



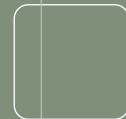
In good company

Chelsea Property Group



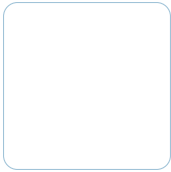
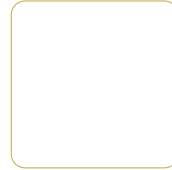


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- 8 ...and the right team...
- 10 ...producing powerful results.
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Chelsea Property Group is a fully integrated, self-administered, and self-managed real estate investment trust (REIT) that owns, develops, leases, and operates Premium Outlet™ centers and other retail shopping centers. On December 31, 2001, its portfolio comprised 57 properties located in 28 states and Japan, containing 12.6 million square feet of gross leasable area and nearly 2,900 stores. The company has been listed on the New York Stock Exchange since 1993 and trades under the ticker symbol CPG.

To our stockholders



2001 was another solid year for Chelsea Property Group, despite a challenging business environment that worsened after September 11. We successfully completed our first five-year strategic plan, closed on an acquisition that further strengthened and diversified our portfolio, and in general positioned ourselves well for future growth.

Funds from operations (FFO) during 2001 were \$108.9 million, or \$5.30 per share, up 10% from \$4.80 per share in the prior year. Over the last five years, Chelsea's EBITDA, FFO, and FFO per share have increased at compound annual growth rates of 23%, 18%, and 14%, respectively, exceeding our own targets. In March 2002, we increased our common stock dividend for the eighth consecutive year, to an annualized \$3.24 per share.

During the year, we raised \$250 million of new common equity and long-term debt, and at the same time retained for reinvestment \$46 million – or more than 40% – of our funds from operations. As a result, our balance sheet and financial capacity remain very strong and flexible.

While the size and scope of Chelsea's businesses continued to evolve in 2001, our fundamental belief in the power of brands remained unchanged. Our success still comes from steadily building brand relationships in a way that creates long-term value for the brands, for shoppers, and for us. In 2001, we again brought outstanding new names into our portfolio and our U.S. outlets for the first time; we now have relationships with more than 400 distinctive brands across the merchandise spectrum.

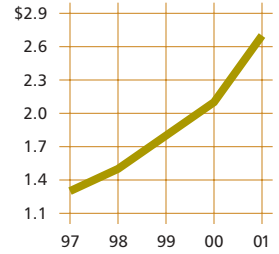
Our overall business strategy involves engineering growth and attracting brands on three broad fronts: domestic, international, and online through Chelsea Interactive. During the year, we continued to make progress on all three fronts.

The four new projects we completed during 2000 all made full-year contributions in 2001 – and internal growth also had a significant impact on our bottom line. In addition, the four properties we acquired in December 2000 were fully converted to our Premium Outlet™ brand. During 2001, we also made substantial progress in developing and pre-leasing our three previously announced new sites in the Las Vegas, Chicago, and Tokyo markets. We expect to deliver these projects in 2003 and 2004.

THE **quality**
OF CHELSEA'S PORTFOLIO
PROVED ITS WORTH
YET AGAIN IN 2001.

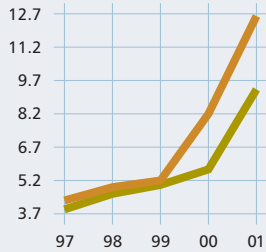
TOTAL REPORTED SALES

U.S. PREMIUM OUTLETS
in billions



GROSS LEASABLE AREA

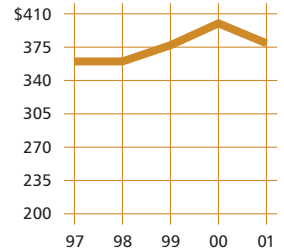
square feet in millions



■ At Year End ■ Weighted Average

SALES PER SQUARE FOOT

U.S. PREMIUM OUTLETS

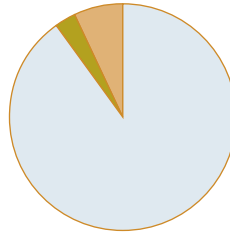


CHELSEA'S U.S. PREMIUM
OUTLET SALES AVERAGED

\$379
per square foot

IN 2001, BY FAR THE
HIGHEST IN THE
OUTLET INDUSTRY.

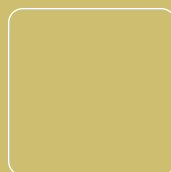
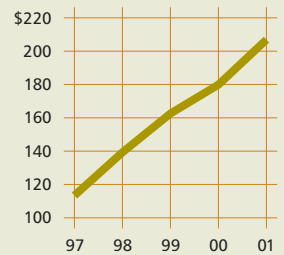
**CONTRIBUTION TO 2001 NET
OPERATING INCOME**



- 90% Premium Outlets, Domestic
- 3% Premium Outlets, International
- 7% Factory Outlets and Other

TOTAL REVENUES

in millions



In September, we completed the purchase of a mixed portfolio of 31 retail properties from Konover Property Trust – including four higher-end outlet centers, 24 moderate outlet centers, and three community shopping centers. We have already integrated these assets into our domestic operations and will manage each property in an economically appropriate way. We plan to sell acquired non-core or unprofitable properties over time. Our estimated initial return on assets for the entire portfolio exceeds 14%, with good upside potential as we reposition some of the better properties.

Internationally, 2001 was the first full year of operation for Chelsea Japan's highly successful centers near Tokyo and Osaka. Sales at both Gotemba Premium Outlets and Rinku Premium Outlets continued to be strong, benefiting from factors including a weaker yen and a decline in travel abroad by Japanese tourists after September 11. Chelsea Japan is actively developing a pipeline of new projects, focusing on major metropolitan markets such as Tokyo, Nagoya, and Fukuoka.

In the e-commerce arena, we made great strides in enhancing the Chelsea Interactive technology platform and in securing additional brand relationships. For brands, the Chelsea Interactive business model remains a compelling alternative to developing their own in-house e-commerce capability: They can access an outsourced solution that delivers world-class execution while minimizing their own financial and managerial investment. During 2001, Chelsea Interactive launched sites for Timberland.com, LizLange.com, and Ulta.com and began work on Polo.com and [InterShoe \(ViaSpiga.com and Nickels.com\)](http://InterShoe.com).

Successful execution of our operating and financial strategy in 2001 has positioned us to achieve further growth in 2002 and beyond. During the year, Chelsea continued to evolve from a niche leader in the upscale segment of the domestic outlet industry to a much broader-based company engaged in multiple, brand-related businesses. While we are prepared for the retail environment to remain extremely competitive, our financial strength gives us great strategic flexibility as we consider new acquisition and development opportunities. Moreover, we have a talented management team in place that has proven itself through different business cycles.

I would like to express my thanks to our stockholders, our client brands, our joint venture partners, and all our people for their invaluable support during a year that was challenging in many ways – and that, at the same time, represented another important step forward for Chelsea Property Group.



David Bloom
Chairman and Chief Executive Officer

OUR PREMIUM
OUTLET PORTFOLIO
INCLUDES OVER
2,100
stores REPRESENTING
400 distinctive
brands.

CHELSEA'S total
market
capitalization
GREW FROM
\$411 MILLION WHEN WE WENT
PUBLIC IN 1993 TO
\$1.7 billion
AT YEAR-END 2001.

Operating Highlights

In thousands, except per share,
per square foot, and number of stores

Years ended December 31,	2001	2000	CHANGE
FOR THE YEAR			
Revenues	\$ 206,855	\$ 179,903	+ 15%
EBITDA ⁽¹⁾	\$ 162,002	\$ 132,001	+ 23%
Funds from Operations ⁽²⁾	\$ 108,862	\$ 93,556	+ 16%
Common Distributions	\$ 62,780	\$ 57,889	+ 8%
Average Shares Outstanding ⁽³⁾	20,534	19,482	+ 5%
Weighted Average GLA ⁽⁴⁾	9,349	5,703	+ 64%
Average Sales per Square Foot ⁽⁵⁾	\$ 379	\$ 400	- 5%
PER SHARE			
Funds from Operations ⁽²⁾	\$ 5.30	\$ 4.80	+ 10%
Common Distributions	\$ 3.12	\$ 3.00	+ 4%
Common Distributions Payout Ratio	59%	63%	
AT YEAR END			
Total Assets	\$1,099,308	\$ 901,314	+ 22%
Total Market Capitalization ⁽⁶⁾	\$1,737,850	\$1,277,610	+ 36%
Equity Market Capitalization ⁽⁷⁾	\$1,191,251	\$ 827,047	+ 44%
Shares Outstanding ⁽³⁾	21,920	19,310	+ 14%
GLA ⁽⁴⁾	12,574	8,159	+ 54%
Stores	2,851	2,141	+ 33%
Occupancy – U.S. Premium Outlets	98%	98%	

(1) Earnings before interest, taxes, depreciation and amortization

(2) See Management's Discussion and Analysis for definition of Funds from Operations

(3) Assumes conversion of all partnership units to common shares (diluted)

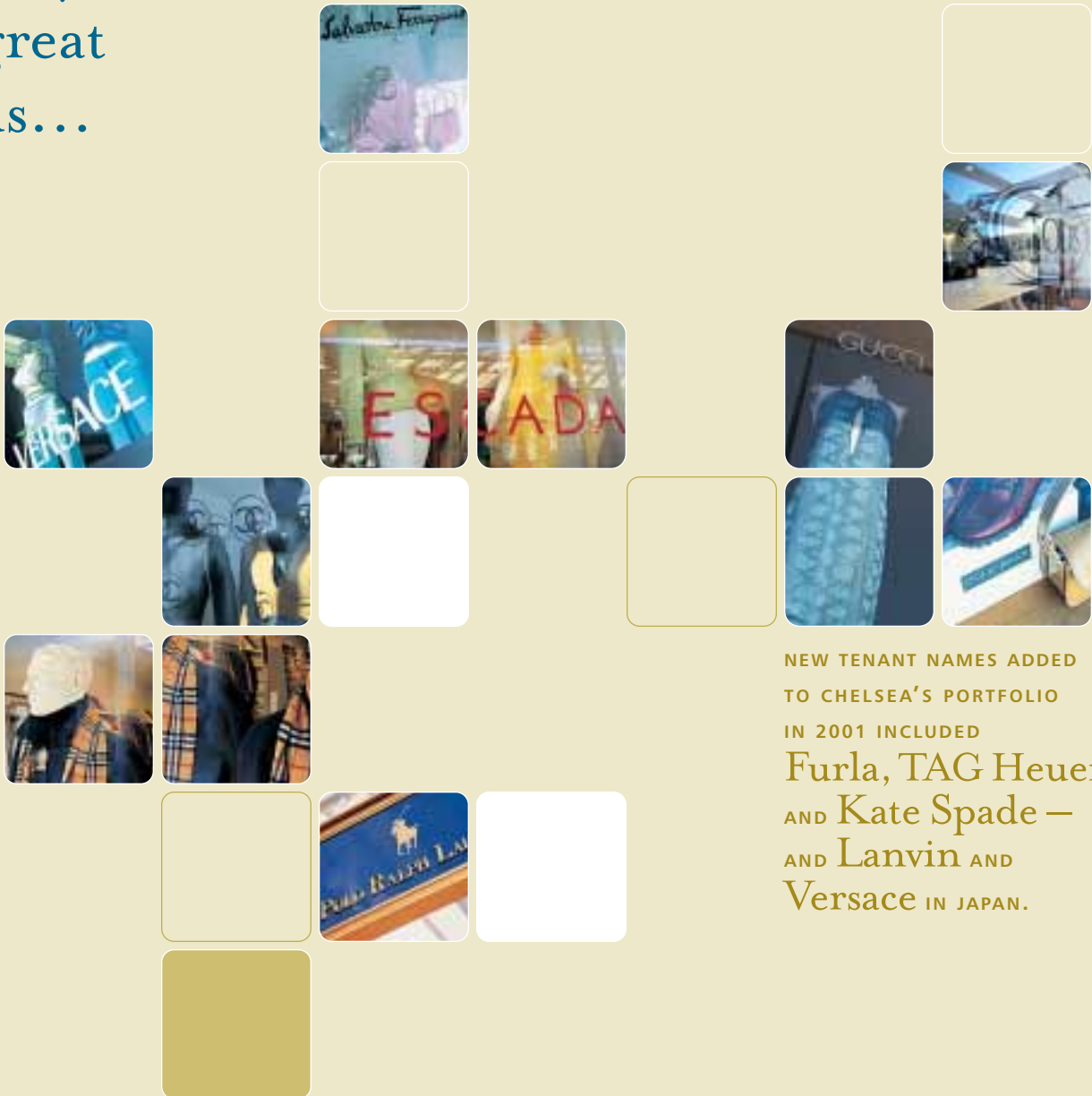
(4) Gross leasable area in square feet, including joint ventures

(5) U.S. Premium Outlet centers in 2000, excluding those acquired December 22, 2000

(6) Value as of year-end 2001 and 2000, assuming a common stock price of \$49.10 and \$36.875, respectively, a liquidation preference of \$50.00 per preferred share or unit, and debt at par value

(7) Value as of year-end 2001 and 2000, assuming a common stock price of \$49.10 and \$36.875, respectively, and a liquidation preference of \$50.00 per preferred share or unit

In good
company,
with great
brands...



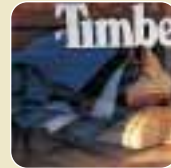
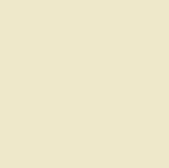
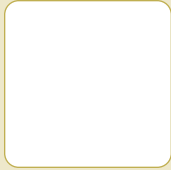
NEW TENANT NAMES ADDED
TO CHELSEA'S PORTFOLIO
IN 2001 INCLUDED
Furla, TAG Heuer,
AND Kate Spade –
AND Lanvin AND
Versace IN JAPAN.

Great brands are the cornerstone of Chelsea Property Group's business. Around these brands, we build large, upscale shopping destinations that dominate their markets and attract fashion- and value-conscious consumers.

Our client brands include many of the world's most famous names – from Armani to Zegna and Crate and Barrel to Williams-Sonoma – for whom outlets have become an increasingly important distribution channel. Outlets are the most direct way for brands to sell to the off-price consumer and move excess inventory at a profit.

Great brands, good design, and strategic locations have made Chelsea's Premium Outlet centers among the most productive properties in retail real estate today.

