance because it helps investors compare our operating performance relative to other REITs. Management also uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income by itself as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that uses historical cost accounting is insufficient by itself. There can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs.

FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO does not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness.

Funds from operations is calculated as follows (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Net income available to common shareholders	\$ 294,909	\$ 209,552	\$ 133,911
Depreciation and amortization	126,713	122,203	111,211
Depreciation and amortization of unconsolidated joint ventures	5,079	3,539	3,131
Gain on sale of properties	(168,004)	(87,569)	(26,403)
(Gain) loss on sale of properties of unconsolidated joint ventures	(4,052)	8	87
Funds from operations	254,645	247,733	221,937
Funds from operations attributable to operating partnership units	5,453	5,218	3,798
Funds from operations assuming conversion of OP units	\$ 260,098	\$ 252,951	\$ 225,735
Weighted average shares outstanding – basic	87,719	89,224	86,171
Effect of dilutive securities			
Share options and awards	926	860	827
Operating partnership units	3,134	3,082	2,513
Weighted average shares outstanding – diluted	91,779	93,166	89,511

Newly Adopted Accounting Pronouncements

In December 2004 the FASB issued SFAS No. 123(R), "Share-Based Payment," which establishes accounting standards for all transactions in which an entity exchanges its equity instruments for goods and services. This accounting standard focuses primarily on equity transactions with employees. On January 1, 2006, we adopted SFAS No. 123(R) using the modified prospective application method, and accordingly, prior period amounts have not been restated. We began recording compensation expense on any unvested awards granted prior to January 1, 2003 during the remaining vesting periods. Through December 31, 2005, we recorded compensation expense over the vesting period on awards granted since January 1, 2003. Compensation expense was not recorded on awards granted prior to January 1, 2003, but its pro forma impact on net income was disclosed.

The impact in 2006 from the adoption of SFAS No. 123(R) was an additional expense of \$2.1 million, which decreased both Income from Continuing Operations and Net Income and decreased both Net Income per Common Share - Basic and Net Income per Common Share - Diluted by \$.02.

The following table illustrates the effect on Net Income Available to Common Shareholders and Net Income per Common Share if the fair value-based method had been applied to all outstanding and unvested share option awards for the period prior to the adoption of SFAS No. 123(R) (in thousands, except per share amounts):

	Year Ended December 31,	
	2005	2004
Net income available to common shareholders	\$ 209,552	\$ 133,911
Stock-based employee compensation included in net income available to common shareholders	434	193
Stock-based employee compensation determined under the fair value-based method for all awards	(849)	(567)
Pro forma net income available to common shareholders	<u>\$ 209,137</u>	<u>\$ 133,537</u>
Net income per common share:		
Basic – as reported	\$ 2.35	\$ 1.55
Basic – pro forma	<u>\$ 2.34</u>	<u>\$ 1.55</u>
Net income per common share:		
Diluted – as reported	\$ 2.31	\$ 1.54
Diluted – pro forma	<u>\$ 2.30</u>	<u>\$ 1.53</u>

In May 2005 the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections – A Replacement of APB Opinion No. 20 and SFAS No. 3.” SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring retrospective application to prior periods’ financial statements of the change in accounting principle, unless it is impracticable to do so. This statement also redefines “restatement” as the revising of previously issued financial statements to reflect the correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material effect on our financial position, results of operations or cash flows.

In June 2005 the FASB ratified the consensus in EITF Issue No. 04-5, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.” EITF Issue No. 04-5 expands the definition of when a general partner, or general partners as a group, controls a limited partnership or similar entity. In July 2005 the FASB issued FSP No. SOP 78-9-1, “Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5.” FSP No. SOP 78-9-1 eliminates the concept of “important rights” and replaces it with concepts of “kick-out rights” and “substantive participating rights” as defined in EITF Issue No. 04-5. FSP No. SOP 78-9-1 and EITF Issue No. 04-5 are effective for all general partners of partnerships formed or modified after June 29, 2005, and for all other partnerships the first reporting period beginning after December 15, 2005. We have applied FSP No. SOP 78-9-1 and EITF Issue No. 04-5 to our joint ventures and concluded that these pronouncements did not require consolidation of additional entities.

In June 2006 the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. There are also several disclosure requirements. The interpretation is effective for fiscal years beginning after December 15, 2006. We have assessed the potential impact of FIN 48 and have concluded that the adoption of this interpretation will not have a material effect on our financial position, results of operations or cash flows.

In September 2006 the FASB issued SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. The key changes to current practice are (1) the definition of fair value, which focuses on an exit price rather than an entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions and credit standing; and (3) the expanded disclosures about fair value measurements. This Statement does not require any new fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are required to adopt SFAS No. 157 in the first quarter of 2008, and we are currently evaluating the impact that this Statement will have on our financial position, results of operations or cash flows.

In September 2006 the FASB issued FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132R.” This new standard requires an employer to: (a) recognize in its statement of financial position an asset for a plan’s over funded status or a liability for a plan’s under funded status; (b) measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes will be reported in comprehensive income of a business entity. The requirement to recognize the funded status of a benefit plan and the disclosure requirements (the “Recognition Provision”) are effective as of the end of the fiscal year ending after December 15, 2006. We recognized an additional liability of \$803 thousand as a result of the adoption of the Recognition Provision of SFAS No. 158. The requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position (the “Measurement Provision”) is effective for fiscal years ending after December 15, 2008. We have assessed the potential impact of SFAS No. 158 and concluded that the adoption of the Measurement Provision of SFAS No. 158 will not have a material effect on our financial position, results of operations or cash flows.

In September 2006 the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (“SAB 108”), which becomes effective for the first fiscal period ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The adoption of SAB 108 on December 31, 2006 did not have a material effect on our financial position, results of operations or cash flows.

In February 2007 the FASB issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not decided if we will early adopt SFAS No. 159 or if we will choose to measure any eligible financial assets and liabilities at fair value.

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF TRUST MANAGERS AND SHAREHOLDERS OF WEINGARTEN REALTY INVESTORS

We have audited the accompanying consolidated balance sheets of Weingarten Realty Investors and subsidiaries (the “Company”) as of December 31, 2006 and 2005, and the related consolidated statements of income and comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Weingarten Realty Investors and subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report (not presented herein) dated March 1, 2007 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.



Houston, Texas
March 1, 2007

Statements of Consolidated Income & Comprehensive Income

In thousands, except per share amounts

	Year Ended December 31,		
	2006	2005	2004
Revenues:			
Rentals	\$ 554,361	\$ 504,034	\$ 452,567
Other	7,019	6,367	8,347
Total	561,380	510,401	460,914
Expenses:			
Depreciation and amortization	127,613	117,062	103,870
Operating	91,422	76,630	71,540
Ad valorem taxes	65,528	58,923	51,966
General and administrative	23,801	17,379	16,122
Impairment loss			3,550
Total	308,364	269,994	247,048
Operating Income	253,016	240,407	213,866
Interest Expense	(146,943)	(130,761)	(117,096)
Interest and Other Income	9,045	2,867	1,390
Loss on Redemption of Preferred Shares			(3,566)
Equity in Earnings of Joint Ventures, net	14,655	6,610	5,384
Income Allocated to Minority Interests	(6,414)	(6,060)	(4,928)
Gain on Sale of Properties	22,467	22,306	1,562
Gain on Land and Merchant Development Sales	7,166	804	
Provision for Income Taxes	(1,366)		
Income from Continuing Operations	151,626	136,173	96,612
Operating Income from Discontinued Operations	7,864	18,021	19,886
Gain on Sale of Properties from Discontinued Operations	145,520	65,459	24,883
Income from Discontinued Operations	153,384	83,480	44,769
Net Income	\$ 305,010	\$ 219,653	\$ 141,381
Dividends on Preferred Shares	(10,101)	(10,101)	(7,470)
Net Income Available to Common Shareholders	\$ 294,909	\$ 209,552	\$ 133,911
Net Income Per Common Share – Basic:			
Income from Continuing Operations	\$ 1.61	\$ 1.41	\$ 1.04
Income from Discontinued Operations	1.75	.94	.51
Net Income	\$ 3.36	\$ 2.35	\$ 1.55
Net Income Per Common Share – Diluted:			
Income from Continuing Operations	\$ 1.60	\$ 1.41	\$ 1.04
Income from Discontinued Operations	1.67	.90	.50
Net Income	\$ 3.27	\$ 2.31	\$ 1.54
Net Income	\$ 305,010	\$ 219,653	\$ 141,381
Other Comprehensive Loss:			
Unrealized loss on derivatives	(2,861)	(1,943)	(4,038)
Amortization of loss on derivatives	364	340	236
Minimum pension liability adjustment	(1,150)	(1,704)	(590)
Other Comprehensive Loss	(3,647)	(3,307)	(4,392)
Comprehensive Income	\$ 301,363	\$ 216,346	\$ 136,989

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

In thousands, except per share amounts

	December 31,	
	2006	2005
ASSETS		
Property	\$ 4,445,888	\$ 4,033,579
Accumulated Depreciation	(707,005)	(679,642)
Property – net	3,738,883	3,353,937
Investment in Real Estate Joint Ventures	203,839	84,348
Total	3,942,722	3,438,285
Notes Receivable from Real Estate Joint Ventures and Partnerships	3,971	42,195
Unamortized Debt and Lease Costs	112,873	95,616
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of \$5,995 in 2006 and \$4,673 in 2005)	78,893	60,905
Cash and Cash Equivalents	71,003	42,690
Restricted Deposits and Mortgage Escrows	94,466	11,747
Other	71,612	46,303
Total	\$ 4,375,540	\$ 3,737,741
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	\$ 2,900,952	\$ 2,299,855
Accounts Payable and Accrued Expenses	132,821	102,143
Other	128,306	102,099
Total	3,162,079	2,504,097
Minority Interest	87,680	83,358
Commitments and Contingencies		
Shareholders' Equity:		
Preferred Shares of Beneficial Interest – par value, \$.03 per share; shares authorized: 10,000		
6.75% Series D cumulative redeemable preferred shares of beneficial interest;		
100 shares issued and outstanding in 2006 and 2005; liquidation preference \$75,000	3	3
6.95% Series E cumulative redeemable preferred shares of beneficial interest;		
29 shares issued and outstanding in 2006 and 2005; liquidation preference \$72,500	1	1
Common Shares of Beneficial Interest – par value, \$.03 per share; shares authorized: 150,000;		
shares issued and outstanding: 85,765 in 2006 and 89,403 in 2005	2,582	2,686
Additional Paid-In Capital	1,136,481	1,288,432
Accumulated Dividends in Excess of Net Income	(786)	(132,786)
Accumulated Other Comprehensive Loss	(12,500)	(8,050)
Shareholders' Equity	1,125,781	1,150,286
Total	\$ 4,375,540	\$ 3,737,741

See Notes to Consolidated Financial Statements.

Statements of Consolidated Cash Flows

In thousands

	Year Ended December 31,		
	2006	2005	2004
Cash Flows from Operating Activities:			
Net income	\$ 305,010	\$ 219,653	\$ 141,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	131,992	128,573	117,053
Impairment loss			3,550
Loss on redemption of preferred shares			3,566
Equity in earnings of joint ventures, net	(14,655)	(6,681)	(5,572)
Income allocated to minority interests	6,414	6,060	4,928
Gain on land and merchant development sales	(7,166)	(804)	
Gain on sale of properties	(167,987)	(87,765)	(26,418)
Distributions of income from unconsolidated entities	2,524	2,603	1,204
Changes in accrued rent and accounts receivable	(18,056)	(3,281)	(17,926)
Changes in other assets	(37,607)	(30,769)	(36,122)
Changes in accounts payable and accrued expenses	43,641	(27,964)	17,342
Other, net	(1,518)	900	900
Net cash provided by operating activities	242,592	200,525	203,886
Cash Flows from Investing Activities:			
Investment in properties	(880,471)	(259,730)	(403,987)
Proceeds from sales and disposition of property, net	661,175	201,363	52,475
Changes in restricted deposits and mortgage escrows	(79,737)	1,764	488
Notes receivable:			
Advances	(54,800)	(30,852)	(24,920)
Collections	47,617	5,278	43,224
Real estate joint ventures and partnerships:			
Investments	(21,547)	(29,233)	(24,906)
Distributions	13,077	5,951	7,972
Net cash used in investing activities	(314,686)	(105,459)	(349,654)
Cash Flows from Financing Activities:			
Proceeds from issuance of:			
Debt	780,782	148,347	443,770
Common shares of beneficial interest	4,570	2,829	221,578
Preferred shares of beneficial interest			70,000
Redemption of preferred shares of beneficial interest			(112,940)
Repurchase of common shares of beneficial interest	(167,573)		
Principal payments of debt	(327,601)	(82,810)	(300,144)
Common and preferred dividends paid	(173,010)	(167,196)	(152,390)
Debt issuance cost paid	(13,681)		
Other, net	(3,080)	1,039	1,054
Net cash provided by (used in) financing activities	100,407	(97,791)	170,928
Net increase (decrease) in cash and cash equivalents	28,313	(2,725)	25,160
Cash and cash equivalents at January 1	42,690	45,415	20,255
Cash and cash equivalents at December 31	\$ 71,003	\$ 42,690	\$ 45,415

See Notes to Consolidated Financial Statements.

Statements of Consolidated Shareholders' Equity

In thousands, except per share amounts

YEAR ENDED DECEMBER 31, 2006, 2005 AND 2004	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Additional Paid-In Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Loss
Balance, January 1, 2004	\$ 3	\$ 2,488	\$ 993,657	\$ (174,234)	\$ (351)
Net income				141,381	
Issuance of Series E preferred shares	1		69,999		
Issuance of common shares		168	219,256		
Shares issued in exchange for interests in limited partnerships		1	852		
Valuation adjustment on shares issued in exchange for interests in limited partnerships			(2,934)		
Shares issued under benefit plans		15	2,440		
Dividends declared – common shares ⁽¹⁾				(144,920)	
Dividends declared – preferred shares ⁽²⁾				(7,470)	
Other comprehensive loss					(4,392)
Balance, December 31, 2004	4	2,672	1,283,270	(185,243)	(4,743)
Net income				219,653	
Shares issued in exchange for interests in limited partnerships		1	1,302		
Valuation adjustment on shares issued in exchange for interests in limited partnerships			550		
Shares issued under benefit plans		13	3,310		
Dividends declared – common shares ⁽¹⁾				(157,095)	
Dividends declared – preferred shares ⁽³⁾				(10,101)	
Other comprehensive loss					(3,307)
Balance, December 31, 2005	4	2,686	1,288,432	(132,786)	(8,050)
Net income				305,010	
Shares issued in exchange for interests in limited partnerships		7	7,988		
Shares cancelled		(128)	(167,445)		
Shares issued under benefit plans		17	7,506		
Dividends declared – common shares ⁽¹⁾				(162,909)	
Dividends declared – preferred shares ⁽³⁾				(10,101)	
Adjustment to initially apply FASB Statement No. 158					(803)
Other comprehensive loss					(3,647)
Balance, December 31, 2006	\$ 4	\$ 2,582	\$ 1,136,481	\$ (786)	\$ (12,500)

⁽¹⁾ Common dividends per share were \$1.86, \$1.76 and \$1.66 for the year ended December 31, 2006, 2005 and 2004, respectively.⁽²⁾ Series D and Series E preferred dividends per share were \$50.63 and \$83.01, respectively.⁽³⁾ Series D and Series E preferred dividends per share were \$50.63 and \$173.75, respectively.

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

BUSINESS

Weingarten Realty Investors is a real estate investment trust organized under the Texas Real Estate Investment Trust Act. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of properties that includes neighborhood and community shopping centers and industrial properties of approximately 65 million square feet. We have a diversified tenant base with our largest tenant comprising only 3% of total rental revenues during 2006.

We currently operate, and intend to operate in the future, as a real estate investment trust.

BASIS OF PRESENTATION

Our consolidated statements include the accounts of our subsidiaries and certain partially owned joint ventures or partnerships which meet the guidelines for consolidation. All significant intercompany balances and transactions have been eliminated.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. Such statements require management to make estimates and assumptions that affect the reported amounts on our consolidated financial statements.

REVENUE RECOGNITION

Rental revenue is generally recognized on a straight-line basis over the life of the lease, which begins the date the leasehold improvements are substantially complete, if owned by us, or the date the tenant takes control of the space, if the leasehold improvements are owned by the tenant. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recorded. Revenue based on a percentage of tenants' sales is recognized only after the tenant exceeds their sales breakpoint.

PARTIALLY OWNED JOINT VENTURES AND PARTNERSHIPS

To determine the method of accounting for partially owned joint ventures or partnerships, we first apply the guidelines set forth in FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities." Based upon our analysis, we have determined that we have no variable interest entities.

Partially owned joint ventures or partnerships over which we exercise financial and operating control are consolidated in our financial statements. In determining if we exercise financial and operating control, we consider factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights. Partially owned joint ventures and partnerships where we have the ability to exercise significant influence, but do not exercise financial and operating control, are accounted for using the equity method.

PROPERTY

Real estate assets are stated at cost less accumulated depreciation, which, in the opinion of management, is not in excess of the individual property's estimated undiscounted future cash flows, including estimated proceeds from disposition. Depreciation is computed using the straight-line method, generally over estimated useful lives of 18-40 years for buildings and 10-20 years for parking lot surfacing and equipment. Major replacements where the betterment extends the useful life of the asset are capitalized and the replaced asset and corresponding accumulated depreciation are removed from the accounts. All other maintenance and repair items are charged to expense as incurred.

Acquisitions of properties are accounted for utilizing the purchase method and, accordingly, the results of operations are included in our results of operations from the respective dates of acquisition. We have used estimates of future cash flows and other valuation techniques to allocate the purchase price of acquired property among land, buildings on an "as if vacant" basis, and other identifiable intangibles. Other identifiable intangible assets and liabilities include the effect of out-of-market leases, the value of having leases in place (lease origination and absorption costs), out-of-market assumed mortgages and tenant relationships.

Property also includes costs incurred in the development of new operating properties and properties in our merchant development program. These properties are carried at cost and no depreciation is recorded on these assets. These costs include preacquisition costs directly identifiable with the specific project, development and construction costs, interest and real estate taxes. Indirect development costs, including salaries and benefits, travel and other related costs that are clearly attributable to the development of the property, are also capitalized. The capitalization of such costs ceases at the earlier of one year from the completion of major construction or when the property, or any completed portion, becomes available for occupancy.

Property also includes costs for tenant improvements paid by us, including reimbursements to tenants for improvements that are owned by us and will remain our property after the lease expires.

Our properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property may not be recoverable. In such an event, a comparison is made of either the current and projected operating cash flows of each such property into the foreseeable future on an undiscounted basis or the estimated net sales price to the carrying amount of such property. Such carrying amount is adjusted, if necessary, to the estimated fair value to reflect an impairment in the value of the asset.

Some of our properties are held in single purpose entities. A single purpose entity is a legal entity typically established at the request of a lender solely for the purpose of owning a property or group of properties subject to a mortgage. There may be restrictions limiting the entity's ability to engage in an activity other than owning or operating the property, assume or guaranty the debt of any other entity, or dissolve itself or declare bankruptcy before the debt has been repaid. Most of our single purpose entities are 100%-owned by us and are consolidated in our financial statements.

INTEREST CAPITALIZATION

Interest is capitalized on land under development and buildings under construction based on rates applicable to borrowings outstanding during the period and the weighted average balance of qualified assets under development/construction during the period.

DEFERRED CHARGES

Debt and lease costs are amortized primarily on a straight-line basis, which approximates the effective interest method, over the terms of the debt and over the lives of leases, respectively. Lease costs represent the initial direct costs incurred in origination, negotiation and processing of a lease agreement. Such costs include outside broker commissions and other independent third party costs as well as salaries and benefits, travel and other related internal costs incurred in completing the leases. Costs related to supervision, administration, unsuccessful origination efforts and other activities not directly related to completed lease agreements are charged to expense as incurred.

SALES OF REAL ESTATE

Sales of real estate include the sale of shopping center pads, property adjacent to shopping centers, shopping center properties, merchant development properties, investments in real estate ventures, and partial sales to joint ventures in which we participate.

We recognize profit on sales of real estate, including merchant development sales, in accordance with SFAS No. 66, "Accounting for Sales of Real Estate." Profits are not recognized until (a) a sale is consummated; (b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; (c) the seller's receivable is not subject to future subordination; and (d) we have transferred to the buyer the usual risks and rewards of ownership in the transaction, and we do not have a substantial continuing involvement with the property.

We recognize gains on the sale of real estate to joint ventures in which we participate to the extent we receive cash from the joint venture.

ACCRUED RENT AND ACCOUNTS RECEIVABLE

Receivable balances outstanding include base rents, tenant reimbursements and receivables attributable to the straight lining of rental commitments. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon an analysis of balances outstanding, historical bad debt levels, customer credit worthiness and current economic trends. Additionally, estimates of the expected recovery of pre-petition and post-petition claims with respect to tenants in bankruptcy are considered in assessing the collectibility of the related receivables.