Timberland AND
 Cole Haan BECAME THE
 FIRST BRANDS TO PARTNER WITH
 CHELSEA IN ALL THREE OF OUR
 OPERATING AREAS – domestic,
 international, AND
 online.



Adidas | American Tourister | Andrew Marc | Bally | Banana Republic Factory Store | Barneys New York Outlet | Bass | Bebe | Benetton | Betsey Johnson
 Bombay Outlet | Bose | Bottega Veneta | Brooks Brothers Factory Store | Burberry | Calvin Klein | Carter's | Chanel | Christian Dior | Club Monaco | Coach
 Coldwater Creek | Cole Haan | Crate and Barrel | Dana Buchman | Dansk | DKNY | Dolce & Gabbana | Eddie Bauer | Escada | Etienne Aigner | Fendi | Frette
 Gap Outlet | Geoffrey Beene | Giorgio Armani | Godiva Chocolatier | Gucci | Guess | Hartmann | Hugo Boss | Izod | J. Crew | Jones New York | Kate Spade
 Kenneth Cole | Lancôme | La Perla | L'eggs Hanes Bali Playtex | Lego | Le Gourmet Chef | Lenox | Levi's Outlet | Liz Claiborne | Maidenform | Malo
 Max Mara | Mikasa | Movado | Nautica | Neiman Marcus Last Call | Nike Factory Store | Nine West | Off 5th - Saks Fifth Avenue Outlet | OshKosh B'Gosh
 Polo Ralph Lauren Factory Store | Pottery Barn Furniture Outlet | Reebok | Salvatore Ferragamo | Samsonite | Skechers | Sony | Space (Prada, Miu Miu)
 Springmaid Wamsutta | Stride Rite | Tahari | TAG Heuer | Theory | Timberland | Tod's | Tommy Hilfiger | TSE | Van Heusen | Versace | VF Factory Outlet | Via Spiga & Co.
 Waterford Wedgwood | WestPoint Stevens | Williams-Sonoma Marketplace | Wolford | Zales The Diamond Store Outlet | Zegna Outlet and more

...and
the
right
team...

Chelsea's Premium Outlet centers maintained a **98%** occupancy rate and a **90%** lease renewal rate once again in 2001.

– LEASING

Our domestic Premium Outlet centers welcomed more than **100 million shoppers** in 2001 and generated more than **\$2.7 billion** in tenant sales. Tenant occupancy costs averaged **just 8%** of sales.

– OPERATIONS

Gotemba and Rinku Premium Outlets are **Japan's two largest** outlet centers, with **dominant positions** in the Tokyo and Osaka markets.

– CHELSEA JAPAN

The special demands of our business require experienced leadership in each distinct discipline, from development to operations. Chelsea's senior managers have an average of 13 years in the outlet business and have worked together through extremely varied economic conditions.

With our continued growth, we have expanded our internal capabilities for acquiring, developing, and operating large real estate portfolios. In 2001, this enhanced management capacity enabled us to purchase 31 properties in a single transaction and smoothly integrate them into our business.

Supporting each of our individual businesses with dedicated professional staff at every level is an integral part of Chelsea's business strategy.

Chelsea Interactive added **Timberland.com**, **Ulta.com** and **LizLange.com** to its e-commerce technology platform in 2001. **Polo.com** will follow in 2002.
– CHELSEA INTERACTIVE

During 2001, Chelsea raised **\$250 million** of new equity and long-term debt financing and **retained \$46 million** of operating cash flow to support its growth and maintain a strong balance sheet.
– FINANCE

22,000 tour groups visited Chelsea's domestic centers in 2001, as our annual marketing budget grew to **\$17 million**.
– MARKETING

Over the past five years, Chelsea has **developed 2.9 million square feet** of new space and acquired **36 properties** containing **6.1 million square feet**.
– DEVELOPMENT & ACQUISITIONS

(left to right)
David Bloom
William Bloom
Leslie T. Chao
Thomas J. Davis
Michael J. Clarke
Bruce Zalaznick

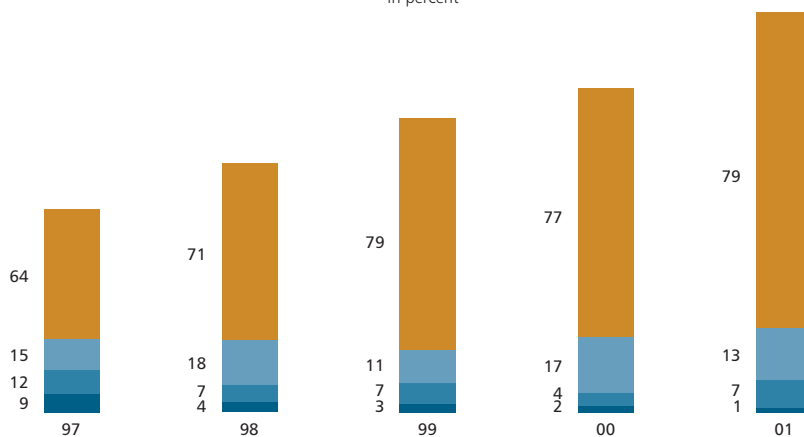


EXECUTIVE MANAGEMENT

...producing
powerful results.

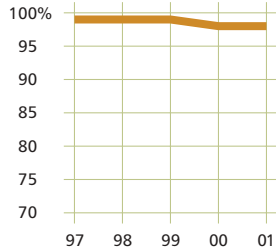
CHELSEA'S PREMIUM OUTLET
CENTERS ARE AMONG THE
most productive
PROPERTIES IN RETAIL
REAL ESTATE. IN 2001, 79% OF
OUR NET OPERATING INCOME
CAME FROM CENTERS AVERAGING
SALES OF **\$431 per**
square foot.

CONTRIBUTION TO NET OPERATING INCOME BY SALES CLASS
in percent

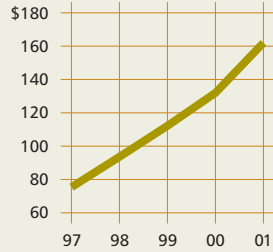


SALES CLASS	CENTERS	SALES/SF	OCCUP. COST/SALES	GLA (SF IN 000S)
\$300/SF+	15	\$431	7.9%	5,450
\$250-299/SF	4	\$274	8.8%	1,400
\$200-249/SF	4	\$234	9.0%	782
<\$200/SF	1	\$166	11.3%	135

LEASE-UP RATE
at year end

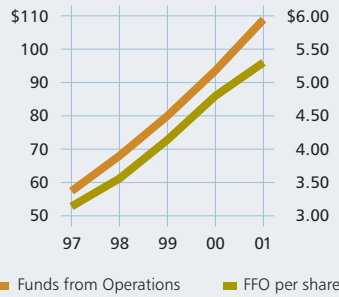


EBITDA*
in millions

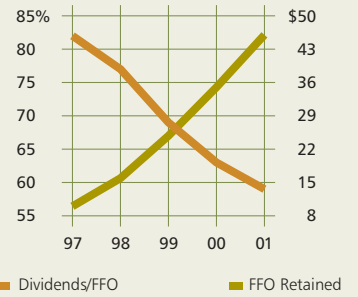


*Earnings before interest, taxes, depreciation and amortization

FUNDS FROM OPERATIONS
left axis in millions



DIVIDEND PAYOUT
right axis in millions



FUNDS FROM OPERATIONS
PER SHARE INCREASED AT A
COMPOUNDED **annual**
growth rate
OF **13.6%**
BETWEEN 1996 AND 2001.

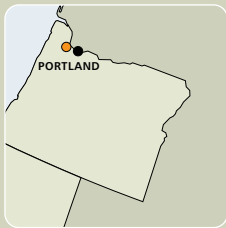
Newer business initiatives —
INCLUDING INTERNATIONAL PREMIUM OUTLET CENTER DEVELOPMENT, FACTORY OUTLET ACQUISITIONS, AND THE BUILDING OF CHELSEA INTERACTIVE — PRESENT additional avenues of growth.

Chelsea dominates the upscale outlet market

WITH 26 PREFERRED DESTINATIONS
IN 15 STATES AND JAPAN.

NORTHWEST

COLUMBIA GORGE PREMIUM OUTLETS
Troutdale, Oregon



WEST

GILROY PREMIUM OUTLETS
Gilroy, California

DESERT HILLS PREMIUM OUTLETS
Cabazon, California

CAMARILLO PREMIUM OUTLETS
Camarillo, California

FOLSOM PREMIUM OUTLETS
Folsom, California

PETALUMA VILLAGE PREMIUM OUTLETS
Petaluma, California

NAPA PREMIUM OUTLETS
Napa, California

AMERICAN TIN CANNERY PREMIUM OUTLETS
Pacific Grove, California

ST. HELENA PREMIUM OUTLETS
St. Helena, California

- Metropolitan area
- Premium Outlet center
- Planned Premium Outlet center



SOUTHWEST

ALLEN PREMIUM OUTLETS
Allen, Texas

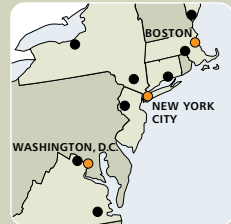
SANTA FE PREMIUM OUTLETS
Santa Fe, New Mexico



CENTRAL

LIGHTHOUSE PLACE PREMIUM OUTLETS
Michigan City, Indiana

AURORA PREMIUM OUTLETS
Aurora, Ohio



NORTHEAST

WOODBURY COMMON PREMIUM OUTLETS
Central Valley, New York

WRENTHAM VILLAGE PREMIUM OUTLETS
Wrentham, Massachusetts

LEESBURG CORNER PREMIUM OUTLETS
Leesburg, Virginia

WATERLOO PREMIUM OUTLETS
Waterloo, New York

CLINTON CROSSING PREMIUM OUTLETS
Clinton, Connecticut

LIBERTY VILLAGE PREMIUM OUTLETS
Flemington, New Jersey

KITTERY PREMIUM OUTLETS
Kittery, Maine

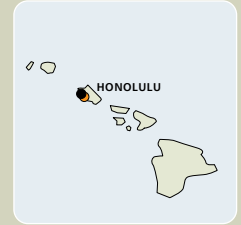
PATRIOT PLAZA PREMIUM OUTLETS
Williamsburg, Virginia



JAPAN

RINKU PREMIUM OUTLETS
Izumisano, Japan

GOTEMBA PREMIUM OUTLETS
Gotemba, Japan



HAWAII

WAIKELE PREMIUM OUTLETS
Waipahu, Hawaii



SOUTH

NORTH GEORGIA PREMIUM OUTLETS
Dawsonville, Georgia

ORLANDO PREMIUM OUTLETS
Orlando, Florida



With 220 stores and a strategic location 60 minutes from New York City, Woodbury Common Premium Outlets is the world's largest outlet center and a showcase for premier brands.



Orlando Premium Outlets, a short drive from both Walt Disney World/EPCOT Center and SeaWorld, has established itself as the leading high-end outlet center in the Orlando market.



Gotemba Premium Outlets, located near Mount Fuji and the renowned Hakone resort area outside Tokyo, has far surpassed traffic and sales targets since it opened in 2000. A significant expansion is planned for 2003.

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FIELD MANAGEMENT

PREMIUM OUTLET CENTERS

THOMAS M. PFALZER
*Woodbury Common Premium
Outlets*

ELIZABETH M. WINBOURNE
*Wrentham Village Premium
Outlets*
Kittery Premium Outlets

JENIFER BRADLEY
Gilroy Premium Outlets

DONALD J. CAMPBELL
North Georgia Premium Outlets

MARK SEJD
*Lighthouse Place Premium
Outlets*

KATHY FREDERIKSEN
Desert Hills Premium Outlets

GILBERT A. BROOKER
*Leesburg Corner Premium
Outlets*
Patriot Plaza Premium Outlets

ELIZABETH KLOPMAN
Camarillo Premium Outlets

BENJAMIN CASTANEDA
Orlando Premium Outlets

KELLY M. HUSBY
Waterloo Premium Outlets

SONIA MALONE
Allen Premium Outlets

DOTTIE MONTANA
Folsom Premium Outlets

CLAUDE E. HOPKINS
Aurora Premium Outlets

ROBYN RIFKIN
*Clinton Crossing Premium
Outlets*

TETSUO YAGI
Rinku Premium Outlets

HIDETOSHI TAKASE
Gotemba Premium Outlets

ULULANI STEPHENSON
Waikale Premium Outlets

JANE NUNEZ
*Petaluma Village Premium
Outlets*

TRACI A. GEE-EGE
Napa Premium Outlets
St. Helena Premium Outlets

TERESA SUNDERLAND
*Columbia Gorge Premium
Outlets*

BEVERLY ALVERSON
Liberty Village Premium Outlets

JULIE COOPER
*American Tin Cannery Premium
Outlets*

DAVID S. BROWN
Santa Fe Premium Outlets

FACTORY OUTLETS

LAWRENCE B. WALLIN
SUSAN PEELE
EDWIN J. COOK
LINDA C. SIMPSON
AMY E. NORGATE
STEPHEN R. JEANIS
CHARLES W. SOBELEWSKI

FACTORY STORES OF AMERICA

Boaz, Alabama
Mesa, Arizona
Tucson, Arizona
Vacaville, California
Graceville, Florida
West Frankfort, Illinois
Story City, Iowa

Georgetown, Kentucky
Hanson, Kentucky
Arcadia, Louisiana
Iowa, Louisiana
Tupelo, Mississippi
Branson, Missouri
Lebanon, Missouri

Nebraska City, Nebraska
Lake George, New York
Smithfield, North Carolina
Blountville, Tennessee
Crossville, Tennessee
Union City, Tennessee
Corsicana, Texas

Hempstead, Texas
La Marque, Texas
Livingston, Texas
Mineral Wells, Texas
Draper, Utah
North Bend, Washington