RESTRICTED DEPOSITS AND MORTGAGE ESCROWS

Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held in a qualified escrow account for the purposes of completing like-kind exchange transactions. At December 31, 2006, we had \$79.4 million held for like-kind exchange transactions and \$15.1 million held in escrow related to our mortgages. At December 31, 2005, we had \$11.7 million held in escrow related to our mortgages.

OTHER ASSETS

Other assets in our consolidated financial statements include investments held in grantor trusts, prepaid expenses, the value of above-market leases and assumed mortgages and the related accumulated amortization, deferred tax assets and other miscellaneous receivables. Investments held in grantor trusts are adjusted to fair market value at each period end. Above-market leases and assumed mortgages are amortized over terms of the acquired leases and the remaining life of the mortgage, respectively.

PER SHARE DATA

Net income per common share – basic is computed using net income available to common shareholders and the weighted average shares outstanding. Net income per common share – diluted includes the effect of potentially dilutive securities for the periods indicated as follows (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Numerator:			
Net income available to common shareholders – basic	\$ 294,909	\$ 209,552	\$ 133,911
Income attributable to operating partnership units	5,453	5,218	3,798
Net income available to common shareholders – diluted	\$ 300,362	\$ 214,770	\$ 137,709
Denominator:			
Weighted average shares outstanding – basic	87,719	89,224	86,171
Effect of dilutive securities:			
Share options and awards	926	860	827
Operating partnership units	3,134	3,082	2,513
Weighted average shares outstanding – diluted	91,779	93,166	89,511

Options to purchase, in millions: .5, .9 and .4 common shares of beneficial interest in 2006, 2005 and 2004, respectively, were not included in the calculation of net income per common share – diluted as the exercise prices were greater than the average market price for the year.

INCOME TAXES

We have elected to be treated as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute to our shareholders. To be taxed as a REIT we must meet a number of requirements including meeting defined percentage tests concerning the amount of our assets and revenues that come from, or are attributable to, real estate operations. As long as we distribute at least 90% of the taxable income of the REIT to our shareholders as dividends, we will not be taxed on the portion of our income we distribute as dividends unless we have ineligible transactions.

The Tax Relief Extension Act of 1999 gave REITs the ability to conduct activities which a REIT was previously precluded from doing as long as they are done in entities which have elected to be treated as taxable REIT subsidiaries under the IRS code. These activities include buying or developing properties with the express purpose of selling them. We conduct certain of these activities in taxable REIT subsidiaries that we have created. We calculate and record income taxes in our financial statements based on the activities in those entities. We also record deferred taxes for the temporary tax differences that have resulted from those activities as required under SFAS No. 109, “Accounting for Income Taxes.”

CASH FLOW INFORMATION

All highly liquid investments with original maturities of three months or less are considered cash equivalents. We issued common shares of beneficial interest valued at \$8.0 million, \$1.3 million and \$.9 million during 2006, 2005 and 2004, respectively, in exchange for interests in limited partnerships, which had been formed to acquire properties. In association with property acquisitions, we assumed debt and a capital lease obligation totaling \$140.7 million, \$135.3 million, and \$140.7 million, and we issued operating partnership units valued at \$11.1 million, \$6.9 million and \$23.4 million, during 2006, 2005 and 2004, respectively. Also, we accrued \$6.5 million, \$4.9 million and \$7.2 million during 2006, 2005 and 2004, respectively, associated with the construction of property. Cash payments for interest on debt, net of amounts capitalized, of \$139.1 million, \$135.4 million, and \$117.0 million were made during 2006, 2005 and 2004, respectively. A cash payment of \$.6 million for federal income taxes was made during 2006. In connection with the sale of an 80% interest in 12 properties in 2006 and two properties in 2005, we retained a 20% unconsolidated investment of \$90.6 million and \$14.7 million, respectively. In connection with the sale of improved properties, we received notes receivable totaling \$2.6 million in 2006, a \$15.5 million capital lease obligation was settled, and debt of \$11.1 million was assumed in 2005, respectively. In satisfaction of obligations under mortgage bonds and notes receivable of \$2.9 million, we acquired 9.7 acres of land in 2004.

RECLASSIFICATIONS

Certain reclassifications of prior years’ amounts have been made to conform to the current year presentation, which includes the reclassification of the operating results of certain properties to discontinued operations. For additional information see Note 8, “Discontinued Operations.”

Note 2. Newly Adopted Accounting Pronouncements

In December 2004 the FASB issued SFAS No. 123(R), "Share-Based Payment," which establishes accounting standards for all transactions in which an entity exchanges its equity instruments for goods and services. This accounting standard focuses primarily on equity transactions with employees. On January 1, 2006, we adopted SFAS No. 123(R) using the modified prospective application method, and accordingly, prior period amounts have not been restated. We began recording compensation expense on any unvested awards granted prior to January 1, 2003 during the remaining vesting periods. Through December 31, 2005, we recorded compensation expense over the vesting period on awards granted since January 1, 2003. Compensation expense was not recorded on awards granted prior to January 1, 2003, but its pro forma impact on net income was disclosed.

The impact in 2006 from the adoption of SFAS No. 123(R) was an additional expense of \$2.1 million, which decreased both Income from Continuing Operations and Net Income and decreased both Net Income per Common Share - Basic and Net Income per Common Share - Diluted by \$.02.

The following table illustrates the effect on Net Income Available to Common Shareholders and Net Income per Common Share if the fair value-based method had been applied to all outstanding and unvested share option awards for the period prior to the adoption of SFAS No. 123(R) (in thousands, except per share amounts):

	Year Ended December 31,	
	2005	2004
Net income available to common shareholders	\$ 209,552	\$ 133,911
Stock-based employee compensation included in net income available to common shareholders	434	193
Stock-based employee compensation determined under the fair value-based method for all awards	(849)	(567)
Pro forma net income available to common shareholders	\$ 209,137	\$ 133,537
Net income per common share:		
Basic – as reported	\$ 2.35	\$ 1.55
Basic – pro forma	\$ 2.34	\$ 1.55
Net income per common share:		
Diluted – as reported	\$ 2.31	\$ 1.54
Diluted – pro forma	\$ 2.30	\$ 1.53

In May 2005 the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections – A Replacement of APB Opinion No. 20 and SFAS No. 3.” SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring retrospective application to prior periods’ financial statements of the change in accounting principle, unless it is impracticable to do so. This statement also redefines “restatement” as the revising of previously issued financial statements to reflect the correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material effect on our financial position, results of operations or cash flows.

In June 2005 the FASB ratified the consensus in EITF Issue No. 04-5, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.” EITF Issue No. 04-5 expands the definition of when a general partner, or general partners as a group, controls a limited partnership or similar entity. In July 2005 the FASB issued FSP No. SOP 78-9-1, “Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5.” FSP No. SOP 78-9-1 eliminates the concept of “important rights” and replaces it with concepts of “kick-out rights” and “substantive participating rights” as defined in EITF Issue No. 04-5. FSP No. SOP 78-9-1 and EITF Issue No. 04-5 are effective for all general partners of partnerships formed or modified after June 29, 2005, and for all other partnerships the first reporting period beginning after December 15, 2005. We have applied FSP No. SOP 78-9-1 and EITF Issue No. 04-5 to our joint ventures and concluded that these pronouncements did not require consolidation of additional entities.

In June 2006 the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. There are also several disclosure requirements. The interpretation is effective for fiscal years beginning after December 15, 2006. We have assessed the potential impact of FIN 48 and have concluded that the adoption of this interpretation will not have a material effect on our financial position, results of operations or cash flows.

In September 2006 the FASB issued SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. The key changes to current practice are (1) the definition of fair value, which focuses on an exit price rather than an

entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions and credit standing; and (3) the expanded disclosures about fair value measurements. This Statement does not require any new fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are required to adopt SFAS No. 157 in the first quarter of 2008, and we are currently evaluating the impact that this Statement will have on our financial position, results of operations or cash flows.

In September 2006 the FASB issued FASB Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132R.” This new standard requires an employer to: (a) recognize in its statement of financial position an asset for a plan’s over funded status or a liability for a plan’s under funded status; (b) measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes will be reported in comprehensive income of a business entity. The requirement to recognize the funded status of a benefit plan and the disclosure requirements (the “Recognition Provision”) are effective as of the end of the fiscal year ending after December 15, 2006. We recognized an additional liability of \$803 thousand as a result of the adoption of the Recognition Provision of SFAS No. 158. The requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position (the “Measurement Provision”) is effective for fiscal years ending after December 15, 2008. We have assessed the potential impact of SFAS No. 158 and concluded that the adoption of the Measurement Provision of SFAS No. 158 will not have a material effect on our financial position, results of operations or cash flows.

In September 2006 the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (“SAB 108”), which becomes effective for the first fiscal period ending after November 15, 2006. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The adoption of SAB 108 on December 31, 2006 did not have a material effect on our financial position, results of operations or cash flows.

In February 2007 the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not decided if we will early adopt SFAS No. 159 or if we will choose to measure any eligible financial assets and liabilities at fair value.

Note 3. Derivatives and Hedging

We occasionally hedge the future cash flows of our debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate swaps with major financial institutions. At December 31, 2006, we had five interest rate swap contracts designated as fair value hedges with an aggregate notional amount of \$75.0 million that convert fixed interest payments at rates ranging from 4.2% to 6.8% to variable interest payments. We have determined that they are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in variable interest rates. Also, at December 31, 2006, we had two forward-starting interest rate swap contracts with an aggregate notional amount of \$118.6 million which lock the swap rate at 5.2% until January 2008. The purpose of these forward-starting swaps, which are designated as cash flow hedges, is to mitigate the risk of future fluctuations in interest rates on forecasted issuances of long-term debt. We have determined that they are highly effective in offsetting future variable interest cash flows on anticipated long-term debt issuances.

In May 2006 we entered into a forward-starting interest rate swap with a notional amount of \$74.0 million. In December 2006 we terminated this rate swap in conjunction with the issuance of \$75.0 million of medium term notes. The termination fee of \$4.1 million is being amortized over the life of the medium term note.

In June 2006 a \$5 million swap matured in conjunction with the maturity of the associated medium term note. This contract was designated as a fair value hedge.

Changes in the market value of fair value hedges as well as changes in the market value of the hedged item are recorded in earnings each reporting period. For fiscal year 2006 and 2005, these changes in fair market value offset with minimal impact to earnings. The derivative instruments at December 31, 2006 and December 31, 2005 were reported at their fair values in Other Assets, net of accrued interest, of \$.1 million and \$.4 million, respectively, and as Other Liabilities, net of accrued interest, of \$3.2 million and \$4.4 million, respectively.