COMMUNITY CENTERS

MACGREGOR VILLAGE
Cary, North Carolina

NORTH RIDGE SHOPPING CENTER
Raleigh, North Carolina

DARE CENTRE
Kill Devil Hills, North Carolina

Selected Financial Data

(IN THOUSANDS EXCEPT PER SHARE, AND NUMBER OF CENTERS)	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
OPERATING DATA:					
Rental revenue	\$ 145,278	\$ 125,824	\$ 114,485	\$ 99,976	\$ 81,531
Total revenues	206,855	179,903	162,618	139,315	113,417
Loss on writedown of assets	–	–	694	15,713	–
Total expenses	150,640	123,876	114,676	98,166	78,262
Income from unconsolidated investments	15,642	6,723	308	–	–
Loss from Chelsea Interactive	(5,337)	(2,364)	–	–	–
Income before minority interest and extraordinary item	66,520	60,386	47,556	25,436	35,155
Minority interest	(14,706)	(14,606)	(9,275)	(3,803)	(6,595)
Income before extraordinary item	51,814	45,780	38,281	21,633	28,560
Extraordinary item - loss on retirement of debt	–	–	–	(283)	(204)
Net income	51,814	45,780	38,281	21,350	28,356
Preferred dividend	(4,188)	(4,188)	(4,188)	(4,188)	(907)
Net income available to common shareholders	\$ 47,626	\$ 41,592	\$ 34,093	\$ 17,162	\$ 27,449
Income per common share before extraordinary item (diluted) ⁽¹⁾	\$ 2.74	\$ 2.58	\$ 2.14	\$ 1.12	\$ 1.86
Net income per common share (diluted) ⁽¹⁾	\$ 2.74	\$ 2.58	\$ 2.14	\$ 1.10	\$ 1.85
OWNERSHIP INTEREST:					
REIT common shares	17,355	16,126	15,908	15,672	14,866
Operating Partnership units	3,179	3,356	3,389	3,431	3,435
Weighted average shares/units outstanding	20,534	19,482	19,297	19,103	18,301
BALANCE SHEET DATA:					
Rental properties before accumulated depreciation	\$ 1,127,906	\$ 908,344	\$ 848,813	\$ 792,726	\$ 708,933
Total assets	1,099,308	901,314	806,055	773,352	688,029
Total liabilities	624,246	528,752	426,198	450,410	342,106
Minority interest	115,639	101,203	102,561	42,551	48,253
Stockholders'/owners' equity	359,423	271,359	277,296	280,391	297,670
Distributions declared per common share	\$ 3.12	\$ 3.00	\$ 2.88	\$ 2.76	\$ 2.58
OTHER DATA:					
Funds from operations available to common shareholders ⁽¹⁾	\$ 108,862	\$ 93,556	\$ 79,980	\$ 67,994	\$ 57,417
Cash flows from:					
Operating activities	\$ 121,723	\$ 106,658	\$ 87,502	\$ 78,731	\$ 56,594
Investing activities	(112,551)	(121,479)	(77,490)	(119,807)	(199,250)
Financing activities	(2,604)	23,995	(10,781)	36,169	143,308
GLA at end of period ⁽²⁾	12,574	8,159	5,216	4,876	4,308
Weighted average GLA ⁽³⁾	9,349	5,703	4,995	4,614	3,935
Centers in operation at end of the period	57	27	19	19	20
New centers opened	–	4	–	1	1
Centers expanded	1	3	4	7	5
Center sold	1	1	1	–	–
Centers held for sale	–	–	1	2	–
Centers acquired	31	4	–	–	1

NOTES TO SELECTED FINANCIAL DATA:

(1) THE COMPANY BELIEVES THAT FFO IS HELPFUL TO INVESTORS AS A MEASURE OF THE PERFORMANCE OF AN EQUITY REIT BECAUSE, ALONG WITH CASH FLOW FROM OPERATING ACTIVITIES, FINANCING ACTIVITIES AND INVESTING ACTIVITIES, IT PROVIDES INVESTORS WITH AN INDICATION OF THE ABILITY OF THE COMPANY TO INCUR AND SERVICE DEBT, TO MAKE CAPITAL EXPENDITURES AND TO FUND OTHER CASH NEEDS. THE COMPANY COMPUTES FFO IN ACCORDANCE WITH THE CURRENT STANDARDS ESTABLISHED BY NAREIT WHICH MAY NOT BE COMPARABLE TO FFO REPORTED BY OTHER REITS THAT DO NOT DEFINE THE TERM IN ACCORDANCE WITH THE CURRENT NAREIT DEFINITION OR THAT INTERPRET THE CURRENT NAREIT DEFINITION DIFFERENTLY THAN THE COMPANY. FFO DOES NOT REPRESENT CASH GENERATED FROM OPERATING ACTIVITIES IN ACCORDANCE WITH GAAP AND SHOULD NOT BE CONSIDERED AS AN ALTERNATIVE TO NET INCOME (DETERMINED IN ACCORDANCE WITH GAAP) AS AN INDICATION OF THE COMPANY'S FINANCIAL PERFORMANCE OR TO CASH FLOW FROM OPERATING ACTIVITIES (DETERMINED IN ACCORDANCE WITH GAAP) AS A MEASURE OF THE COMPANY'S LIQUIDITY, NOR IS IT INDICATIVE OF FUNDS AVAILABLE TO FUND THE COMPANY'S CASH NEEDS, INCLUDING ITS ABILITY TO MAKE CASH DISTRIBUTIONS. SEE MANAGEMENT'S DISCUSSION AND ANALYSIS FOR DEFINITION OF FFO.

(2) INCLUDES SEVEN CENTERS CONTAINING 2.4 MILLION SQUARE FEET OF GLA IN WHICH THE COMPANY HAS A JOINT VENTURE INTEREST.

(3) GLA WEIGHTED BY MONTHS IN OPERATION.

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

The following discussion should be read in connection with the financial statements and notes thereto appearing elsewhere in this annual report.

Certain comparisons between periods have been made on a percentage or weighted average per square foot basis. The latter technique adjusts for square footage changes at different times during the year.

GENERAL OVERVIEW

At December 31, 2001 the Company operated 57 centers, compared to 27 and 19 at the end of 2000 and 1999, respectively. Between January 1, 2001 and December 31, 2001, the Company added approximately 4.4 million square feet of GLA to its portfolio as a result of acquiring 30 Other Retail Centers and one Premium Outlet Center comprising 4.3 million square feet of GLA and expanding one existing wholly-owned center by 146,000 square feet. The Company also sold a 35,000 square foot center in Mammoth, California in October 2001.

From January 1, 1999 to December 31, 2001, the Company grew by increasing rents at its operating centers, opening four new centers, expanding six centers and acquiring thirty-five centers. Increasing rents at operating centers resulted in base and percentage rent revenue growth of \$18.8 million. The opening of one wholly-owned new center and expansion of six wholly-owned centers increased base and percentage rent revenues by \$3.7 million and \$13.4 million, respectively, during the three year period ended December 31, 2001. The acquisition of 31 retail centers (exclusive of the four centers in which the Company acquired a 49% interest) increased base and percentage rent revenues by \$9.4 million during the three year period ended December 31, 2001. Income from unconsolidated investments aggregated \$22.7 million during the three year period ended December 31, 2001 increasing from \$0.3 million in 1999 to \$15.6 million in 2001 primarily as a result of opening three new centers developed by joint ventures during 2000 and by acquiring a 49% interest in four centers through a joint venture in December 2000. The Company operated gross leasable area at December 31, 2001 and 2000 of 12.6 million square feet and 8.2 million square feet, respectively, including wholly and partially-owned GLA, compared to 5.2 million square feet of wholly-owned GLA at December 31, 1999.

Management's Discussion and Analysis

The 7.7 million square feet ("sf") of net GLA added during the three year period is detailed as follows:

	SINCE			
	JANUARY 1, 1999	2001	2000	1999
CHANGES IN GLA (SF IN 000'S):				
NEW CENTERS DEVELOPED:				
Allen Premium Outlets	206	–	206	–
Orlando Premium Outlets (50%-owned)	428	–	428	–
Gotemba Premium Outlets (40%-owned)	220	–	220	–
Rinku Premium Outlets (40%-owned)	180	–	180	–
TOTAL NEW CENTERS	1,034	–	1,034	–
CENTERS EXPANDED:				
Allen Premium Outlets	146	146	–	–
Wrentham Village Premium Outlets	247	–	127	120
Leesburg Corner Premium Outlets	193	–	138	55
Folsom Premium Outlets	54	–	54	–
North Georgia Premium Outlets	103	–	–	103
Camarillo Premium Outlets	45	–	–	45
Other	20	4	(1)	17
TOTAL CENTERS EXPANDED	808	150	318	340
CENTERS ACQUIRED:				
Gilroy Premium Outlets (49%-owned)	577	–	577	–
Lighthouse Place Premium Outlets (49%-owned)	491	–	491	–
Waterloo Premium Outlets (49%-owned)	392	–	392	–
Kittery Premium Outlets I (49%-owned)	131	–	131	–
Kittery Premium Outlets II ⁽¹⁾	21	21	–	–
Other Retail Centers ⁽²⁾	4,279	4,279	–	–
TOTAL CENTERS ACQUIRED	5,891	4,300	1,591	–
CENTER SOLD:				
Mammoth Premium Outlets	(35)	(35)	–	–
NET GLA ADDED DURING THE PERIOD	7,698	4,415	2,943	340
OTHER DATA:				
GLA at end of period		12,574	8,159	5,216
Weighted average GLA		9,349	5,703	4,995
Centers in operation at end of period		57	27	19
New centers opened		–	4	–
Centers expanded		1	3	4
Centers sold		1	1	1
Centers acquired		31	4	–

(1) ACQUIRED IN THE SEPTEMBER 25, 2001 KONOVER TRANSACTION AND FORMERLY FACTORY STORES OF AMERICA AT KITTERY.

(2) ACQUIRED IN THE SEPTEMBER, 25, 2001 KONOVER TRANSACTION AND EXCLUDES VEGAS POINTE PLAZA WHICH WAS REPURCHASED BY KONOVER ON DECEMBER 3, 2001.

Management's Discussion and Analysis

The Company's domestic Premium Outlet Centers produced weighted average reported tenant sales of approximately \$379 per square foot in 2001, \$400 per square foot in 2000 (excluding the four 49%-owned centers acquired on December 22, 2000), and \$377 per square foot in 1999. Weighted average sales is a measure of tenant performance that has a direct effect on base and percentage rents that can be charged to tenants over time.

One of the Company's centers, Woodbury Common Premium Outlets, generated approximately 21%, 23% and 24% of the Company's total revenue for the years 2001, 2000 and 1999 respectively. In addition, approximately 28% of the Company's revenues for the years ended December 31, 2001 and 2000 and 30% for the year ended December 31, 1999, were derived from the Company's centers in California.

The Company does not consider any single store lease to be material; no individual tenant, combining all of its store concepts, accounts for more than 5% of the Company's gross revenues. VF Corporation occupied 8% of the Company's total GLA at December 31, 2001 and was the only tenant that occupied more than 5% of GLA at year end. In view of these statistics and the Company's past success in re-leasing available space, the Company believes that the loss of any individual tenant would not have a significant effect on future operations.

The discussion below is based upon operating income before minority interest. The minority interest in net income varies from period to period as a result of changes in Operating Partnership interests.

COMPARISON OF YEAR ENDED DECEMBER 31, 2001 TO YEAR ENDED DECEMBER 31, 2000.

Income before interest, depreciation and amortization and minority interest increased \$30.0 million, or 22.7%, to \$162.0 million in 2001 from \$132.0 million in 2000. This increase was primarily the result of expansions and new center openings during the latter part of 2000, higher rents on releasing and renewals during 2001, income from unconsolidated investments that commenced operations in the latter part of 2000 and the September 25, 2001 acquisition of 31 retail centers. These increases were partially offset by the loss from Chelsea Interactive, and increases in interest and operating and maintenance expenses. Income before interest expense and minority interest increased \$18.6 million to \$103.4 million in 2001 from \$84.8 million in 2000 due to the addition of GLA while stabilizing overhead costs. Base rentals increased \$19.1 million, or 17.7%, to \$127.2 million in 2001 from \$108.1 million in 2000 due to expansions of wholly-owned centers and a new center opening in 2000, higher average rents and the acquisition of the 31 retail centers in September 2001. Base rental revenue per weighted average square foot in the Premium Portfolio increased to \$20.39 in 2001 from \$20.23 in 2000 as a result of higher rental rates on new leases and renewals.

Percentage rents increased \$0.3 million, or 2.0%, to \$18.0 million in 2001 from \$17.7 million in 2000 primarily due to the acquisition of the 31 retail centers in 2001. Percentage rents per weighted average square foot on the Company's wholly-owned centers decreased to \$2.60 in 2001 from \$3.31 in 2000. The decrease is due to much lower sales per square foot from the Other Retail Centers acquired in September 2001. The Company's wholly-owned Premium Portfolio's percentage rents per weighted average square foot decreased to \$3.08 in 2001 from \$3.31 in 2000 due to changes of some tenants from overage to base rents and lower sales.

Management's Discussion and Analysis

Expense reimbursements, representing contractual recoveries from tenants of certain common area maintenance, operating, real estate tax, promotional and management expenses, increased \$6.5 million, or 14.6%, to \$50.6 million in 2001 from \$44.1 million in 2000, due to the recovery of operating and maintenance costs from increased GLA. Excluding the 31 retail centers acquired in 2001, on a weighted average square foot basis, expense reimbursements increased 0.7% to \$8.32 in 2001 from \$8.26 in 2000. The average recovery of reimbursable expenses for the wholly-owned Premium Portfolio was 90.8% in 2001 compared to 90.0% in 2000. The average recovery of reimbursable expense for the Other Retail Centers was 51.1% in 2001.

Other income increased \$1.0 million to \$11.0 million in 2001 from \$10.0 million in 2000. The increase was due to increased interest and ancillary income, partially offset by lower pad sale gains in 2001 versus 2000.

Operating and maintenance expenses increased \$8.8 million, or 18.0%, to \$57.8 million in 2001 from \$49.0 million in 2000. The increase was primarily due to costs related to increased GLA and the acquisition of the 31 new retail centers. Excluding the 31 retail centers acquired in 2001, on a weighted average square foot basis, operating and maintenance expenses decreased to \$9.16 in 2001 from \$9.17 in 2000.

Depreciation and amortization expense increased \$5.6 million to \$48.6 million in 2001 from \$43.0 million in 2000. The increase was due to depreciation of expansions of wholly-owned and new centers opened in 2000 and the acquisition of the 31 retail centers in September 2001.

General and administrative expenses were \$4.6 and \$4.8 million in 2001 and 2000, respectively.

Other expenses were \$2.8 million and \$2.7 million in 2001 and 2000, respectively. Increased 2001 bad debt and legal expenses were greater than the non-recurring write-off of development costs related to inactive projects in 2000.

Income from unconsolidated investments increased \$8.9 million to \$15.6 million in 2001 from \$6.7 million in 2000. This resulted from full year results of equity-in-earnings and fees earned from joint venture investments that were opened or acquired in the latter part of 2000.