As of December 31, 2006 and December 31, 2005, the balance in Accumulated Other Comprehensive Loss relating to derivatives was \$7.6 million and \$5.1 million, respectively, and amounts amortized to interest expense were \$.4 million in 2006, \$.3 million in 2005 and \$.2 million in 2004. Within the next twelve months, we expect to amortize to interest expense approximately \$.9 million of the balance in Accumulated Other Comprehensive Loss.

The interest rate swaps increased interest expense and decreased net income by \$.5 million, \$1.3 million and \$3.5 million in 2006, 2005 and 2004, respectively, and increased the average interest rate of our debt by .02%, .1% and .2% in 2006, 2005 and 2004, respectively. We could be exposed to credit losses in the event of nonperformance by the counter-party; however, management believes the likelihood of such nonperformance is remote.

Note 4. Debt

Our debt consists of the following (in thousands):

	December 31,	
	2006	2005
Debt payable to 2030 at 4.5% to 8.9%	\$ 2,848,805	\$ 2,049,470
Unsecured notes payable under revolving credit agreements	18,000	210,000
Obligations under capital leases	29,725	33,460
Industrial revenue bonds payable to 2015 at 4.0% to 6.19%	4,422	6,925
Total	\$ 2,900,952	\$ 2,299,855

The grouping of total debt between fixed and variable-rate as well as between secured and unsecured is summarized below (in thousands):

	December 31,	
	2006	2005
As to interest rate (including the effects of interest rate swaps):		
Fixed-rate debt	\$ 2,785,553	\$ 1,986,059
Variable-rate debt	115,399	313,796
Total	\$ 2,900,952	\$ 2,299,855
As to collateralization:		
Unsecured debt	\$ 1,910,216	\$ 1,457,805
Secured debt	990,736	842,050
Total	\$ 2,900,952	\$ 2,299,855

In February 2006 we amended and restated our \$400 million unsecured revolving credit facility. The amended facility has an initial four-year term and provides a one-year extension option available at our request. Borrowing rates under this amended facility float at a margin over LIBOR, plus a facility fee. The borrowing margin and facility fee, which are currently 37.5 and 12.5 basis points, respectively, are priced off a grid that is tied to our senior unsecured credit ratings. This amended facility retains a competitive bid feature that allows us to request bids for amounts up to \$200 million from each of the syndicate banks, allowing us an opportunity to obtain pricing below what we would pay using the grid. Additionally, the amended facility contains an accordion feature, which allows us the ability to increase the facility up to \$600 million.

At December 31, 2006 and December 31, 2005, the balance outstanding under the \$400 million revolving credit facility was \$18 million at an average variable interest rate of 5.75% and \$190 million at an average variable interest rate of 4.5%, respectively. We also have an agreement for an unsecured and uncommitted overnight facility totaling \$20 million with a bank that is used for cash

management purposes, of which nothing was outstanding at December 31, 2006. At December 31, 2005, we had \$20 million outstanding under this credit facility at a variable interest rate of 4.7%. Letters of credit totaling \$10.1 million and \$14.9 million were outstanding under the \$400 million revolving credit facility at December 31, 2006 and December 31, 2005, respectively. The available balance under our revolving credit agreement was \$371.9 million and \$175.1 million at December 31, 2006 and 2005, respectively. During 2006 the maximum balance and weighted average balance outstanding under both the \$400 million and the \$20 million revolving credit facilities combined were \$368.2 million and \$179.1 million, respectively, at a weighted average interest rate of 5.5%. During 2005 the maximum balance and weighted average balance outstanding under both the \$400 million and the \$20 million revolving credit facilities combined were \$210.0 million and \$102.3 million, respectively, at a weighted average interest rate of 5.1%.

In conjunction with acquisitions completed during 2006 and 2005, we assumed \$140.7 million and \$135.3 million, respectively, of nonrecourse debt secured by the related properties.

Various leases and properties, and current and future rentals from those leases and properties, collateralize certain debt. At December 31, 2006 and 2005, the carrying value of such property aggregated \$1.8 billion and \$1.6 billion, respectively.

Scheduled principal payments on our debt (excluding \$18.0 million due under our revolving credit agreements, \$18.6 million of capital leases and \$2.7 million market value of interest rate swaps) are due during the following years (in thousands):

2007	\$ 114,098
2008	252,768
2009	113,624
2010	119,310
2011	890,450
2012	308,032
2013	324,696
2014	334,466
2015	176,228
Thereafter	233,284

Our various debt agreements contain restrictive covenants, including minimum interest and fixed charge coverage ratios, minimum unencumbered interest coverage ratios and minimum net worth requirements and maximum total debt levels. Management believes that we are in compliance with all restrictive covenants.

In December 2006 we issued \$75 million of ten year unsecured fixed rate medium term notes at 6.1% including the effect of an interest rate swap that hedged the transaction. Proceeds from this issuance were used to repay balances under our revolving credit facilities, to cash settle a forward hedge and for general business purposes.

In July 2006 we priced an offering of \$575 million aggregate principal amount of 3.95% convertible senior notes due 2026, which closed on August 2, 2006. Interest is payable semi-annually in arrears on February 1 and August 1 of each year, beginning February 1, 2007. The net proceeds of \$395.9 million from the sale of the notes were used for general business purposes, to repurchase 4.3 million shares of our common shares of beneficial interest and to reduce amounts outstanding under our revolving credit facility.

The debentures are convertible under certain circumstances for our common shares of beneficial interest at an initial conversion rate of 20.3770 common shares per \$1,000 of principal amount of debentures (an initial conversion price of \$49.075). In addition, the conversion rate may be adjusted if certain change in control transactions or other specified events occur on or prior to August 4, 2011. Upon the conversion of notes, we will deliver cash for the principal return, as defined, and cash or common shares, at our option, for the excess of the conversion value, as defined, over the principal return. The debentures are redeemable for cash at our option beginning in 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures for cash equal to the principal of the notes plus accrued and unpaid interest in 2011, 2016 and 2021 and in the event of a change in control.

Holders may convert their notes based on the applicable conversion rate prior to the close of business on the second business day prior to the stated maturity date at any time on or after August 1, 2025 and also under any of the following circumstances:

- during any calendar quarter beginning after December 31, 2006 (and only during such calendar quarter), if, and only if, the closing sale price of our common shares for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than 130% of the conversion price per common share in effect on the applicable trading day;
- during the five consecutive trading-day period following any five consecutive trading-day period in which the trading price of the notes was less than 98% of the product of the closing sale price of our common shares multiplied by the applicable conversion rate;
- if those notes have been called for redemption, at any time prior to the close of business on the third business day prior to the redemption date;
- if our common shares are not listed on a U.S. national or regional securities exchange or quoted on the Nasdaq National Market for 30 consecutive trading days.

In connection with the issuance of these notes, we filed a shelf registration statement related to the resale of the debentures and the common shares issuable upon the conversion of the debentures. This registration statement has been declared effective.

Note 5. Preferred Shares

In July 2004 we issued \$72.5 million of depositary shares with each share representing one-hundredth of a Series E Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part, for cash on or after July 8, 2009 at our option, at a redemption price of \$25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series E Preferred Shares pay a 6.95% annual dividend and have a liquidation value of \$2,500 per share. Net proceeds of \$70.2 million were utilized to pay down amounts outstanding under our \$400 million revolving credit facility.

In April 2003 \$75 million of depositary shares were issued with each share representing one-thirtieth of a Series D Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part, for cash on or after April 30, 2008 at our option, at a redemption price of \$25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our property or securities. The Series D Preferred Shares pay a 6.75% annual dividend and have a liquidation value of \$750 per share. Net proceeds of \$73.0 million were used to redeem the 7.44% Series A Cumulative Redeemable Preferred Shares.

On January 30, 2007, we issued \$200 million of depositary shares. Each depositary share represents one-hundredth of a Series F Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part, on or after January 30, 2012 at our option, at a redemption price of \$25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series F Preferred Shares pay a 6.5% annual dividend and have a liquidation value of \$2,500 per share. Net proceeds of \$194.4 million were used to repay amounts outstanding under our credit facilities and for general business purposes.

Note 6. Common Shares

In February 2004 a three-for-two share split, effected in the form of a 50% share dividend, was declared for shareholders of record on March 16, 2004, payable March 30, 2004. We issued 28.5 million common shares of beneficial interest as a result of the share split. All references to the number of shares and per share amounts have been restated to reflect the share split, and an amount equal to the par value of the number of common shares issued has been reclassified to Common Shares of Beneficial Interest from Accumulated Dividends in Excess of Net Income.

In March 2004 we issued 3.6 million common shares of beneficial interest. Net proceeds to us totaled \$118.0 million. The proceeds from this offering were used primarily to redeem our 7.0% Series C Cumulative Redeemable Preferred Shares on April 1, 2004. In August 2004 we issued an additional 3.2 million common shares of beneficial interest. Net proceeds to us totaled \$101.9 million. The proceeds from this offering were used to pay down amounts outstanding under our \$400 million revolving credit facility.

In February 2006 our board of trust managers authorized up to \$100 million for the purchase of outstanding common shares of beneficial interest in 2006. Share repurchases may be made in the open market or in privately negotiated transactions. In July 2006 our board of trust managers authorized the repurchase of our common shares of beneficial interest to a total of \$207 million, and we used \$167.6 million of the net proceeds from the \$575 million debt offering to purchase 4.3 million common shares of beneficial interest at \$39.26 per share.

Note 7. Property

Our property consisted of the following (in thousands):

	December 31,	
	2006	2005
Land	\$ 847,295	\$ 761,454
Land held for development	21,405	20,634
Land under development	146,990	16,895
Buildings and improvements	3,339,074	3,195,207
Construction in-progress	91,124	39,389
Total	\$ 4,445,888	\$ 4,033,579

The following carrying charges were capitalized (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Interest	\$ 7,616	\$ 2,629	\$ 4,992
Ad valorem taxes	780	293	653
Total	\$ 8,396	\$ 2,922	\$ 5,645

Acquisitions of properties are accounted for utilizing the purchase method and, accordingly, the results of operations are included in our results of operations from the respective dates of acquisition. We have used estimates of future cash flows and other valuation techniques to allocate the purchase price of acquired property among land, buildings on an “as if vacant” basis, and other identifiable intangibles.

During 2006 we invested \$484 million in the acquisition of operating properties. Of this total, \$402 million was invested in 17 shopping centers and \$82 million was invested in seven industrial projects.

In 2006 we acquired land, either directly or through our interests in joint ventures at 17 separate locations for the development of 17 retail centers. During 2006 we invested \$167 million in new developments.

Note 8. Discontinued Operations

In 2006 we sold 19 shopping centers and four industrial properties, ten of which were located in Texas, three in Kansas, two each in Arkansas, Oklahoma and Tennessee, and one each in Arizona, Missouri, New Mexico and Colorado. In 2005 we sold 13 retail properties and a vacant building, ten of which were located in Texas and one each in Louisiana, Mississippi and Arkansas. Also in 2005, we sold two industrial properties in Texas and one in Nevada. The operating results of these properties have been reclassified and reported as discontinued operations in the Statements of Consolidated Income and Comprehensive Income in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," as well as any gains on the respective disposition for all periods presented. Revenues recorded in Operating Income From Discontinued Operations related to our dispositions totaled \$17.7 million in 2006, \$39.0 million in 2005 and \$44.9 million in 2004. Included in the Consolidated Balance Sheet at December 31, 2005 were \$205.4 million of Property and \$59.6 million of Accumulated Depreciation related to properties sold during 2006.

The discontinued operations reported in 2006 and 2005 had no debt that was required to be repaid upon their disposition. In addition, we elected not to allocate other consolidated interest to discontinued operations since the interest savings to be realized from the proceeds of the sale of these operations was not material.

Note 9. Related Party Transactions

We have interests in several joint ventures and partnerships. Notes receivable from these entities bear interest ranging from 6.0% to 10% at December 31, 2006, are due at various dates through 2028 and are generally secured by real estate assets. We recognized interest income on these notes as follows, in millions: \$1.3 in both 2006 and 2005 and \$.8 in 2004.

Note 10. Investment in Real Estate Joint Ventures

We own interests in joint ventures or limited partnerships in which we exercise significant influence but do not have financial and operating control. These partnerships are accounted for under the equity method. Our interests in these joint ventures and limited partnerships range from 20% to 75%. Combined condensed unaudited financial information of these ventures (at 100%) is summarized as follows (in thousands):

	December 31,		
	2006	2005	
Combined Balance Sheets			
Property	\$ 1,123,600	\$ 397,689	
Accumulated depreciation	(41,305)	(32,032)	
Property – net	1,082,295	365,657	
Other assets	118,642	61,543	
Total	\$ 1,200,937	\$ 427,200	
Debt	\$ 327,695	\$ 136,182	
Amounts payable to Weingarten Realty Investors	22,657	43,239	
Other liabilities	39,967	12,081	
Accumulated equity	810,618	235,698	
Total	\$ 1,200,937	\$ 427,200	
Combined Statements of Income			
	Year Ended December 31,		
	2006	2005	2004
Revenues	\$ 65,002	\$ 41,059	\$ 32,117
Expenses:			
Interest	17,398	10,565	7,061
Depreciation and amortization	15,390	9,322	7,203
Operating	8,750	5,480	5,041
Ad valorem taxes	6,187	4,756	3,645
General and administrative	783	301	395
Total	48,508	30,424	23,345
Gain on land sales	1,938	170	
Gain (loss) on sale of properties	5,991	(20)	(182)
Net income	\$ 24,423	\$ 10,785	\$ 8,590

Our investment in real estate joint ventures, as reported on the balance sheets, differs from our proportionate share of the joint ventures' underlying net assets due to basis differentials, which arose upon the transfer of assets to the joint ventures. This basis differential, which totaled \$20.1 million and \$10.3 million at December 31, 2006 and 2005, respectively, is generally amortized over the useful lives of the related assets.

Fees earned by us for the management of these joint ventures totaled, in millions, \$1.9 in 2006, \$.8 in 2005 and \$.6 in 2004.

During 2006 we invested in a 25%-owned unconsolidated joint venture, which acquired five shopping centers. Fresh Market Shoppes is located in Hilton Head, South Carolina; Shoppes at Paradise Isle is located in Destin, Florida; Indian Harbor Place is located in Melbourne, Florida, and both Quesada Commons and Shoppes of Port Charlotte are located in Port Charlotte, Florida. Two 50%-owned joint ventures commenced development of a retail center each located in Mission, Texas and Apple Valley, California. Also, two shopping centers, one each in Crosby and Dickinson, Texas, were sold. Our share of the sales proceeds totaled \$8.1 million and generated a gain of \$4.1 million. Associated with our land and merchant development activities, two parcels of land in Houston, Texas and Liberty Lake, Washington were sold in a 75%-owned and a 50%-owned joint venture, respectively, of which our share of the gain totaled \$1.1 million. We also acquired our partner's share of Heritage Station, which is located in Wake Forest, North Carolina. Heritage Station is a 62,000 square foot shopping center that is anchored by Harris Teeter.

During the third quarter of 2006, we formed a strategic joint venture with Mercantile Real Estate Advisors, Inc. ("MREA") to acquire and operate industrial properties within target markets across the United States. MREA served as investment advisor to the AFL-CIO Building Investment Trust ("BIT"). The joint venture is 80% owned by BIT and 20% by us. We will earn fees for operating the properties. BIT, as the majority owner, will make or approve all significant decisions.

Acquisitions will be focused on bulk warehouse and business distribution properties within targeted markets. The partners plan to invest \$500 million in total capital over the next two years including leverage targeted at approximately 50% of total capital. As part of this transaction, we provided the initial seeding for the joint venture, contributing 16 buildings at five properties with a total value of \$123 million and aggregating more than two million square feet. The sale of these properties to the joint venture resulted in a gain to us of \$21.6 million. The properties are located in the San Diego, Memphis, and Atlanta markets.

During the fourth quarter of 2006, two new strategic joint ventures were formed with TIAA-CREF Global Real Estate and AEW Capital Management on behalf of its institutional clients, of which we own 20%. We provided the initial seeding for the TIAA-CREF Global Real Estate joint venture, whereby seven newly purchased neighborhood/community shopping centers in South Florida were contributed by us with a total value of \$325 million and aggregating more than 1.3 million square feet. The AEW Capital Management joint venture acquired four grocery-anchored centers and two power centers located in Oregon and Washington.

During 2005 we acquired our joint venture partners' interest in one of our existing shopping centers located in Texas, and a 50%-owned unconsolidated joint venture acquired an interest in a retail property located in McAllen, Texas, which will be redeveloped. We sold an 80% interest in two retail properties totaling 295,000 square feet in Lafayette and Shreveport, Louisiana. These properties were held in tenancy-in-common arrangements in which we retained a 20% interest. We acquired a 25% interest in Lake Washington Crossing, a 119,000 square foot retail center in Melbourne, Florida, and a 25% interest in a 96,000 square foot retail center located in Chapel Hill, North Carolina. Additionally, a 50%-owned unconsolidated joint venture commenced development on a 161,000 square foot retail center located in Liberty Lake, Washington and two 50%-owned joint ventures commenced construction on two retail centers in Mission, Texas.

We have not guaranteed the debt of any of our joint ventures in which we own an interest.

Note 11. Federal Income Tax Considerations

We qualify as a REIT under the provisions of the Internal Revenue Code, and therefore, no tax is imposed on us for our taxable income distributed to shareholders. To maintain our REIT status, we must distribute at least 90% of our ordinary taxable income to our shareholders and meet certain income source and investment restriction requirements. Our shareholders must report their share of income distributed in the form of dividends.

Taxable income differs from net income for financial reporting purposes principally because of differences in the timing of recognition of interest, ad valorem taxes, depreciation, rental revenue, pension expense, and gain from sales of property. As a result of these differences, the book value of our net fixed assets exceeds the tax basis by \$70.8 million at December 31, 2006.

The following table reconciles net income to REIT taxable income for the years ended December 31, 2006, 2005 and 2004 (in thousands):

	2006	2005	2004
Net Income	\$ 305,010	\$ 219,653	\$ 141,381
Net (income) loss of taxable REIT subsidiaries included above	(4,264)	(923)	143
Net Income from REIT operations	300,746	218,730	141,524
Book depreciation and amortization including discontinued operations	127,613	117,062	103,870
Tax depreciation and amortization	(86,002)	(80,922)	(76,432)
Book/tax difference on gains/losses from capital transactions	(128,628)	(69,885)	(12,716)
Other book/tax differences, net	(18,155)	(22,468)	(6,285)
REIT taxable income	195,574	162,517	149,961
Dividends paid deduction	(195,574) ⁽¹⁾	(167,196)	(155,029)
Dividends paid in excess of taxable income	\$ 0	\$ (4,679)	\$ (5,068)

⁽¹⁾ The dividend deduction includes designated dividends from 2007 of \$22.5 million.

For federal income tax purposes, the cash dividends distributed to common shareholders are characterized as follows:

	2006	2005	2004
Ordinary income	76.2%	81.2%	84.0%
Return of capital (generally nontaxable)	0.0	9.1	7.1
Capital gain distributions	23.8	9.7	8.9
Total	100.0%	100.0%	100.0%

We have two taxable REIT subsidiaries that are subject to federal, state, and local income tax. A minimal provision for federal income taxes was made in all three years. Only minimal state income taxes were paid in these periods.

We have reviewed our tax positions under FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. We believe it is more likely than not that our tax positions will be sustained in any tax examinations.

In May 2006 the state of Texas enacted a margin tax, replacing the taxable capital components of the current franchise tax with a new “taxable margin” component. Most REITs are subject to the margin tax, whereas they were previously exempt from the franchise tax. The tax becomes effective for us beginning in calendar year 2007. Since the tax base on the margin tax is derived from an income based measure, we believe the margin tax is an income tax. As a result, the provisions of SFAS 109, “Accounting for Income Taxes” applies to this tax. In accordance with SFAS 109, the effect on deferred tax liabilities of a change in a tax law should be included in tax expense attributable to continuing operations in the period including the enactment date. We have calculated our deferred tax assets and liabilities for Texas based on the new margin tax and the amount is immaterial. We anticipate incurring an expense for this tax in 2007.

Note 12. Leasing Operations

The terms of our leases range from less than one year for smaller tenant spaces to over 25 years for larger tenant spaces. In addition to minimum lease payments, most of the leases provide for contingent rentals (payments for taxes, maintenance and insurance by lessees and an amount based on a percentage of the tenants’ sales). Future minimum rental income from noncancelable tenant leases at December 31, 2006, in millions, is: \$425.6 in 2007; \$374.7 in 2008; \$317.9 in 2009; \$259.8 in 2010; \$197.3 in 2011; and \$779.5 thereafter. The future minimum rental amounts do not include estimates for contingent rentals. Such contingent rentals, in millions, aggregated \$119.0 in 2006, \$108.8 in 2005 and \$101.3 in 2004.