The loss from Chelsea Interactive was \$5.3 million in 2001 and \$2.4 million in 2000. The increase was due to a full year of operations in 2001 versus a partial year in 2000.

Interest, in excess of amounts capitalized, increased \$12.4 million to \$36.9 million in 2001 from \$24.5 million in 2000, due to higher debt balances from acquisitions and lower construction activity in 2001.

COMPARISON OF YEAR ENDED DECEMBER 31, 2000 TO YEAR ENDED DECEMBER 31, 1999.

Income before interest, depreciation and amortization and minority interest increased \$19.8 million, or 17.7%, to \$132.0 million in 2000 from \$112.2 million in 1999. This increase was primarily the result of expansions and new center openings, higher rents on releasing and renewals during 2000 and 1999 and income from unconsolidated investments that commenced operations in the latter part of 2000. These increases were partially offset by the loss from Chelsea Interactive and increases in operating and maintenance expenses. Income from operations increased \$8.8 million, or 18.5%, to \$56.0 million in 2000 from \$47.2 million in 1999. Increased revenues from expansions of wholly-owned centers and new center openings in 2000 and 1999 were offset by increases in operating and maintenance expenses and depreciation expense due to the expansions and new center openings.

Base rentals increased \$9.3 million, or 9.3%, to \$108.1 million in 2000 from \$98.8 million in 1999 due to expansions of wholly-owned centers, a new center opening

Management's Discussion and Analysis

in 2000 and higher average rents. Base rental revenue per weighted average square foot increased to \$20.23 in 2000 from \$19.79 in 1999 as a result of higher rental rates on new leases and renewals.

Percentage rents increased \$2.0 million, or 13.1%, to \$17.7 million in 2000 from \$15.7 million in 1999. The increase was primarily due to increased tenant sales and a higher number of tenants contributing percentage rents.

Expense reimbursements, representing contractual recoveries from tenants of certain common area maintenance, operating, real estate tax, promotional and management expenses, increased \$4.4 million, or 11.0%, to \$44.1 million in 2000 from \$39.7 million in 1999, due to the recovery of operating and maintenance costs from increased GLA. On a weighted average square foot basis, expense reimbursements increased 3.8% to \$8.26 in 2000 from \$7.96 in 1999. The average recovery of reimbursable expenses was 90.0% in 2000 compared to 90.8% in 1999.

Other income increased \$1.6 million to \$10.0 million in 2000 from \$8.4 million in 1999. The increase was due to pad sale gains in 2000 and increased interest and ancillary income.

Operating and maintenance expenses increased \$5.2 million, or 11.9%, to \$49.0 million in 2000 from \$43.8 million in 1999. The increase was primarily due to costs related to increased GLA. On a weighted average square foot basis, operating and maintenance expenses increased 4.7% to \$9.17 in 2000 from \$8.76 in 1999 as a result of increased maintenance costs and real estate taxes.

Depreciation and amortization expense increased \$3.3 million to \$43.0 million in 2000 from \$39.7 million in 1999. The increase was due to depreciation of expansions of wholly-owned and new centers opened in 2000 and 1999.

General and administrative expenses were \$4.8 million in 2000 and 1999 due to stabilized overhead costs.

Other expenses increased \$0.6 million to \$2.7 million in 2000 from \$2.1 million in 1999. The increase was primarily due to the write-off of development costs related to inactive projects in 2000.

The loss on write down of assets of \$0.7 million in 1999 was attributable to the re-valuation of a center held for sale at its estimated fair value.

Income from unconsolidated investments increased \$6.4 million to \$6.7 million in 2000 from \$0.3 million in 1999. This resulted from equity-in-earnings and fees totaling \$4.4 million earned from Orlando Premium Outlets, a 50%-joint venture center that opened in May 2000; Gotemba Premium Outlets and Rinku Premium Outlets, two 40%-joint venture centers that opened in July 2000 and November 2000, respectively; and to a lesser extent from four 49%-joint venture centers that were acquired in December 2000. Other items in 2000 include a gain from an Orlando pad sale of \$1.1 million and opening consulting fees from the two centers in Japan of \$1.3 million.

The loss from Chelsea Interactive in 2000 of \$2.4 million was related to depreciation, selling, general, administrative and maintenance expenses, offset by nominal revenue.

Interest, in excess of amounts capitalized, increased \$0.3 million to \$24.5 million in 2000 from \$24.2 million in 1999, due to higher interest rates in 2000 that were offset by higher average debt balances in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company believes it has adequate financial resources to fund operating expenses, distributions, and planned development, construction and acquisition activities over the short term, which is less than 12 months and the long term, which is 12 months or more. Operating cash flow for the year ended December 31, 2001 of \$121.7 million is expected to

Management's Discussion and Analysis

increase with a full year of operations of the 4.4 million square feet of GLA added during 2001 and scheduled openings of approximately 127,000 square feet in 2002, representing additional phases of three existing centers (57,000 square feet) and Rinku Premium Outlets (70,000 square feet). As of December 31, 2001, the Company has adequate funding sources to complete and open all current development projects, including those of its e-commerce affiliate, Chelsea Interactive, Inc. This will be accomplished with available cash of \$24.6 million and \$160 million available under the Senior Credit Facility. The Company also has the ability to access the public markets through its \$450 million debt shelf registration and its \$185 million equity shelf registration.

Operating cash flow is expected to provide sufficient funds for dividends and distributions in accordance with REIT federal income tax requirements. In addition, the Company anticipates retaining sufficient operating cash to fund re-tenanting and lease renewal tenant improvement costs, as well as capital expenditures to maintain the quality of its centers, and meet funding requirements for Chelsea Interactive.

Common distributions declared and recorded in 2001 were \$62.8 million, or \$3.12 per share or unit. The Company's dividend payout ratio as a percentage of net income before minority interest, depreciation and amortization (exclusive of amortization of deferred financing costs ("FFO")) was 57.7%. The Senior Credit Facility limits aggregate dividends and distributions to the lesser of (i) 90% of FFO on an annual basis or (ii) 100% of FFO for any two consecutive quarters.

The Company's ratio of earnings-to-fixed charges for each of the three years ended December 31, 2001, 2000 and 1999 was 2.6, 2.6 and 2.5, respectively. For purposes of computing the ratio, earnings consist of income from continuing operations after depreciation and before minority interest and fixed charges, exclusive of interest capitalized and amortization of loan costs capitalized. Fixed charges consist of interest expense, including interest costs capitalized, the portion of rent expense representative of interest and total amortization of debt issuance costs expensed and capitalized.

The OP has a \$160 million senior unsecured bank line of credit (the "Senior Credit Facility") and has an annual right to request a one-year extension that may be granted at the option of the lenders. The Senior Credit Facility was extended until March 30, 2004. The Senior Credit Facility bears interest on the outstanding balance, payable monthly, at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 1.05% (4.21% at December 31, 2001) or the prime rate, at the OP's option. The LIBOR rate spread ranges from 0.85% to 1.25% depending on the Company's Senior Debt rating. A fee on the unused portion of the Senior Credit Facility is payable quarterly at rates ranging from 0.15% to 0.25% depending on the balance outstanding. At December 31, 2001, the entire \$160 million of the Senior Credit Facility was available.

During the year ended December 31, 2001, the Company acquired 31 retail centers, completed a new unsecured debt financing transaction totaling \$150 million, and repaid \$100 million unsecured term notes and \$65.2 million mortgage loan assumed in the Konover acquisition. The Company's balance sheet was significantly enhanced by two common stock offerings in 2001, the first in August and the second in October that aggregated 2.5 million new common shares and net proceeds of \$110 million. These proceeds plus cash on hand were more than sufficient to fund the closing of the Konover transaction and pay-off the assumed \$65.2 million mortgage loan, which the Company was obligated to pre-pay in December 2001.

In February 2002 the Company redeemed and retired 136,500 shares of 8.375% Series A Cumulative Redeemable Preferred Stock at \$47 per share using available cash of \$6.4 million.

Management's Discussion and Analysis

In January 2001, the OP completed a \$150 million offering of 8.25% Senior unsecured term notes due February 2011 (the "8.25% Notes"). The 8.25% Notes were priced to yield 8.396% to investors. Net proceeds from the offering were used to repay \$100 million of 7.75% unsecured notes due January 26, 2001, to repay all borrowings outstanding under the Company's Senior Credit Facility and for general corporate purposes. The Company utilized \$150 million of its \$600 million debt shelf registration for this offering.

Development activity for real estate operations as of December 31, 2001 includes additional phases of three existing centers, totaling 57,000 square feet scheduled to open in mid-2002, and the 70,000 square foot second phase of Rinku Premium Outlets, located outside Osaka, Japan, scheduled to open in March of 2002. The Company is also in the predevelopment stage of domestic projects outside Las Vegas, NV scheduled to open in the fall of 2003; Chicago, IL scheduled to open in late 2003; and Seattle, WA scheduled to open in 2004; and an international project north of Toyko in Sano scheduled to open in mid-2003. These projects are under development and there can be no assurance that they will be completed or opened, or that there will not be delays in opening or completion. All current development activity is fully financed either through project specific secured construction financing, the yen denominated line of credit, available cash or through the Senior Credit Facility. The Company will seek to obtain permanent financing once the projects are completed and income has been stabilized.

The Company has minority interests ranging from 5% to 15% in several outlet centers and outlet development projects in Europe. Five outlet centers, containing approximately 900,000 square feet of GLA, including Bicester Village outside of London, England, La Roca Company Stores outside of Barcelona, Spain, Las Rozas Village outside Madrid, Spain, La Vallee near Disneyland Paris and Maasmechelen Village in Belgium are currently open and operated by Value Retail PLC and its affiliates. There is additional new center development planned and one new European project is under construction and expected to open in Spring 2003. In 2001, the Company sold a portion of its Bicester Village holding to a third party, for a gain of \$1.8 million. The Company's total investment in Europe as of December 31, 2001 was \$3.7 million. The Company has also agreed to provide up to \$24.1 million in limited debt service guarantees under a standby facility for loans arranged by Value Retail PLC, to construct outlet centers in Europe. The term of the standby facility for new guarantees expired in November 2001 and these guarantees shall not be outstanding for longer than five years after project completion. In October 2001 the guarantee was increased to \$24.1 million from \$22.0 million until April 2002. The Company received \$2.1 million in restricted cash collateral for this short-term increase, which will revert back to Value Retail in April 2002.

The 50/50 Orlando Premium Outlets joint venture with Simon Property Group, Inc. has a \$58.5 million construction loan (maximum commitment of \$62.0 million) that originally matured in February 2002 and which was recently extended to August 2002. The loan, which has three additional six-month extension options, bears interest at LIBOR plus 1.30% (3.32% at December 31, 2001). The loan is 10% guaranteed severally by the Company and Simon as of December 31, 2001.

In June 1999, the Company entered into an agreement with Mitsubishi Estate Co., Ltd. and Nissho Iwai Corporation to jointly develop, own and operate outlet centers in Japan. The joint venture is known as Chelsea Japan Co., Ltd. ("Chelsea Japan"). In conjunction with the agreement, the Company contributed \$1.7 million in equity. In addition, an equity investee of the Company entered into a 4 billion yen (approximately US \$35.0 million) line of credit guaranteed by the Company and OP to fund its share

Management's Discussion and Analysis

of construction costs. The line of credit bears interest at yen LIBOR plus 1.35% (1.45% at December 31, 2001) and matures April 2002 and has two one-year extensions. At December 31, 2001, 1.08 billion yen (approximately US \$8.2 million) was outstanding under the line of credit. In March 2000, Chelsea Japan entered into a 3.8 billion yen (approximately US \$28.9 million) loan with a Japanese bank to fund construction costs. As of December 31, 2001, the entire facility was outstanding and bears interest at 2.20%. The loan is secured by two operating properties and is 40% guaranteed by the Company. Subject to governmental and other approvals, Chelsea Japan expects to announce additional projects during 2002. Funding for such construction is anticipated to be through partner loans or a loan with a Japanese bank.

In July 2000, the Company developed an e-commerce venture through its affiliate, Chelsea Interactive. The Company's investment in this venture was approximately \$43 million at December 31, 2001. The Board of Directors has approved funding up to \$60.0 million that is expected to be provided from operating cash flow over the next several years. The Company anticipates funding approximately \$10 to \$15 million of development costs during the next twenty four months, however there can be no assurance that future revenue will be adequate to recover the Company's investment.

To achieve planned growth and favorable returns in both the short and long-term, the Company's financing strategy is to maintain a strong, flexible financial position by: (i) maintaining a conservative level of leverage; (ii) extending and sequencing debt maturity dates; (iii) managing exposure to floating interest rates; and (iv) maintaining liquidity. Management believes these strategies will enable the Company to access a broad array of capital sources, including bank or institutional borrowings and secured and unsecured debt and equity offerings, subject to market conditions.

Net cash provided by operating activities was \$121.7 million and \$106.7 million for the years ended December 31, 2001 and 2000, respectively. The increase was primarily due to the growth of the Company's GLA to 12.6 million square feet in 2001 from 8.2 million square feet in 2000. Net cash used in investing activities decreased \$8.9 million for the year ended December 31, 2001 compared to the corresponding 2000 period, as a result of decreased joint venture investing activity, proceeds from sale of a center and partial sale of a joint venture investment offset by the acquisition of the 31 retail centers. For the year ended December 31, 2001, net cash provided by financing activities decreased by \$26.6 million compared to the corresponding period in 2000 as a result of reduced borrowing and increased debt repayments offset by offerings of the Company's common stock.

Net cash provided by operating activities was \$106.7 million and \$87.5 million for the years ended December 31, 2000 and 1999, respectively. The increase was primarily due to the growth of the Company's GLA to 8.2 million square feet in 2000 from 5.2 million square feet in 1999. Net cash used in investing activities increased \$41.9 million for the year ended December 31, 2000 compared to the corresponding 1999 period, as a result of \$40.0 million investments in various joint ventures and Chelsea Interactive. For the year ended December 31, 2000, net cash provided by financing activities increased by \$34.8 million primarily due to higher net borrowings during 2000 offset in part by an increase in distributions of \$7.1 million in 2000 and the sale of preferred units and common stock in 1999. Borrowings were used to invest in joint ventures and fund center expansions and developments.