Note 13. Commitments and Contingencies

We are engaged in the operations of shopping centers, which are either owned or, with respect to certain shopping centers, operated under long-term ground leases. These ground leases expire at various dates through 2075, with renewal options. Space in our shopping centers is leased to tenants pursuant to agreements that provide for terms ranging generally from one month to 25 years and, in some cases, for annual rentals subject to upward adjustments based on operating expense levels, sales volume, or contractual increases as defined in the lease agreements.

Scheduled minimum rental payments under the terms of all non-cancelable operating leases in which we are the lessee, principally for shopping center ground leases, for the subsequent five years and thereafter ending December 31, are as follows (in thousands):

2007	\$	1,876
2008		1,782
2009		1,737
2010		1,691
2011		1,626
Thereafter		39,459
	\$	<u>48,171</u>

The scheduled future minimum revenues, applicable to the ground lease rentals above, under the terms of all non-cancelable tenant leases, assuming no new or renegotiated leases or option extensions for the subsequent five years and thereafter ending December 31, are as follows (in thousands):

2007	\$	30,299
2008		25,897
2009		21,538
2010		18,062
2011		15,006
Thereafter		63,626
	\$	<u>174,428</u>

Property under capital leases, consisting of four shopping centers at both December 31, 2006 and 2005, aggregated \$29.1 million, and is included in buildings and improvements. Amortization of property under capital leases is included in depreciation and amortization expense, and the balance of Accumulated Depreciation associated with these capital leases at December 31, 2006 and 2005 was \$13.1 million and \$11.9 million, respectively. Future minimum lease payments under these capital leases total \$52.0 million, with annual payments due, in millions, of \$1.9 in each of 2007 and 2008; \$2.0 in each of 2009 and 2010; \$2.1 in 2011; and \$42.1 thereafter. The amount of these total payments representing interest is \$22.3 million. Accordingly, the present value of the net minimum lease payments was \$29.7 million at December 31, 2006.

We participate in nine ventures, structured as DownREIT partnerships, that have properties in Arkansas, California, Florida, Georgia, North Carolina, Texas and Utah. As general partner we have operating and financial control over these ventures and consolidate their operations in our consolidated financial statements. These ventures allow the outside limited partners to put their interest to the partnership for our common shares of beneficial interest or an equivalent amount in cash. We may acquire any limited partnership interests that are put to the partnership and we have the option to redeem the interest in cash or a fixed number of our common shares at our discretion. In 2006 and 2005 we issued common shares of beneficial interest valued at \$8.0 million and \$1.3 million in exchange for certain of these limited partnership interests.

We expect to invest approximately \$149.6 million in 2007, \$71.3 million in 2008, \$37.9 million in 2009, and \$22.8 million in 2010 to complete construction of 26 properties under various stages of development. We also expect to invest \$218.3 million to acquire projects in 2007.

In August 2006 we purchased a portfolio of properties from North American Properties. The purchase agreement allows for the subsequent development and leasing of an additional phase of Brookwood Marketplace by the property seller. If the terms of the purchase agreement are met by the seller, the purchase price would be increased by approximately \$6.9 million. This agreement expires in August 2008.

We are subject to numerous federal, state and local environmental laws, ordinances and regulations in the areas where we own or operate properties. We are not aware of any material contamination, which may have been caused by us or any of our tenants, that would have a material effect on our financial position, results of operation or cash flows.

As part of our risk management activities we have applied and been accepted into state sponsored environmental programs which will limit our expenses if contaminants need to be remediated. We also have an environmental insurance policy that covers us against third party liabilities and remediation costs.

While we believe that we do not have any material exposure to environmental remediation costs, we cannot give absolute assurance that changes in the law or new discoveries of contamination will not result in increased liabilities to us.

We are involved in various matters of litigation arising in the normal course of business. While we are unable to predict with certainty the amounts involved, our management and counsel are of the opinion that, when such litigation is resolved, our resulting liability, if any, will not have a material effect on our consolidated financial statements.

Note 14. Identified Intangible Assets and Liabilities

Identified intangible assets and liabilities associated with our property acquisitions are as follows (in thousands):

	December 31,	
	2006	2005
Identified Intangible Assets:		
Above-Market Leases (included in Other Assets)	\$ 14,686	\$ 12,838
Above-Market Leases – Accumulated Amortization	(5,277)	(3,393)
Above-Market Assumed Mortgages (included in Other Assets)	1,653	
Valuation of In Place Lease (included in Unamortized Debt and Lease Cost)	52,878	42,772
Valuation of In Place Lease – Accumulated Amortization	(16,297)	(10,822)
	<u>\$ 47,643</u>	<u>\$ 41,395</u>
Identified Intangible Liabilities (included in Other Liabilities):		
Below-Market Leases	\$ 24,602	\$ 17,012
Below-Market Leases – Accumulated Amortization	(6,569)	(3,735)
Below-Market Assumed Mortgages	59,863	60,792
Below-Market Assumed Mortgages – Accumulated Amortization	(18,123)	(12,143)
	<u>\$ 59,773</u>	<u>\$ 61,926</u>

These identified intangible assets and liabilities are amortized over the terms of the acquired leases or the remaining lives of the assumed mortgages.

The net amortization of above-market and below-market leases increased Revenues-Rentals by \$1.3 million, \$.3 million and \$.04 million in 2006, 2005 and 2004, respectively. The estimated net amortization of these intangible assets and liabilities for each of the next five years is as follows (in thousands):

2007	\$ 1,649
2008	1,477
2009	1,389
2010	753
2011	364

The amortization of the in place lease intangible, which is recorded in Depreciation and Amortization, was \$7.6 million, \$6.2 million and \$4.3 million in 2006, 2005 and 2004, respectively. The estimated amortization of this intangible asset for each of the next five years is as follows (in thousands):

2007	\$ 6,797
2008	6,021
2009	5,127
2010	4,293
2011	3,379

The amortization of above-market and below-market assumed mortgages decreased Interest Expense by \$7.3 million, \$6.9 million and \$5.0 million in 2006, 2005 and 2004, respectively. The estimated amortization of these intangible assets and liabilities for each of the next five years is as follows (in thousands):

2007	\$ 6,774
2008	6,011
2009	4,671
2010	4,019
2011	2,722

Note 15. Fair Value of Financial Instruments

The fair value of our financial instruments was determined using available market information and appropriate valuation methodologies as of December 31, 2006. Unless otherwise described below, all other financial instruments are carried at amounts which approximate their fair values.

Based on rates currently available to us for debt with similar terms and average maturities, fixed-rate debt with carrying values of \$2.8 billion and \$2.0 billion have fair values of approximately \$2.7 billion and \$2.1 billion at December 31, 2006 and 2005, respectively. The fair value of our variable-rate debt approximates its carrying values of \$115.4 million and \$313.8 million at year-end 2006 and 2005, respectively.

Note 16. Share Options and Awards

In 1988 we adopted a Share Option Plan that provided for the issuance of options and share awards up to a maximum of 1.6 million common shares. This plan expired in December 1997, but some awards made pursuant to it remain outstanding as of December 31, 2006.

In 1992 we adopted the Employee Share Option Plan that grants 100 share options to every employee, excluding officers, upon completion of each five-year interval of service. This plan expires in 2012 and provides options for a maximum of 225,000 common shares, of which .2 million is available for future grant of options or awards at December 31, 2006. Options granted under this plan are exercisable immediately.

In 1993 we adopted the Incentive Share Option Plan that provided for the issuance of up to 3.9 million common shares, either in the form of restricted shares or share options. This plan expired in 2002, but some awards made pursuant to it remain outstanding as of December 31, 2006. The share options granted to nonofficers vest over a three-year period beginning after the grant date, and for officers vest over a seven-year period beginning two years after the grant date. Restricted shares under this plan have multiple vesting periods. Prior to 2000, restricted shares generally vested over a ten-year period. Effective in 2000, the vesting period became five years. In addition, the vesting period for these restricted shares can be accelerated based on appreciation in the market share price. All restricted shares related to this plan vested prior to 2005.

In 2001 we adopted the Long-term Incentive Plan for the issuance of options and share awards. In 2006 the maximum number of common shares issuable under this plan was increased to 4.8 million common shares of beneficial interest, of which 2.6 million is available for the future grant of options or awards at December 31, 2006. This plan expires in 2011. The share options granted to nonofficers vest over a three-year period beginning after the grant date, and share options and restricted shares for officers vest over a five-year period after the grant date. Restricted shares granted to trust managers and retirement eligible employees are expensed immediately.

The grant price for the Employee Share Option Plan is equal to the quoted fair market value of our common shares on the date of grant. The grant price of the Long-term Incentive Plan is calculated as an average of the high and low of the quoted fair market value of our common shares on the date of grant. In both plans, these options expire upon termination of employment or ten years from the date of grant. In the Long-term Incentive Plan restricted shares for officers and trust managers are granted at no exercise price. Our policy is to recognize compensation expense for equity awards ratably over the vesting period, except for retirement eligible amounts. Compensation expense, net of forfeitures, associated with share options and restricted shares totaled \$4.9 million in 2006, \$1.7 million in 2005 and \$1.3 million in 2004, of which \$1.3 million in 2006 and \$.5 million in both 2005 and 2004 was capitalized.

The fair value of share options and restricted shares is estimated on the date of grant using the Black-Scholes option pricing method based on the expected weighted average assumptions in the following table. The dividend yield is an average of the historical yields at each record date over the estimated expected life. We estimate volatility using our historical volatility data for a period of ten years, and the expected life is based on historical data from an option valuation model of employee exercises and terminations. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value and weighted average assumptions are as follows:

	Year ended December 31,		
	2006	2005	2004
Fair value per share	\$ 4.97	\$ 3.02	\$ 2.72
Dividend yield	5.7%	6.3%	6.5%
Expected volatility	18.2%	16.8%	16.3%
Expected life (in years)	5.9	6.7	6.9
Risk-free interest rate	4.4%	4.4%	4.1%

Following is a summary of the option activity for the three years ended December 31, 2006:

	Shares Under Option	Weighted Average Exercise Price
Outstanding, January 1, 2004	3,092,536	\$ 22.01
Granted	380,071	39.69
Forfeited or expired	(13,000)	23.40
Exercised	(447,817)	18.42
Outstanding, December 31, 2004	3,011,790	24.77
Granted	537,319	37.40
Forfeited or expired	(30,797)	28.10
Exercised	(338,666)	19.17
Outstanding, December 31, 2005	3,179,646	27.47
Granted	544,346	47.41
Forfeited or expired	(65,996)	28.63
Exercised	(510,843)	20.73
Outstanding, December 31, 2006	3,147,153	\$ 31.99

The total intrinsic value of options exercised was \$10.3 million in 2006, \$6.4 million in 2005 and \$7.7 million in 2004. As of December 31, 2006, there was approximately \$4.9 million of total unrecognized compensation cost related to nonvested share options, which is expected to be amortized over a weighted average of 3.00 years.

The following table summarizes information about share options outstanding and exercisable at December 31, 2006:

Range of Exercise Prices	Outstanding				Exercisable			
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value (000s)	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (000s)
\$17.89 – \$26.83	1,273,216	4.78 years	\$ 21.72		844,091	\$ 21.20	4.54 years	
\$26.84 – \$40.26	1,333,391	7.98 years	\$ 35.53		600,580	\$ 34.21	7.60 years	
\$40.27 – \$47.50	540,546	9.92 years	\$ 47.46					
Total	<u>3,147,153</u>	7.02 years	\$ 31.99	<u>\$ 44,438</u>	<u>1,444,671</u>	\$ 26.61	5.81 years	<u>\$ 28,171</u>

A summary of the status of nonvested restricted shares for the year ended December 31, 2006 is as follows:

	Nonvested Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2006	142,268	36.32
Granted	83,057	46.34
Vested	(50,029)	37.56
Forfeited	(3,041)	36.24
Outstanding, December 31, 2006	<u>172,255</u>	<u>\$ 40.80</u>

As of December 31, 2006, there was approximately \$6.1 million of total unrecognized compensation cost related to nonvested restricted shares, which is expected to be amortized over a weighted average of 3.66 years.

Note 17. Employee Benefit Plans

We have a Savings and Investment Plan pursuant to which eligible employees may elect to contribute from 1% of their salaries to the maximum amount established annually by the Internal Revenue Service. Employee contributions are matched by us at the rate of \$.50 per \$1.00 for the first 6% of the employee's salary. The employees vest in the employer contributions ratably over a six-year period. Compensation expense related to the plan was \$.8 million in 2006, \$.7 million in 2005 and \$.6 million in 2004.

We also have an Employee Share Purchase Plan under which .6 million of our common shares have been authorized. These shares, as well as common shares purchased by us on the open market, are made available for sale to employees at a discount of 15%. Shares purchased by the employee under the plan are restricted from being sold for two years from the date of purchase or until termination of employment. A total of 24,181; 22,717 and 20,671 shares were purchased by employees at an average price of \$35.38, \$30.89 and \$28.27 during 2006, 2005 and 2004, respectively.

Effective April 1, 2002, we converted a noncontributory pension plan to a noncontributory cash balance retirement plan ("Retirement Plan") under which each participant received an actuarially

determined opening balance. Annual additions to each participant's account include a service credit ranging from 3-5% of compensation, depending on years of service, and an interest credit based on the ten-year U.S. Treasury Bill rate. Vesting generally occurs after five years of service. Certain participants were grandfathered under the prior pension plan formula. In addition to the plan described above, effective September 1, 2002, we established a separate and independent nonqualified supplemental retirement plan ("SRP") for officers, the assets of which are held in a grantor trust. This unfunded plan provides benefits in excess of the statutory limits of our noncontributory cash balance retirement plan.

At December 31, 2006, we adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." As a result of the adoption we recognized additional minimum liability directly to accumulated other comprehensive income of \$803 thousand.

The estimated net loss, prior service cost, and transition obligation that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$307 thousand, (\$117) thousand and zero, respectively.

The following tables summarize changes in the benefit obligation, the plan assets and the funded status of our pension plans as well as the components of net periodic benefit costs, including key assumptions. The measurement dates for plan assets and obligations were December 31, 2006 and 2005.

	Fiscal Year End	
	2006	2005
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	\$ 32,456	\$ 27,207
Service cost	3,090	2,641
Interest cost	2,309	1,724
Plan amendments	63	
Actuarial losses	1,882	1,539
Benefit payments	(803)	(655)
Benefit obligation at end of year	\$ 38,997	\$ 32,456
Change in Plan Assets:		
Fair value of plan assets at beginning of year	\$ 15,213	\$ 13,019
Actual return on plan assets	1,901	1,014
Employer contributions	1,622	1,835
Benefit payments	(803)	(655)
Fair value of plan assets at end of year	\$ 17,933	\$ 15,213
Unfunded Status at End of Year:	\$ 21,064	\$ 17,243
Unrecognized actuarial loss		(4,607)
Unrecognized prior service credit		895
Pension liability		\$ 13,531
Amounts Recognized in the Balance Sheets:		
Pension liabilities – SRP	\$ 16,262	\$ 16,438
Other	(58)	
Accumulated other comprehensive loss – Retirement Plan	4,860	2,907
Net amounts recognized	\$ 21,064	\$ 13,531
Accumulated benefit obligation	\$ 38,194	\$ 31,653
Amounts Recognized in Accumulated Other Comprehensive Loss Consist of:		
Net loss	\$ 5,565	N/A
Prior service credit	(705)	N/A
Total amount recognized	\$ 4,860	N/A

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Liability for pension benefits (included in Other Liabilities)	\$ 3,999	\$ 803	\$ 4,802
Total liabilities	3,161,276	803	3,162,079
Accumulated other comprehensive loss	11,697	803	12,500
Total shareholders' equity	1,126,584	803	1,125,781

Both of our pension plans are under funded. The following is the required information for plans with an accumulated benefit obligation in excess of plan assets at each year end:

	2006	2005
Projected benefit obligation	\$ 38,997	\$ 32,456
Accumulated benefit obligation	38,194	31,653
Fair value of plan assets	17,933	15,213

The components of net periodic benefit cost for both plans are as follows (in thousands):

	2006	2005	2004
Service cost	\$ 3,090	\$ 2,641	\$ 2,004
Interest cost	2,309	1,724	1,756
Expected return on plan assets	(1,385)	(1,192)	(1,028)
Prior service cost	(128)	(128)	(128)
Recognized loss	407	159	110
Total	\$ 4,293	\$ 3,204	\$ 2,714

The assumptions used to develop periodic expense for both plans are shown below:

	2006	2005	2004
Discount rate	5.75%	6.00%	6.25%
Salary scale increases – Retirement Plan	4.00%	4.00%	4.00%
Salary scale increases – SRP	5.00%	5.00%	5.00%
Long-term rate of return on assets	8.50%	8.50%	8.75%

The selection of the discount rate follows the guidance provided in SFAS No. 87, “Employers’ Accounting for Pensions.” The selection of the discount rate is made annually after comparison to yields based on high quality fixed-income investments. The salary scale is the composite rate which reflects anticipated inflation, merit increases, and promotions for the group of covered participants. The long-term rate of return is a composite rate for the trust. It is

derived as the sum of the percentages invested in each principal asset class included in the portfolio multiplied by their respective expected rates of return. We considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This analysis resulted in the selection of 8.50% as the long-term rate of return assumption for 2006.

The assumptions used to develop the actuarial present value of the benefit obligations at year-end for both plans are shown below:

	2006	2005	2004
Discount rate	5.75%	5.75%	6.00%
Salary scale increases – Retirement Plan	4.00%	4.00%	4.00%
Salary scale increases – SRP	5.00%	5.00%	5.00%

The expected contribution to be paid for both plans by us during 2007 is approximately \$4.5 million, of which \$2.0 million relates to the Retirement Plan. The expected benefit payments for the next ten years for both plans are as follows, in millions: \$.8 in 2007; \$7.9 in 2008; \$.8 in 2009; \$.9 in 2010; \$1.0 in 2011; and \$9.1 in 2012 through 2016.

The measurement dates of both plans were December 31, 2006 and December 31, 2005. The participant data used in determining the liabilities and costs was collected as of January 1, 2006.

The allocation of the fair value of plan assets as provided by the plan trustee was as follows (in thousands):

	December 31,	
	2006	2005
Cash and short-term investments	3%	3%
Mutual funds – equity	69%	71%
Mutual funds – fixed income	28%	26%
Total	100%	100%

Our investment policy and strategy for plan assets require that plan assets be allocated based on a “Broad Market Diversification” model. Approximately 70% of plan assets are allocated to equity investments and 30% to fixed income investments. On a quarterly basis, the plan assets are reviewed in an effort to maintain this asset allocation. Selected investment funds are monitored as reasonably necessary to permit our Investment Committee to evaluate any material changes to the investment fund’s performance.

We also have a deferred compensation plan for eligible employees allowing them to defer portions of their current cash or share-based compensation. Amounts deferred are reported as compensation expense in the year service is rendered and are deposited in a grantor trust. Cash deferrals are invested based on the employee’s investment selections from a mix of assets similar to the noncontributory cash balance retirement plan. Deferred share-based compensation can not be diversified, and distributions from this plan are made in the same form as the original deferral.

Note 18. Segment Information

The operating segments presented are the segments for which separate financial information is available, and operating performance is evaluated regularly by senior management in deciding how to allocate resources and in assessing performance. We evaluate the performance of the operating segments based on net operating income that is defined as total revenues less operating expenses and ad valorem taxes. Management does not consider the effect of gains or losses from the sale of property in evaluating ongoing operating performance.

The shopping center segment is engaged in the acquisition, development and management of real estate, primarily anchored neighborhood and community shopping centers located in Arizona,

Arkansas, California, Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Maine, Missouri, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah and Washington. The customer base includes supermarkets, discount retailers, drugstores and other retailers who generally sell basic necessity-type commodities. The industrial segment is engaged in the acquisition, development and management of bulk warehouses and office/service centers. Its properties are located in California, Florida, Georgia, Tennessee and Texas, and the customer base is diverse. Included in "Other" are corporate-related items, insignificant operations and costs that are not allocated to the reportable segments.