FUNDS FROM OPERATIONS

Management believes that funds from operations ("FFO") should be considered in conjunction with net income, as presented in the statements of operations included elsewhere

Management's Discussion and Analysis

herein, to facilitate a clearer understanding of the operating results of the Company. The White Paper on Funds from Operations ("FFO") approved by the Board of Governors of NAREIT in October 1999 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. The Company computes FFO in accordance with the current standards established by NAREIT which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Income available to common shareholders	\$ 47,626	\$41,592	\$34,093
Add:			
Depreciation and amortization-wholly-owned	48,554	42,978	39,716
Depreciation and amortization-joint ventures	5,964	2,024	-
Amortization of deferred financing costs and depreciation of non-rental real estate assets	(1,807)	(1,796)	(1,849)
Gain(loss) on sale or writedown of assets	(333)	-	694
Minority interest	14,706	14,606	9,275
Preferred unit distribution	(5,848)	(5,848)	(1,949)
FFO	\$108,862	\$93,556	\$79,980
Average shares/units outstanding	20,534	19,482	19,297
Dividends declared per share	\$ 3.12	\$ 3.00	\$ 2.88

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS 141") and No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") which are effective January 1, 2002. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Under SFAS 142, amortization of goodwill, including goodwill recorded in past business combinations, will discontinue upon adoption of this standard. All goodwill and intangible assets will be tested for impairment in accordance with the provisions of the Statement. The adoption of these statements will have no impact on the Company's results of operations or its financial position.

In August 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") which is effective January 1, 2003. SFAS 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The Company does not expect this pronouncement to have a material impact on the Company's results of operations or financial position.

Management's Discussion and Analysis

In October 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This standard harmonizes the accounting for impaired assets and resolves some of the implementation issues as originally described in SFAS 121. The new standard becomes effective for the Company for the year ending December 31, 2002. The Company does not expect this pronouncement to have a material impact on the Company's results of operations or financial position.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and on various other assumptions that are believed 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.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

BAD DEBT

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its tenants to make required rent payments. If the financial condition of the Company's tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

FOREIGN EXCHANGE EXPOSURE

From time to time, the Company may enter into hedging contracts to protect against fluctuations in foreign exchange rates. Receivables from Chelsea Japan are recorded in the accompanying financial statements at the exchange rate on the date of valuation. Significant changes in the exchange rate may result in changes to the receivable realized.

VALUATION OF INVESTMENTS

The Company reviews its investments in unconsolidated affiliates for impairment wherever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company recorded a \$1.2 million loss in 2001 for an impairment write-down of its investment in an outlet center in Guam.

ECONOMIC CONDITIONS

Substantially all leases contain provisions, including escalations of base rents and percentage rentals calculated on gross sales, to mitigate the impact of inflation. Inflationary increases in common area maintenance and real estate tax expenses are substantially all reimbursed by tenants.

Virtually all tenants have met their lease obligations and the Company continues to attract and retain quality tenants. The Company intends to reduce operating and leasing risks by continually improving its tenant mix, rental rates and lease terms, and by pursuing contracts with creditworthy upscale and national brand-name tenants.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to changes in interest rates primarily from its floating rate debt arrangements. In December 2000, the Company implemented a policy to protect against interest rate and foreign exchange risk. The Company's primary strategy is to protect against this risk by using derivative transactions as appropriate to minimize the variability that floating rate interest and foreign currency fluctuations could have on cash flow. In December 2000 a wholly-owned subsidiary of the Company entered into an interest rate swap agreement effective January 2, 2001 with a financial institution for a notional amount of \$69.3 million amortizing to \$64.1 million to hedge against unfavorable fluctuations in the LIBOR rates of its secured mortgage loan facility. The hedge effectively produces a fixed interest rate of 7.2625% on the notional amount until January 1, 2006. At December 31, 2001 a hypothetical 100 basis point adverse move (increase) in U.S. Treasury and LIBOR rates applied to unhedged debt would adversely affect the Company's annual interest cost by approximately \$0.3 million annually.

Following is a summary of the Company's debt obligations at December 31, 2001 (in thousands):

	EXPECTED MATURITY DATE						TOTAL	FAIR VALUE
	2002	2003	2004	2005	2006	THEREAFTER		
Fixed Rate Debt	-	-	-	\$49,892	-	\$395,830	\$445,722	\$459,970
Average Interest Rate	-	-	-	8.38%	-	7.88%	7.93%	
Variable Rate Debt	-	\$29,531	\$5,034	-	-	\$68,250	\$102,816	\$102,816
Average Interest Rate	-	3.33%	4.21%	-	-	5.56%	4.85%	

Common Stock Price and Distributions

QUARTER ENDED	SALES PRICE		DISTRIBUTIONS
	HIGH	LOW	
December 31, 2001	\$50 ⁷ / ₈	\$44 ¹ / ₄	\$0.78
September 30, 2001	52 ³ / ₄	43	0.78
June 30, 2001	46 ¹⁵ / ₁₆	41 ¹ / ₁₆	0.78
March 31, 2001	42 ¹ / ₄	36 ¹⁵ / ₁₆	0.78
December 31, 2000	38 ⁷ / ₁₆	36 ¹ / ₂	0.75
September 30, 2000	36 ⁶ / ₁₆	32 ³ / ₁₆	0.75
June 30, 2000	36	28 ⁶ / ₁₆	0.75
March 31, 2000	31 ⁷ / ₁₆	25 ¹³ / ₁₆	0.75

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT PER SHARE DATA)	DECEMBER 31,	
	2001	2000
ASSETS		
Rental properties:		
Land	\$ 160,458	\$ 118,238
Depreciable property	967,448	790,106
Total rental property	1,127,906	908,344
Accumulated depreciation	(217,462)	(175,692)
Rental properties, net	910,444	732,652
Cash and cash equivalents	24,604	18,036
Restricted cash- escrows	3,347	–
Investments in unconsolidated affiliates	93,689	91,629
Notes receivable-related parties	3,281	2,216
Deferred costs, net	22,534	14,886
Other assets	41,409	41,895
TOTAL ASSETS	\$1,099,308	\$ 901,314
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unsecured bank debt	\$ 5,035	\$ 35,035
Unsecured notes	373,294	324,542
Mortgage debt	170,209	90,776
Construction payables	8,001	10,001
Accounts payable and accrued expenses	47,039	43,507
Obligation under capital lease	2,141	2,714
Accrued dividend and distribution payable	3,851	3,910
Other liabilities	14,676	18,267
TOTAL LIABILITIES	624,246	528,752
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	115,639	101,203
STOCKHOLDERS' EQUITY:		
8.375% series A cumulative redeemable preferred stock, \$0.01 par value, authorized 1,000 shares, issued and outstanding 1,000 shares in 2001 and 2000 (aggregate liquidation preference \$50,000)	10	10
Common stock, \$0.01 par value, authorized 50,000 shares, issued and outstanding 18,770 in 2001 and 15,957 in 2000	190	160
Paid-in-capital	444,344	348,141
Distributions in excess of net income	(82,142)	(76,829)
Accumulated other comprehensive loss	(2,979)	(123)
TOTAL STOCKHOLDERS' EQUITY	359,423	271,359
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,099,308	\$ 901,314

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

Consolidated Statements of Income

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
REVENUES:			
Base rent	\$127,229	\$108,123	\$ 98,838
Percentage rent	18,049	17,701	15,647
Expense reimbursements	50,559	44,116	39,748
Other income	11,018	9,963	8,385
TOTAL REVENUES	206,855	179,903	162,618
EXPENSES:			
Operating and maintenance	57,791	48,992	43,771
Depreciation and amortization	48,554	42,978	39,716
General and administrative	4,611	4,784	4,853
Other	2,819	2,663	2,128
TOTAL EXPENSES	113,775	99,417	90,468
INCOME BEFORE UNCONSOLIDATED INVESTMENTS, INTEREST EXPENSE AND MINORITY INTEREST	93,080	80,486	72,150
Income from unconsolidated investments	15,642	6,723	308
Loss from Chelsea Interactive	(5,337)	(2,364)	–
Loss on writedown of assets	–	–	(694)
Interest expense	(36,865)	(24,459)	(24,208)
Income before minority interest	66,520	60,386	47,556
Minority interest	(14,706)	(14,606)	(9,275)
Net income	51,814	45,780	38,281
Preferred dividend requirement	(4,188)	(4,188)	(4,188)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 47,626	\$ 41,592	\$ 34,093
EARNINGS PER SHARE			
BASIC:			
Net income per common share	\$ 2.83	\$ 2.61	\$ 2.17
Weighted average common shares outstanding	16,839	15,940	15,742
DILUTED:			
Net income per common share	\$ 2.74	\$ 2.58	\$ 2.14
Weighted average common shares outstanding	17,355	16,126	15,908

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

Consolidated Statements of Stockholders' Equity

(IN THOUSANDS, EXCEPT PER SHARE DATA)	PREFERRED STOCK AT PAR VALUE	COMMON STOCK AT PAR VALUE	PAID-IN- CAPITAL	DISTRIBUTION IN EXCESS OF NET INCOME	ACCUMULATED OTHER COMP. LOSS	TOTAL STOCKHOLDERS' EQUITY
BALANCE DECEMBER 31, 1998	\$10	\$156	\$339,490	\$(59,265)	\$ —	\$280,391
Net income	—	—	—	38,281	—	38,281
Preferred dividend requirement	—	—	—	(4,188)	—	(4,188)
Cash distributions declared (\$2.88 per common share of which \$0.86 represented a return of capital for federal income tax purposes)	—	—	—	(45,426)	—	(45,426)
Exercise of stock options	—	—	1,286	—	—	1,286
Shares issued through dividend reinvestment program	—	3	5,987	—	—	5,990
Shares issued in exchange for units of the Operating Partnership	—	—	903	—	—	903
Shares issued through Employee Stock Purchase Plan (net of costs)	—	—	59	—	—	59
BALANCE DECEMBER 31, 1999	10	159	347,725	(70,598)	—	277,296
Net income	—	—	—	45,780	—	45,780
Other comprehensive income	—	—	—	—	(123)	(123)
Foreign currency translation	—	—	—	—	(123)	(123)
Total comprehensive income	—	—	—	—	—	45,657
Preferred dividend requirement	—	—	—	(4,188)	—	(4,188)
Cash distributions declared (\$3.00 per common share of which \$0.33 represented a return of capital for federal income tax purposes)	—	—	—	(47,823)	—	(47,823)
Exercise of stock options	—	1	310	—	—	311
Shares issued in exchange for units of the Operating Partnership	—	—	48	—	—	48
Shares issued through Employee Stock Purchase Plan (net of costs)	—	—	58	—	—	58
BALANCE DECEMBER 31, 2000	10	160	348,141	(76,829)	(123)	271,359
Net income	—	—	—	51,814	—	51,814
Other comprehensive income	—	—	—	—	(198)	(198)
Foreign currency translation	—	—	—	—	(198)	(198)
Interest rate swap	—	—	—	—	(2,658)	(2,658)
Total comprehensive income	—	—	—	—	—	48,958
Preferred dividend requirement	—	—	—	(4,188)	—	(4,188)
Cash distributions declared (\$3.12 per common share, all ordinary income)	—	—	—	(52,939)	—	(52,939)
Exercise of stock options	—	2	2,020	—	—	2,022
Shares issued through offerings by the Company	—	26	109,975	—	—	110,001
Shares issued in exchange for units of the Operating Partnership	—	2	2,289	—	—	2,291
Shares issued through Employee Stock Purchase Plan (net of costs)	—	—	128	—	—	128
Revaluation of minority interest	—	—	(18,209)	—	—	(18,209)
BALANCE DECEMBER 31, 2001	\$10	\$190	\$444,344	\$(82,142)	\$(2,979)	\$359,423

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

(IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 51,814	\$ 45,780	\$ 38,281
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	48,554	42,978	39,716
(Gain) loss on sale or write down of assets	(333)	–	694
Equity in earnings of unconsolidated investments in excess of distributions received	(2,215)	(1,375)	(88)
Loss from Chelsea Interactive	5,337	2,364	–
Minority interest in net income	14,706	14,606	9,275
Write-off of development costs	–	869	–
Proceeds from non-compete receivable	4,600	4,600	4,600
Amortization of non-compete revenue	(5,136)	(5,136)	(5,136)
Additions to deferred lease costs	(1,869)	(2,708)	(2,771)
Other operating activities	(570)	(531)	511
Changes in assets and liabilities:			
Straight-line rent receivable	(1,761)	(1,536)	(1,554)
Other assets	965	(5,995)	(3,076)
Due from affiliates	(1,924)	(2,878)	–
Accounts payable and accrued expenses	9,555	15,620	7,050
Net cash provided by operating activities	121,723	106,658	87,502
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to rental properties	(103,521)	(59,980)	(62,119)
Proceeds from sale of center	7,100	3,372	4,483
Additions to investments in unconsolidated affiliates	(14,763)	(64,837)	(21,388)
Distributions from investments in unconsolidated affiliates in excess of earnings	5,079	–	–
Proceeds from sale of investment in unconsolidated affiliate	2,839	–	–
Loans to related parties	(2,750)	(3)	(2,213)
Payments from related parties	1,685	–	4,500
Additions to deferred development costs	(8,220)	(31)	(753)
Net cash used in investing activities	(112,551)	(121,479)	(77,490)
CASH FLOWS FROM FINANCING ACTIVITIES			
Debt proceeds	177,538	246,526	49,000
Repayments of debt	(217,318)	(151,750)	(69,000)
Distributions	(72,873)	(67,830)	(60,752)
Additions to deferred financing costs	(2,102)	(3,320)	(679)
Net proceeds from sale of common stock	112,151	369	7,335
Net proceeds from sale of preferred units	–	–	63,315
Net cash (used in) provided by financing activities	(2,604)	23,995	(10,781)
Net increase (decrease) in cash and cash equivalents	6,568	9,174	(769)
Cash and cash equivalents, beginning of period	18,036	8,862	9,631
Cash and cash equivalents, end of period	\$ 24,604	\$ 18,036	\$ 8,862

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

Notes to Financial Statements

1.

ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Chelsea Property Group, Inc. (the "Company"), formerly Chelsea GCA Realty, Inc., is a self-administered and self-managed real estate investment trust ("REIT"). The Company is the managing general partner of CPG Partners, L.P., (the "Operating Partnership" or "OP"), formerly Chelsea GCA Realty Partnership, L.P., an operating partnership that specializes in owning, developing, leasing, marketing and managing upscale and fashion-oriented manufacturers' outlet centers (the "Premium Portfolio") and 30 centers acquired on September 25, 2001, containing approximately 4.3 million square feet of gross leaseable area ("Other Retail Centers") (collectively the "Properties"). As of December 31, 2001, the Company wholly or partially owned 57 centers in 29 states and Japan containing approximately 12.6 million square feet of gross leasable area ("GLA"). The Company's Premium Portfolio included 27 properties containing 8.3 million square feet of GLA. These properties generally are located near metropolitan areas including New York City, Los Angeles, Boston, Washington, D.C., San Francisco, Sacramento, Cleveland, Atlanta, Dallas, Portland (Oregon), Tokyo and Osaka, Japan. Some Premium properties are also located within 20 miles of major tourist destinations including Palm Springs, the Napa Valley, Orlando, and Honolulu.

During 2000 the Company developed a technology-based e-commerce platform through an unconsolidated affiliate, Chelsea Interactive, Inc. ("Chelsea Interactive"). This platform provides fashion and other retail brands with their own customized direct-to-the-consumer Internet online stores, incorporating e-commerce design, development, fulfillment and customer services.

BASIS OF PRESENTATION

Virtually, all of the Company's assets are held by, and all of its operations conducted through, the Operating Partnership. Due to the Company's ability, as the sole general partner, to exercise financial and operational control over the Operating Partnership, the Operating Partnership is consolidated in the accompanying financial statements. All significant intercompany transactions and accounts have been eliminated in consolidation.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2001 and 2000, using available market information and appropriate valuation methodologies. Although management is not aware of any factors that would significantly affect the reasonable fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since such date and current estimates of fair value may differ significantly from the amounts presented herein.

2.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

RENTAL PROPERTIES

Rental properties are presented at cost net of accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The Company uses 25-40 year estimated lives for buildings, and 15 and 5-7 year estimated lives for improvements and equipment, respectively. Expenditures for ordinary maintenance and repairs are charged to operations as incurred, while significant renovations and enhancements that improve and or extend the useful life of an asset are capitalized and depreciated over the estimated useful life. The Company reviews real estate assets for impairment wherever events or changes in circumstances indicate that the carrying value of assets to be held and used may not be recoverable. Impaired assets are reported at the lower of cost or fair value. Assets to be disposed of are reported at the lower of cost or fair value less cost to sell. No impairment write downs were required in 2001 or 2000.

Notes to Financial Statements

Gains and losses from sales of real estate are recorded when title is conveyed to the buyer, subject to the buyer's financial commitment being sufficient to provide economic substance to the sale.

CASH AND EQUIVALENTS

All demand and money market accounts and certificates of deposit with original terms of three months or less from the date of purchase are considered cash equivalents. At December 31, 2001 and 2000, cash equivalents consisted of repurchase agreements, commercial paper, U.S. Government agency securities, bank liabilities and other corporate and municipal obligations that mature between January and March of the following year. The carrying amount of such investments approximated fair value.

DEVELOPMENT COSTS

Development costs, including interest, taxes, insurance and other costs incurred in developing new properties, are capitalized. Upon completion of construction, development costs are amortized on a straight-line basis over the useful lives of the respective assets. Development costs related to inactive projects are expensed at such time as the project is deemed abandoned.

CAPITALIZED INTEREST

Interest, including the amortization of deferred financing costs for borrowings used to fund development and construction, is capitalized as construction in progress and allocated to individual property costs.

FOREIGN CURRENCY TRANSLATION

The Company conforms to the requirements of the Statement of Financial Accounting Standards No. 52 entitled "Foreign Currency Translation." Accordingly, assets and liabilities of foreign equity investees are translated at prevailing year-end rates of exchange.

RENTAL EXPENSE

Rental expense is recognized on a straight-line basis over the initial term of the lease.

DEFERRED LEASE COSTS

Deferred lease costs consist of fees and direct internal costs incurred to initiate and renew operating leases, and are amortized on a straight-line basis over the initial lease term or renewal period as appropriate.

DEFERRED FINANCING COSTS

Deferred financing costs are amortized as interest costs over the terms of the respective agreements. Unamortized deferred financing costs are expensed when the associated debt is retired before maturity.

REVENUE RECOGNITION

Leases with tenants are accounted for as operating leases. Base rent revenue is recognized on a straight-line basis over the lease term according to the provisions of the lease. The excess of rents recognized over amounts contractually due and unpaid rents are included in other assets in the accompanying balance sheets. Certain lease agreements contain provisions for rents that are calculated on a percentage of sales and recorded on the accrual basis. These rents are accrued monthly once the required thresholds per the lease agreement are exceeded. Virtually all lease agreements contain provisions for additional rents representing reimbursement of real estate taxes, insurance, advertising and common area maintenance costs.

Notes to Financial Statements

BAD DEBT EXPENSE

Bad debt expense included in other expense totaled \$1.2 million, \$0.9 million and \$0.8 million for the years ended December 31, 2001, 2000 and 1999, respectively. The allowance for doubtful accounts included in other assets totaled \$1.7 million and \$1.0 million at December 31, 2001 and 2000, respectively.

INCOME TAXES

The Company is taxed as a REIT under Section 856(c) of the Internal Revenue Code of 1986, as amended, commencing with the tax year ended December 31, 1993. As a REIT, the Company generally is not subject to federal income tax. To maintain qualification as a REIT, the Company must distribute at least 90% of its REIT taxable income to its stockholders (95% prior to January 1, 2001) and meet certain other requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate rates. The Company may also be subject to certain state and local taxes on its income and property. Under certain circumstances, federal income and excise taxes may be due on its undistributed taxable income. At December 31, 2001 and 2000, the Company was in compliance with all REIT requirements and was not subject to federal income taxes.

NET INCOME PER COMMON SHARE

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock of 0.5 million in 2001 and 0.2 million in 2000 and 1999.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2001	2000	1999
NUMERATOR			
Numerator for basic and diluted earnings per share –			
net income available to common shareholders	\$47,626	\$41,592	\$34,093
DENOMINATOR			
Denominator for basic earnings per share –			
weighted average shares	16,839	15,940	15,742
Effect of dilutive securities:			
Stock options	516	186	166
Denominator for diluted earnings per share –			
adjusted weighted-average share and assumed conversions	17,355	16,126	15,908
Per share amounts:			
Net income – basic	\$ 2.83	\$ 2.61	\$ 2.17
Net income – diluted	\$ 2.74	\$ 2.58	\$ 2.14

STOCK OPTION PLAN

The Company follows Accounting Principles Board Opinion No. 25 (Accounting for Stock Issued to Employees) and the related interpretations in accounting for its employee stock options. In accordance with SFAS No. 123 (Accounting for Stock-Based Compensation), the Company has provided the required footnote disclosure for the compensation expense related to the fair value of the outstanding stock options.

Notes to Financial Statements

CONCENTRATION OF COMPANY'S REVENUE AND CREDIT RISK

Approximately 21%, 23% and 24% of the Company's total revenues for the years ended December 31, 2001, 2000 and 1999, respectively, was derived from Woodbury Common Premium Outlets. The loss of this center or a material decrease in revenues from the center for any reason may have a material adverse effect on the Company. In addition, approximately 28% of the Company's total revenues for the years ended December 31, 2001, and 2000 and 30% for the year ended December 31, 1999, were derived from the Company's centers in California.

Management of the Company performs ongoing credit evaluations of its tenants and requires certain tenants to provide security deposits. Although the Company's tenants operate principally in the retail industry, there is no dependence upon any single tenant.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

MINORITY INTEREST

Minority interest is comprised of the following:

- The common unitholders' interest in the OP which was issued in exchange for the assets contributed to the OP on November 2, 1993 and additional units exchanged for property acquisitions during 1997. The unitholders' interest at December 31, 2001 and 2000 was 14.4% and 17.4% (3,150,000 units and 3,352,000 units), respectively. Common shares are reserved for the potential conversion of the units. Units may be exchanged for shares of the Company's common stock on a one for one basis. Upon exchange, shares are valued at the book value of the units on the date of the exchange. During the years ended December 31, 2001, 2000 and 1999, the Company made the following distributions per unit:

	2001	2000	1999
Distributions per unit	\$3.12	\$3.00	\$2.88
Return of capital	-	(0.33)	(0.86)
Ordinary income	\$3.12	\$ 2.67	\$2.02

- The preferred unitholder's interest in the OP which was issued in a private sale of \$65 million of Series B Cumulative Redeemable Preferred Units to an institutional investor in September 1999.

COMPREHENSIVE INCOME

In 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income" ("Statement 130"). Statement 130 established standards for reporting comprehensive income and its components in a full set of general-purpose financial statements. Statement 130 requires that all components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. At December 31, 2001, other comprehensive loss included a reduction to stockholders equity and minority interest of a \$3.1 million loss related to an interest rate swap and a \$0.4 million loss related to a foreign currency exchange rate on receivables.

Notes to Financial Statements

DERIVATIVE AND FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses a variety of derivative financial instruments to manage, or hedge, interest rate and foreign currency risk. The Company requires that hedging derivative instruments are effective in reducing the interest rate or foreign currency risk exposure as they are designated. This effectiveness is an essential for hedge accounting under accounting principles generally accepted in the United States. Derivative instruments may be associated with the hedge of an anticipated transaction. In those cases, hedge effectiveness criteria also require that it be probable that the underlying transaction occurs. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income each period until the instrument matures or is terminated or assigned. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market each period in net income.

To determine the fair values of derivative instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost, and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS 141") and No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") which are effective January 1, 2002. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Under SFAS 142, amortization of goodwill, including goodwill recorded in past business combinations, will discontinue upon adoption of this standard. The Statement requires goodwill and intangible assets be tested for impairment. The adoption of these statements will have no impact on the Company's results of operations or its financial position.

In August 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") which is effective January 1, 2003. SFAS 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The Company does not expect this pronouncement to have a material impact on the Company's results of operations or financial position.

In October 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This standard harmonizes the accounting for impaired assets and resolves some of the implementation issues as originally described in SFAS 121. The new standard becomes effective for the Company January 1, 2002. The Company does not expect this pronouncement to have a material impact on the Company's results of operations or financial position.

RECLASSIFICATIONS

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 presentation.

Notes to Financial Statements

3. ACQUISITIONS AND DISPOSITIONS

On September 25, 2001, the Company acquired 32 shopping centers from Konover Property Trust, Inc. and its affiliates ("Konover"). The purchase price was \$182.5 million, including the assumption of \$131.0 million of non-recourse debt. This purchase price was preliminarily allocated to each of the centers. One of these centers was acquired subject to a repurchase agreement and was sold back to Konover on December 3, 2001, at the established cost basis of \$2.5 million. One of the centers acquired meets the Company's criteria for classification as a Premium Portfolio center. The other 30 centers contain 4.3 million square feet and are classified as Other Retail Centers. The accompanying financial statements include the operations of the acquired centers from the acquisition date.

The following condensed pro forma (unaudited) information assumes the acquisition had occurred on January 1, 2000 and that the sale of 545,000 common shares also occurred on January 1, 2000:

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED DECEMBER 31,	
	2001	2000
TOTAL REVENUE	\$242,726	\$228,679
NET INCOME TO COMMON SHAREHOLDERS	53,948	51,736
EARNINGS PER SHARE:		
Basic:		
Net income to common shareholders	\$ 3.14	\$ 3.14
Weighted average common shares outstanding	17,157	16,485
Diluted:		
Net income to common shareholders	\$ 3.05	\$ 3.10
Weighted average common shares outstanding	17,673	16,671

In October 2001 the OP sold the 35,000 square-foot center, Mammoth Premium Outlets to a third party and recognized a loss of approximately \$0.3 million which is included in other income in the accompanying financial statements.

4. RENTAL PROPERTIES

The following summarizes the carrying values of rental properties as of December 31 (in thousands):

	2001	2000
Land and improvements	\$ 328,324	\$ 281,400
Buildings and improvements	775,309	608,730
Construction-in-progress	9,356	5,587
Equipment and furniture	14,917	12,627
Total rental property	1,127,906	908,344
Accumulated depreciation and amortization	(217,462)	(175,692)
Total rental property, net	\$ 910,444	\$ 732,652

Interest costs capitalized as part of buildings and improvements were \$2.0 million, \$5.4 million and \$3.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Commitments for land, new construction, development, and acquisitions, excluding separately financed joint venture activity, totaled approximately \$6.3 million and \$12.8 million at December 31, 2001 and 2000, respectively.

Depreciation expense (including amortization of the capital lease) amounted to \$42.9 million, \$38.5 million and \$35.6 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Notes to Financial Statements

5. **RESTRICTED CASH-ESCROWS** Restricted cash escrows includes \$1.2 million of escrows and reserve funds for real estate taxes, property insurance, capital and tenant improvements and leasing costs established pursuant to certain mortgage financing agreements and \$2.1 million funds held in escrow pursuant to certain loan guarantee arrangements with an unconsolidated investee of the Company.

6. **INVESTMENTS IN AFFILIATES** The OP holds interests in several domestic and international joint ventures. Non-controlling investments are accounted for under the equity method. Equity in earnings or losses of these affiliates and related management advisory, license and guarantee fees earned are included in income from unconsolidated investments and loss from Chelsea Interactive in the consolidated financial statements.

On December 22, 2000, the OP and Fortress Registered Investment Trust ("Fortress") acquired four outlet centers from a competitor, through a joint venture known as F/C Acquisition Holdings, LLC ("F/C Acquisition") in which the OP has a 49% interest. The total purchase price was \$240 million, including the assumption of approximately \$174 million of 6.99% fixed-rate non-recourse mortgage debt due in 2008. In connection with the acquisition, the OP made an initial capital contribution of \$32.0 million and subsequently made an additional \$0.9 million contribution. The four outlet centers contain approximately 1.6 million square feet of gross leasable area and are located in Gilroy, California, Michigan City, Indiana, Waterloo, New York and Kittery, Maine. The Kittery, Maine center is subject to a ground lease that terminates in October 2009 with eight extension options of five years each. The OP is primarily responsible for the day-to-day operations of the joint venture. Under the terms of the three-year renewable Property Management Agreement, the OP and its subsidiary are compensated for management and leasing services. Under the terms of the Partnership Agreement with Fortress net income or loss and distributions are allocated in accordance with the members' equity interests.

In June 1999, the OP entered into an agreement with Mitsubishi Estate Co., Ltd. and Nissho Iwai Corporation to jointly develop, own and operate premium outlet centers in Japan. The OP has a 40% interest in the joint venture that is known as Chelsea Japan Co., Ltd. ("Chelsea Japan"). In conjunction with the agreement, the OP contributed \$1.7 million in equity and will provide its share of construction financing and/or loan guarantees. Chelsea Japan opened its initial project, the 220,000 square-foot first phase of Gotemba Premium Outlets, on July 13, 2000. Gotemba is located on the Tomei Expressway, approximately 60 miles west of Tokyo and midway between Mt. Fuji and the Hakone resort area. Chelsea Japan opened its second project, the 180,000 square-foot first phase of Rinku Premium Outlets on November 23, 2000. The center is located outside Osaka, the second-largest city in Japan.

In May 1997, the OP and Simon Property Group, Inc. ("Simon") entered into a joint venture agreement to develop and acquire high-end outlet centers in the United States. The OP and Simon agreed to be co-managing general partners, each with 50% ownership interest in the joint venture and any entities formed with respect to a specific project. Orlando Premium Outlets ("OPO"), a 428,000 square foot 50/50 joint venture that was completed in May 2000, is the only project completed pursuant to this agreement. OPO is located on Interstate 4, midway between Walt Disney World/EPCOT and Sea World in Orlando. The OP has primary responsibility for the day-to-day operations of the center for which it receives a management fee.

The Company has minority interests ranging from 5% to 15% in several outlet centers and outlet development projects in Europe. Five outlet centers, containing approximately

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900,000 square feet of GLA, including Bicester Village, outside London, England, La Roca Company Stores outside of Barcelona, Spain, Las Rozas Village outside Madrid, Spain, La Vallee near Disneyland Paris and Maasmechelen Village in Belgium are currently open and operated by Value Retail PLC and its affiliates. One new European project and expansions of two existing centers are in various stages of development and are expected to open within the next two years. The Company sold a portion of its Bicester Village holding to a third party, resulting in a gain of \$1.8 million which is included in earnings from unconsolidated investments in the accompanying financial statements.

The Company has a 15% minority interest in a partnership that owns an outlet center located in Guam. The center has been generating operating losses and the Company does not anticipate recovering its investment. In December 2001, the Company wrote down its investment in Guam and recognized a loss of \$1.2 million which is included in earnings from unconsolidated investments in the accompanying financial statements. The Company continues to be a partner in the Guam outlet center.

The Company owns 100% of the non-voting preferred stock of Chelsea Interactive, Inc. ("Chelsea Interactive"). The Company also owns 50% of the non-voting common stock representing 40% of the total common stock. Chelsea Interactive, as an unconsolidated investment, has been developing a new technology-based e-commerce platform that provides fashion and other retail brands their own customized direct-to-the-consumer Internet online stores, incorporating e-commerce design, development, fulfillment and customer services. In consideration for such services, Chelsea Interactive is receiving a percentage of each brand's online sales. There is no assurance that this concept will be successful or the future impact on the Company's financial condition or results of operations.

The following is a summary of investments in and amounts due from affiliates during the years ended December 31, 2001 and 2000 (in thousands):

	F/C	CHELSEA JAPAN	SIMON	CHELSEA INTERACTIVE	OTHER	TOTAL
Balance 12/31/99	–	\$ 2,010	\$ 12,536	\$ 3,217	\$ 6,065	\$ 23,828
Initial investment	\$32,009	–	–	–	–	32,009
Additional investment	917	2,133	510	29,046	384	32,990
Income (loss) from unconsolidated investments	188	3,211	2,991	(2,364)	333	4,359
Distribution and fees	(35)	(2,426)	(2,667)	–	(333)	(5,461)
Advances (net)	35	1,317	2,552	–	–	3,904
Balance 12/31/00	33,114	6,245	15,922	29,899	6,449	91,629
Additional investment	1,528	674	–	9,934	–	12,136
Income (loss) from unconsolidated investments	6,522	3,286	5,492	(5,337)	(275)	9,688
Distribution and fees	(6,088)	(2,222)	(10,745)	–	–	(19,055)
Sale of investment	–	–	–	–	(2,839)	(2,839)
Gain on sale and (impairment loss)	–	–	–	–	617	617
Advances (net)	1,042	1,313	(946)	360	(256)	1,513
Balance 12/31/01	\$36,118	\$ 9,296	\$ 9,723	\$34,856	\$ 3,696	\$ 93,689

Notes to Financial Statements

The Company's share of income before depreciation, depreciation expense and income from unconsolidated investments for the years ended December 31, 2001 and 2000 are as follows (in thousands):

	2001			2000		
	INCOME (LOSS) BEFORE DEPRECIATION	DEPRECIATION	INCOME (LOSS) FROM UNCONSOLIDATED INVESTMENTS	INCOME (LOSS) BEFORE DEPRECIATION	DEPRECIATION	INCOME (LOSS) FROM UNCONSOLIDATED INVESTMENTS
	F/C	\$ 9,214	\$2,692	\$ 6,522	\$ 259	\$ 71
Chelsea Japan	4,676	1,390	3,286	3,905	694	3,211
Simon	7,374	1,882	5,492	4,250	1,259	2,991
Other	342	—	342	333	—	333
Total	\$21,606	\$5,964	\$15,642	\$ 8,747	\$2,024	\$ 6,723
Chelsea Interactive	\$ (2,449)	\$2,888	\$ (5,337)	\$(1,719)	\$ 645	\$(2,364)

The Company had \$0.3 million income from unconsolidated investments during the year ended December 31, 1999 from its other investments.

Condensed financial information as of December 31, 2001 and for the year then ended for F/C, Chelsea Japan and Simon (which are included in "Retail") and Chelsea Interactive is as follows (in thousands):

	RETAIL	CHELSEA INTERACTIVE
Property, plant and equipment (net)	\$355,427	\$29,923
Total assets	409,944	34,963
Long-term debt	282,057 ⁽¹⁾	—
Total liabilities	321,854	2,665
Net income (loss)	20,812	(11,976)
Company's share of net income (loss)	10,013	(5,337)
Fee income	5,286	—

(1) INCLUDES LONG-TERM DEBT OF \$170.5 MILLION IN F/C, \$58.5 MILLION IN SIMON AND \$53.1 MILLION IN CHELSEA JAPAN.

7. DEFERRED COSTS

The following summarizes the carrying amounts for deferred costs as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Lease costs	\$ 24,152	\$ 22,546
Financing costs	16,977	14,875
Development costs	8,349	129
Other	871	871
Total deferred costs	50,349	38,421
Accumulated amortization	(27,815)	(23,535)
Total deferred costs, net	\$ 22,534	\$ 14,886

8. NON-COMPETE AGREEMENT

In October 1998 the Company sold its interest in and terminated the development of Houston Premium Outlets, a joint venture project with Simon. Under the terms of the agreement, the Company received non-compete payments totaling \$21.4 million from The Mills Corporation; \$3.0 million at closing and four annual installments of \$4.6 million, terminating in January 2002. The revenue is being recognized on a straight-line basis over the term of the non-compete agreement and the Company recognized income of \$5.1 million during the years ended December 31, 2001, 2000 and 1999. Such amounts are included in other income in the accompanying financial statements.

Notes to Financial Statements

9. DEBT

UNSECURED BANK DEBT

The Company has a \$160 million senior unsecured bank line of credit (the "Senior Credit Facility"). The Senior Credit Facility had an initial expiration date of March 30, 2001 and was extended through March 2004. The Company has an annual right to request a one-year extension of the Senior Credit Facility that may be granted at the option of the lenders. The Senior Credit Facility bears interest on the outstanding balance, payable monthly, at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 1.05% (4.21% at December 31, 2001) or the prime rate, at the Company's option. The LIBOR rate spread ranges from 0.85% to 1.25% depending on the Company's Senior Debt rating. A fee on the unused portion of the Senior Credit Facility is payable quarterly at rates ranging from 0.15% to 0.25% depending on the balance outstanding. At December 31, 2001, the entire \$160 million was available under the Senior Credit Facility.

The Company also has a \$5 million term loan (the "Term Loan") that carries the same interest rate and maturity as the Senior Credit Facility.

UNSECURED NOTES

A summary of the terms of the unsecured notes outstanding as of December 31, 2001 and 2000 is as follows (in thousands):

	DECEMBER 31,		EFFECTIVE YIELD ⁽¹⁾
	2001	2000	
7.75% Unsecured Notes due January 2001	\$ –	\$ 99,987	7.85%
8.375% Unsecured Notes due August 2005	49,892	49,877	8.44%
7.25% Unsecured Notes due October 2007	124,809	124,776	7.29%
8.625% Unsecured Notes due August 2009	49,923	49,902	8.66%
8.25% Unsecured Notes due February 2011	148,670	–	8.40%
Total	\$373,294	\$324,542	

(1) INCLUDING DISCOUNT ON THE NOTES

MORTGAGE DEBT

A summary of the terms of the mortgage debt outstanding as of December 31, 2001 and 2000, and the related Net Book Value of the associated collateral ("NBV") and interest rate as of December 31, 2001 are as follows (in thousands):

	DECEMBER 31,		DUE DATE	INTEREST RATE	NBV
	2001	2000			
Construction Loan ⁽¹⁾	\$ 29,531	\$21,526	February 2003	3.33%	\$ 45,625
Bank Mortgage Loan ⁽²⁾	68,250	69,250	April 2010	7.26%	74,462
Mortgage Loan ⁽³⁾	72,428	–	December 2012	7.67%	75,421
	\$170,209	\$90,776			\$195,508

(1) IN FEBRUARY 2000 CHELSEA ALLEN ENTERED INTO A \$40.0 MILLION CONSTRUCTION LOAN USED TO FUND THE ALLEN PREMIUM OUTLETS PROJECT. THE CONSTRUCTION LOAN BEARS INTEREST EQUAL TO LIBOR PLUS 1.375% (3.33% AT DECEMBER 31, 2001) AND IS GUARANTEED BY THE COMPANY AND THE OP.

(2) IN APRIL 2000 CHELSEA FINANCING ENTERED INTO A \$70.0 MILLION BANK MORTGAGE LOAN SECURED BY ITS FOUR PROPERTIES. THE BANK MORTGAGE LOAN BEARS INTEREST EQUAL TO LIBOR PLUS 1.50% (3.64% AT DECEMBER 31, 2001) OR PRIME RATE PLUS 1.0% AND CALLS FOR QUARTERLY PRINCIPAL AMORTIZATION OF \$ 0.3 MILLION THROUGH APRIL 2005 AND THEREAFTER \$0.5 MILLION PER QUARTER UNTIL MATURITY. IN DECEMBER 2000, THE COMPANY ENTERED INTO AN INTEREST RATE SWAP AGREEMENT EFFECTIVE JANUARY 2, 2001 TO HEDGE AGAINST UNFAVORABLE FLUCTUATIONS IN LIBOR RATES BY FIXING THE INTEREST RATE AT 7.26% UNTIL JANUARY 2006. AS OF DECEMBER 31, 2001, THE COMPANY RECOGNIZED NET INTEREST EXPENSE OF \$1.2 MILLION ON THE HEDGE THAT IS INCLUDED IN INTEREST EXPENSE IN THE ACCOMPANYING FINANCIAL STATEMENTS.

(3) THE MORTGAGE LOAN WAS ASSUMED AS PART OF THE SEPTEMBER 25, 2001, KONOVER ACQUISITION. THE STATED INTEREST RATE OF 9.1% WAS GREATER THAN THAT AVAILABLE TO THE COMPANY IN THE PUBLIC DEBT MARKETS. ACCORDINGLY THE COMPANY RECORDED A \$6.9 MILLION DEBT PREMIUM THAT WILL BE AMORTIZED OVER THE PERIOD OF THE LOAN AND WHICH REDUCES THE EFFECTIVE INTEREST RATE TO 7.67%. THE LOAN CALLS FOR FIXED MONTHLY DEBT SERVICE PAYMENTS OF \$0.5 MILLION FOR INTEREST PLUS PRINCIPAL BASED ON A 26-YEAR AMORTIZATION SCHEDULE. THE MORTGAGE LOAN MATURES IN MARCH 2028 BUT CAN BE PREPAID BEGINNING DECEMBER 2012. AS OF DECEMBER 31, 2001, THE COMPANY RECOGNIZED \$0.1 MILLION IN DEBT PREMIUM AMORTIZATION THAT IS INCLUDED IN INTEREST EXPENSE IN THE ACCOMPANYING FINANCIAL STATEMENTS.

Notes to Financial Statements

In connection with the September 25, 2001, Konover acquisition, the Company assumed \$65.2 million in REMIC loans that included Class A, B and C Loans with a blended stated fixed interest rate of 7.85%. The Company received a \$0.5 million interest rate spread credit at closing, reducing the effective annual interest rate to 3.71%. The Loans were repaid on December 3, 2001.

Following is a schedule of the estimated fair value of the Company's debt using current broker quotations at December 31, 2001 (in thousands):

DESCRIPTION	CARRYING VALUE	PRINCIPAL BALANCE	ESTIMATED FAIR VALUE
Fixed Rate Debt	\$445,722	\$440,678	\$459,970
Variable Rate Debt	\$102,816	\$102,816	\$102,816

Interest paid, excluding amounts capitalized, was \$34.5 million, \$21.7 million and \$24.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Following is a schedule of the Company's debt maturities, including debt premium amortization, as of December 31, 2001 (in thousands):

2002	\$ 1,945
2003	31,553
2004	7,123
2005	52,834
2006	3,288
Thereafter	451,795
	\$548,538

10. FINANCIAL INSTRUMENTS: DERIVATIVES AND HEDGING

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits these risks by following established risk management policies and procedures including the use of derivatives. For interest rate exposures, derivatives are used primarily to align rate movements between interest rates associated with the Company's leasing income and other financial assets with interest rates on related debt, and manage the cost of borrowing obligations. For foreign currency exposures, derivatives are used primarily to align movements between currency rates to protect forecasted returns of fees to the U.S.

The Company has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, the Company has not sustained a material loss from those instruments nor does it anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives.

To manage interest rate and foreign currency risk, the Company may employ options, forwards, interest rate swaps, caps and floors or a combination thereof depending on the underlying exposure. The Company undertakes a variety of borrowings: from lines of credit, to medium- and long-term financings. To reduce overall interest cost, the Company uses interest rate instruments, typically interest rate swaps, to convert a portion of variable-rate debt to fixed-rate debt, or even a portion of its fixed-rate debt to variable rate. Interest rate differentials that arise under these swap contracts are recognized in interest expense over the life of the contracts. The resulting cost of funds is usually lower than that which would have been available if debt with matching characteristics was issued directly.