Information concerning our reportable segments is as follows (in thousands):

	Shopping Center	Industrial	Other	Total
2006				
Revenues	\$ 503,655	\$ 55,037	\$ 2,688	\$ 561,380
Net operating income (loss)	366,426	38,409	(405)	404,430
Equity in earnings of joint ventures, net	13,713	377	565	14,655
Investment in real estate joint ventures	174,587	25,156	4,096	203,839
Total assets	3,517,733	324,343	533,464	4,375,540
Capital expenditures	920,017	96,504	5,582	1,022,103
2005				
Revenues	\$ 460,661	\$ 47,604	\$ 2,136	\$ 510,401
Net operating income	339,661	34,302	885	374,848
Equity in earnings of joint ventures, net	6,533	87	(10)	6,610
Investment in real estate joint ventures	82,092	480	1,776	84,348
Total assets	3,035,964	355,848	345,929	3,737,741
Capital expenditures	339,328	89,066	646	429,040
2004				
Revenues	\$ 415,595	\$ 43,869	\$ 1,450	\$ 460,914
Net operating income	305,556	31,413	439	337,408
Equity in earnings of joint ventures, net	5,441	96	(153)	5,384
Investment in real estate joint ventures	46,861	539	982	48,382
Total assets	2,897,772	288,480	284,066	3,470,318
Capital expenditures	579,912	12,089	2,793	594,794

Net operating income reconciles to Income from Continuing Operations as shown on the Statements of Consolidated Income and Comprehensive Income as follows (in thousands):

	2006	2005	2004
Total segment net operating income	\$ 404,430	\$ 374,848	\$ 337,408
Depreciation and amortization	(127,613)	(117,062)	(103,870)
General and administrative	(23,801)	(17,379)	(16,122)
Impairment loss			(3,550)
Interest expense	(146,943)	(130,761)	(117,096)
Interest and other income	9,045	2,867	1,390
Loss on redemption of preferred shares			(3,566)
Income allocated to minority interests	(6,414)	(6,060)	(4,928)
Equity in earnings of joint ventures, net	14,655	6,610	5,384
Gain on land and merchant development sales	7,166	804	
Gain on sale of properties	22,467	22,306	1,562
Provision for income taxes	(1,366)		
Income from Continuing Operations	\$ 151,626	\$ 136,173	\$ 96,612

Note 19. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is as follows (in thousands):

	First	Second	Third	Fourth
2006				
Revenues	\$ 135,479	\$ 136,963	\$ 147,150	\$ 150,833
Net income available to common shareholders	52,084	87,741 ⁽¹⁾	103,223 ⁽¹⁾	51,861
Net income per common share – basic	0.58	0.98 ⁽¹⁾	1.19 ⁽¹⁾	0.61
Net income per common share – diluted	0.57	0.95 ⁽¹⁾	1.15 ⁽¹⁾	0.59
2005				
Revenues	\$ 123,270	\$ 127,614	\$ 131,307	\$ 131,077
Net income available to common shareholders	34,037	67,679 ⁽¹⁾	58,958 ⁽¹⁾	48,878
Net income per common share – basic	0.38	0.76 ⁽¹⁾	0.66 ⁽¹⁾	0.55
Net income per common share – diluted	0.38	0.74 ⁽¹⁾	0.65 ⁽¹⁾	0.54

⁽¹⁾ The quarter results include gains on the sale of properties.

Shareholder Information

Share Price & Dividend Information

Our common shares are listed and traded on the New York Stock Exchange under the symbol “WRI.” The number of holders of record of our common shares as of January 31, 2007 was 3,317. The closing high and low sale prices per common share as reported on the New York Stock Exchange, and dividends per share paid for the fiscal quarters indicated were as follows:

	High	Low	Dividends
2006			
Fourth	\$ 47.83	\$ 42.72	\$.465
Third	43.26	38.19	.465
Second	40.56	37.10	.465
First	41.76	38.66	.465
2005			
Fourth	\$ 38.98	\$ 33.99	\$.44
Third	40.50	36.83	.44
Second	39.32	34.08	.44
First	39.97	33.49	.44

Certifications

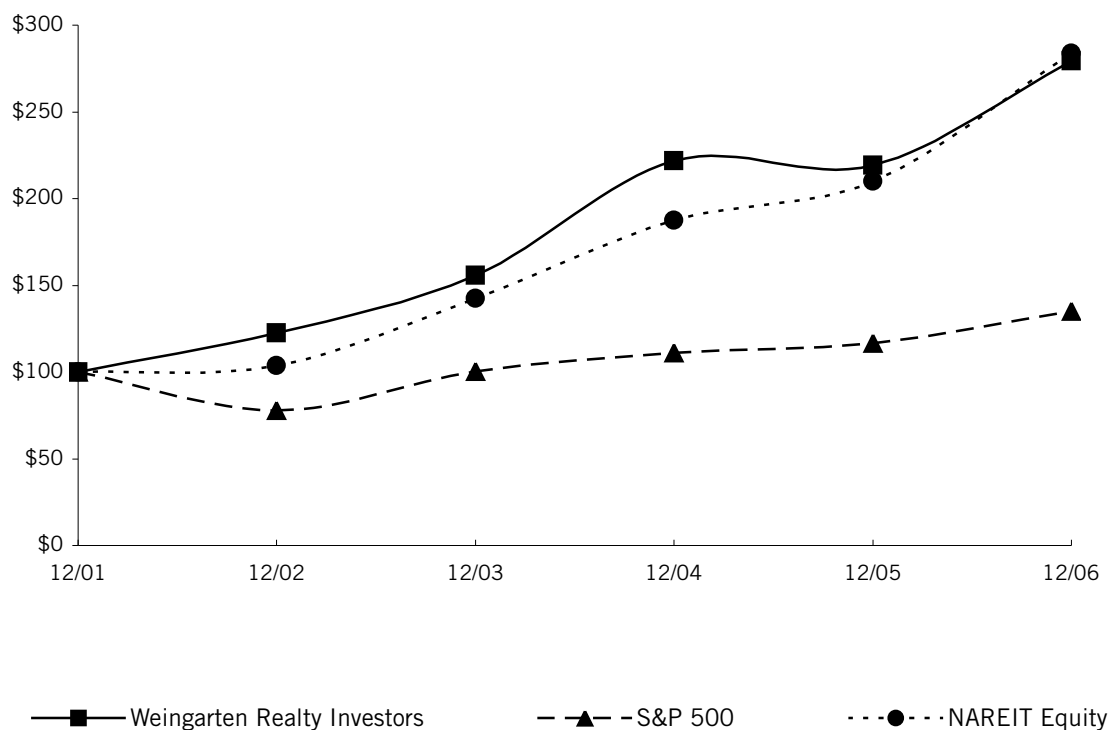
Following the May 2006 annual meeting of shareholders, we filed a Section 12 (a) CEO certification with the New York Stock Exchange (“NYSE”) without qualification regarding its compliance with NYSE corporate governance listing standards on May 30, 2006. In addition, we filed with the Securities and Exchange Commission the CEO and CFO certifications regarding the quality of the Company’s public disclosure as Exhibits 31.1 and 31.2 to our Form 10-K for the year ended December 31, 2006 as required by Section 302 of the Sarbanes-Oxley Act.

Performance Graph

The graph below provides an indicator of cumulative total shareholder returns for us as compared with the S&P 500 Stock Index and the NAREIT All Equity Index, weighted by market value at each measurement point. The graph assumes that \$100 was invested on December 31, 2001 in our common shares and that all dividends were reinvested by the shareholder.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Weingarten Realty Investors, the S&P 500 Index and the NAREIT Equity Index



* \$100 invested on 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

	2002	2003	2004	2005	2006
Weingarten	122.54	155.85	221.88	219.11	279.34
S&P 500 Index	77.90	100.24	111.15	116.61	135.03
The NAREIT All Equity Index	103.82	142.37	187.33	210.12	283.78

There can be no assurance that our share performance will continue into the future with the same or similar trends depicted in the graph above. We will not make or endorse any predictions as to future share performance.

Shareholder Information & Services

STOCK LISTINGS

New York Stock Exchange

- Common Shares – WRI
- Series D Preferred Shares – WRIPrD
- Series E Preferred Shares – WRIPrE
- Series F Preferred Shares – WRIPrF

MEMBERSHIPS

National Association of Real Estate Investment Trusts
International Council of Shopping Centers
National Association of Industrial and Office Properties

AUDITORS

Deloitte & Touche LLP, Houston, Texas

COUNSEL

Winstead Sechrest & Minick P.C., Houston, Texas
Locke Liddell & Sapp LLP, Dallas, Texas

TRANSFER AGENT & REGISTRAR

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TDD for Hearing Impaired: 800-231-5469
Foreign Shareholders: 201-680-6578
TDD Foreign Shareholders: 201-680-6610
www.melloninvestor.com

DIRECT STOCK PURCHASE & DIVIDEND REINVESTMENT

We offer a convenient way to purchase our common shares of beneficial interest, and to automatically reinvest dividends. For a complete information package on our Investor Services Program, please contact:

Mellon Investor Services LLC
P.O. Box 3315
South Hackensack, NJ 07606
888-887-2966 or
www.melloninvestor.com

DIRECT DEPOSIT

We offer shareholders direct deposit of dividends. Interested shareholders should contact Mellon Investor Services at 800-550-4689 or visit the investor Web site at www.melloninvestor.com.

ANNUAL MEETING OF SHAREHOLDERS

Shareholders are cordially invited to attend the 2007 Annual Shareholders' Meeting scheduled to be held on Thursday, May 3, 2007 at 9:00 a.m. at Weingarten Realty Investors' company headquarters, 2600 Citadel Plaza Drive, Houston, Texas, on the Plaza Level.

FORM 10-K

A copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to security holders, without charge, via our Web site. Simply go to www.weingarten.com, then go to the "Investor Relations" link followed by the "Investor Packet" link under the "Request Information" section. You can also contact our Investor Relations department directly using our contact information provided in the Company Directory on the inside back cover of this report.

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Raleigh, North Carolina

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Fax: 919-841-9706

Austin, Texas

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Fax: 512-912-1295

Dallas, Texas

Phone: 972-907-0004
Fax: 972-907-3703

Seattle, Washington

Phone: 206-694-5400
Fax: 206-694-5410

Board of Trust Managers

Stanford Alexander

Chairman, Weingarten Realty Investors
Member of Pricing Committee and
Executive Committee

Andrew M. Alexander

President/Chief Executive Officer,
Weingarten Realty Investors
Chairman of Pricing Committee and
Executive Committee

James W. Crownover

Private Investor;
Former Director, McKinsey & Company
Chairman of Audit Committee and
Member of Governance Committee

Robert J. Cruikshank

Private Investor
Chairman of Management Development &
Compensation Committee, Member of Audit
Committee and Executive Committee

Melvin A. Dow

Shareholder, Winstead P.C.
Member of Executive Committee

Stephen A. Lasher

President of The GulfStar Group, Inc.
Member of Audit Committee,
Management Development &
Compensation Committee,
Pricing Committee and
Executive Committee

Douglas W. Schnitzer

Chairman/Chief Executive Officer
Senterra Real Estate Group, L.L.C.
Member of Governance Committee

Marc J. Shapiro

Former Vice Chairman,
J.P. Morgan Chase & Co.;
Non-executive Chairman, Chase Bank of Texas
Chairman of Governance Committee and
Member of Management Development &
Compensation Committee

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ON THE COVER

Robin Hilliard

Vice President/
Associate Director of Leasing