Notes to Financial Statements

Interest rate swaps that are designated as cash flow hedges hedge the future cash outflows on debt. Interest rate swaps that convert variable payments to fixed payments, interest rate caps, floors, collars, and forwards are cash flow hedges. Unrealized gains and losses in the fair value of cash flow hedges are reported on the balance sheet with a corresponding adjustment to Accumulated Other Comprehensive Income to the extent they are offsetting and otherwise qualify in the period for cash flow hedge accounting. Over time, the unrealized gains and losses held in Accumulated Other Comprehensive Income will be reclassified to earnings. This reclassification occurs over the same time period in which the hedged items affect earnings. The Company hedges its exposure to variability in future cash flows for forecasted transactions other than those associated with existing floating-rate debt over a maximum period of 12 months. During the forecast period, unrealized gains and losses in the hedging instrument will be reported in Accumulated Other Comprehensive Income. Once the hedged transaction takes place, the hedge gains and losses will be reported in earnings during the same period in which the hedged item is recognized in earnings.

The notional value and fair value of the swap provide an indication of the extent of the Company's involvement in financial derivative instruments at December 31, 2001. It does not represent exposure to credit, interest rate or market risks. At year end, the swap was reported at its fair value and classified as other liabilities of \$3.1 million. As of December 31, 2001, there were \$3.1 million in deferred losses, and represented in other comprehensive income, a shareholder's equity account and minority interest. Within the next twelve months, the Company expects to reclassify to earnings approximately \$0.8 million of the current balance held in accumulated other comprehensive loss and minority interest related to the interest rate swap.

HEDGE TYPE	AS OF DECEMBER 31, 2001			
	NOTIONAL VALUE	RATE	MATURITY	FAIR VALUE
Swap, Cash Flow	\$68.3 mil	5.7625%	1/1/06	(\$3.1 mil)

In March 2001, the Company entered into a yen forward contract with a notional value of \$1.4 million and a fair value of \$0.04 million as a hedge against its yen-denominated receivable. On June 21, 2001 the receivable and yen forward contract were settled and the Company received \$1.4 million.

11. PREFERRED UNITS

In September 1999, the OP completed a private sale of \$65 million of Series B Cumulative Redeemable Preferred Units ("Preferred Units") to an institutional investor. The private placement took the form of 1.3 million Preferred Units at a stated value of \$50 each. The Preferred Units may be called at par on or after September 2004, have no stated maturity or mandatory redemption and pay a cumulative quarterly dividend at an annualized rate of 9.0%. The Preferred Units are exchangeable into Series B Cumulative Redeemable Preferred Stock of the Company after ten years. The proceeds from the sale were used to pay down borrowings under the Senior Credit Facility. Activity related to the Preferred Units is included in minority interest.

12. PREFERRED STOCK

In October 1997, the Company issued 1.0 million shares of non-voting 8.375% Series A Cumulative Redeemable Preferred Stock (the "Preferred Stock"), par value \$0.01 per share, having a liquidation preference of \$50 per share. The Preferred Stock has no stated maturity and is not convertible into any other securities of the Company. The Preferred Stock is redeemable on or after October 15, 2027 at the Company's option. Net proceeds from the offering were used to repay borrowings under the Company's Credit Facilities.

Notes to Financial Statements

On February 15, 2002 the Company redeemed and retired 136,500 shares of Preferred Stock at a net price of \$47 per share.

13. COMMON STOCK

In July 2001, the Company completed the sale of 545,000 shares of common stock to an institutional investor at a net price of \$46 per share, yielding net proceeds of \$24.8 million that were used to partially fund the acquisition of the Konover assets and for general corporate purposes.

In October 2001, the Company sold two million shares of common stock at a price of \$45 per share, yielding net proceeds of \$85.2 million, which were used to repay borrowings under the Company's Senior Credit Facility and for general corporate purposes.

14. LEASE AGREEMENTS

The Company is the lessor and sub-lessor of retail stores under operating leases with term expiration dates ranging from 2002 to 2020. Most leases are renewable for five years after expiration of the initial term at the lessee's option. Future minimum lease receipts under non-cancelable operating leases as of December 31, 2001, exclusive of renewal option periods, were as follows (in thousands):

2002	\$141,156
2003	127,544
2004	106,834
2005	82,691
2006	59,433
Thereafter	147,328
	<u>\$664,986</u>

In 1987, a predecessor partnership entered into a lease agreement for property in California. Land was estimated to be approximately 37% of the fair market value of the property, and accordingly the portion of the lease attributed to land is classified as an operating lease. The portion attributed to building is classified as a capital lease as the present value of payments related to the building exceeded 90% of its fair value at inception of the lease. The initial lease term was 25 years with two options of 5 and 4½ years, respectively. The lease provides for additional rent based on specific levels of income generated by the property. No additional rental payments were incurred during 2001, 2000 or 1999. The Company has the option to cancel the lease upon six months written notice and six months advance payment of the then fixed monthly rent. If the lease is canceled, the building and leasehold improvements revert to the lessor. In August 1999, the Company amended its capital lease to reduce rent payments through December 2004 resulting in a writedown of the asset and obligation of \$2.7 million and \$6.0 million, respectively. The difference of \$3.3 million will be recognized on a straight-line basis over the remaining term of the amended lease that ends December 2004.

Notes to Financial Statements

OPERATING LEASES

Future minimum rental payments under operating leases for land and administrative offices as of December 31, 2001 are as follows (in thousands):

2002	\$1,546
2003	1,473
2004	1,480
2005	917
2006	52
	<u>\$5,468</u>

Rental expense amounted to \$0.8 million, \$0.6 million and \$0.9 million for the years ended December 31, 2001, 2000 and 1999, respectively.

CAPITAL LEASE

A leased property included in rental properties at December 31 consists of the following (in thousands):

	2001	2000
Building	\$ 6,796	\$ 6,796
Less accumulated amortization	(5,520)	(5,175)
Leased property, net	<u>\$ 1,276</u>	<u>\$ 1,621</u>

Amortization expense on capital lease of \$0.3 million for the years ended December 31, 2001, 2000 and 1999, is included in depreciation and amortization expense in the financial statements.

Future minimum payments under the capitalized building lease, including the present value of net minimum lease payments as of December 31, 2001 are as follows (in thousands):

2002	\$ 819
2003	819
2004	819
Total minimum lease payments	2,457
Amount representing interest	(316)
Present value of net minimum capital lease payments	<u>\$2,141</u>

GROUND LEASE

In connection with the Konover acquisition the OP acquired four properties subject to ground leases that were assumed by the OP. These ground leases have termination dates ranging from 2007 to 2087 and allow for renewal terms of 4 to 30 years.

Future minimum lease payments under ground leases as of December 31, 2001 exclusive of renewal option periods were as follows (in thousands):

2002	\$ 398
2003	409
2004	415
2005	415
2006	415
Thereafter	17,241
	<u>\$19,293</u>

Notes to Financial Statements

15. COMMITMENTS AND CONTINGENCIES

The 50/50 OPO joint venture with Simon has a \$58.5 million (maximum commitment \$62.0 million) construction facility that was to mature in February 2002 and which was extended to August 2002. The loan has three additional six-month extension options. The loan bears interest at LIBOR plus 1.30% (3.32% at December 31, 2001) and is 10% guaranteed by each of the Company and Simon. Changes in debt service coverage ratio provide for a guarantee ranging from 10% to 25% per guarantor and a LIBOR interest rate spread ranging from 130 to 150 basis points.

In October 1999, an equity investee of the Company entered into a 4 billion yen (approximately US \$30.4 million) line of credit guaranteed by the Company and OP to fund its share of Chelsea Japan's construction costs. The line of credit bears interest at yen LIBOR plus 1.35% (1.45% at December 31, 2001) is due April 2002 and has two one-year extensions. At December 31, 2001, 1.08 billion yen (approximately US \$8.2 million) was outstanding under the loan. In March 2000, Chelsea Japan entered into a 3.8 billion yen (approximately US \$28.9 million) loan with a bank to fund construction costs. As of December 31, 2001, the entire facility was outstanding and bears interest at 2.20%. The loan is secured by the two operating properties and is 40% guaranteed by the Company.

The Company has agreed under a standby facility to provide up to \$22.0 million in limited debt service guarantees for loans provided to Value Retail PLC and affiliates, to construct outlet centers in Europe. The term of the standby facility expired in November 2001 and guarantees shall not be outstanding for longer than five years after project completion. As of December 31, 2001, the Company had provided limited debt service guarantees of approximately \$17.0 million to Value Retail PLC. In October 2001, the guarantee limit was increased to \$24.1 million until April 2002 at which time it will revert to \$22.0 million. The Company received \$2.1 million collateral for this short-term increase that will revert back to Value Retail in April 2002. Such escrow is included in restricted cash-escrows and other liabilities in the accompanying financial statements.

Accrued expenses and other liabilities include \$14.4 million and \$10.5 million at December 31, 2001 and 2000, respectively, related to a five year deferred incentive compensation program that ended as of December 31, 2001. Certain key officers will be paid on March 1, 2002.

The Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company or its properties, other than routine litigation arising in the ordinary course of business. Management believes the cost incurred by the Company related to any of its litigation will not be material and have been adequately provided for in the consolidated financial statements.

16. RELATED PARTY INFORMATION

In 1999, the OP established a \$6.0 million secured loan facility that will expire on June 2004 for the benefit of certain unitholders. Each unit holder issued a note that is secured by OP units, bears interest at a rate of LIBOR plus 200 basis points per annum, payable quarterly and is due by the facility expiration date. At December 31, 2001 and 2000, loans made to two unitholders, who are also affiliates of management of the Company, totaled \$3.2 million and \$2.2 million respectively. During 2001, the Company received a \$1.2 million repayment of one loan and \$0.5 million pay down on the other loan outstanding at December 31, 2000. On January 31, 2002 the Company received an additional \$0.3 million against one of the two loans. In September 2001 the Company advanced \$2.7 million to another unitholder to acquire approximately a 10% non-voting equity interest in Chelsea Interactive from the non-affiliated joint venture partner. The carrying amount of such loans approximated fair value at December 31, 2001.

Notes to Financial Statements

The Company leased space to related parties of approximately 56,000 square feet during the years ended December 31, 2001, 2000 and 1999. Rental income from those tenants, including reimbursement for taxes, common area maintenance and advertising, totaled \$2.1 million, \$ 1.9 million and \$1.8 million during the years ended December 31, 2001, 2000 and 1999, respectively.

At December 31, 2001 and 2000 the Company had receivables from equity investees of \$0.9 million and \$4.2 million, respectively, that is included in other assets.

In August 1997, the Company and one of its directors entered into a Consulting Agreement pursuant to which the director agreed to perform services for the Company in connection with the development and operation of manufacturers outlet centers in Japan and Hawaii. The agreement provided for payments to the director of \$10,000 per month and was terminated by the Company in December 1999. In addition, during the agreement and for four years after the termination of the agreement, the director will be entitled to a fee of 1% of the development costs, up to a maximum amount of \$0.5 million per project, on all projects in which he was involved in Japan or Hawaii. Fees paid under this agreement totaled \$0.5 million for each of the years ended December 31, 2001 and 2000 and \$0.1 million for the year ended December 31, 1999, respectively. These fees are included in the investment in affiliates in the accompanying financial statements.

Certain Directors and unitholders guarantee Company obligations, which existed prior to the formation of the Company, under leases for one of the properties. The Company has indemnified these parties from and against any liability that they may incur pursuant to these guarantees.

17. DIVIDEND REINVESTMENT PLAN

Shareholders who own at least 100 shares of the Company's common stock are eligible to reinvest dividends quarterly. Administration costs associated with the plan are paid by the Company.

18. STOCK OPTION PLANS

The Company elected Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25") and related Interpretations in accounting for its employee stock options. Under APB No. 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate, management believes the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The Company's 1993 Stock Option Plan (the "1993 Plan") provides for an aggregate of 1.4 million authorized shares reserved for issuance. The Company's 2000 Stock Option Plan (the "2000 Plan") was adopted by the Board of Directors in March 2000 and also provides for an aggregate of 1.4 million authorized shares reserved for issuance. Under both Plans, the exercise price per share of initial grants of non-qualified options will be fixed by the Compensation Committee on the date of grant. The exercise price per share of incentive stock options will not be less than the fair market value of the common stock on the date of grant, except in the case of incentive stock options granted to individuals owning more than 10% of the total voting shares of the Company. Their exercise price will

Notes to Financial Statements

be at least 110% of the fair market value at the date of grant. Non-qualified and incentive stock options are exercisable for a period of ten years from the date of grant. Under the 1993 Plan, 20% of the options may be exercised on the first anniversary of the grant date and an additional 20% may be exercised on or after each of the second through fifth anniversaries. Under the 2000 Plan, options shall be exercisable by the holder at such times as may be fixed by the Compensation Committee.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2001, 2000 and 1999; respectively: risk-free interest rate of 5% for 2001 and 6% for 2000 and 1999; volatility factor of the expected market price of the Company's common stock based on historical results of 0.236, 0.397 and 0.164 and dividend yield of 7% in 2001 and 8% in 2000 and 1999, respectively, and an expected life option of four years for the 1993 Plan and three years for the 2000 Plan. The Company granted options in 2001 of 70,000 shares at \$41.25 on March 14, 2001 under the 2000 Plan and in 2000 granted 15,000 shares at \$30.25 on January 3, 2000 under the 1993 Plan and 480,000 shares at \$27.81 on April 1, 2000 under the 2000 Plan. The options issued in 2001 will expire in 2011 and those issued in 2000 will expire in 2010. No options were granted during 1999.

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

	2001	2000	1999
Pro forma net income	\$46,657	\$40,467	\$33,853
Pro forma earnings per share:			
Basic	\$ 2.77	\$ 2.54	\$ 2.15
Diluted	\$ 2.69	\$ 2.51	\$ 2.13

A summary of the Company's stock option activity, and related information for the years ended December 31 follows:

	2001		2000		1999	
	OPTIONS (000'S)	WTD-AVG EX. PRICE	OPTIONS (000'S)	WTD-AVG EX. PRICE	OPTIONS (000'S)	WTD-AVG EX. PRICE
Outstanding						
beginning of year	1,486.1	\$28.87	1,009.2	\$29.26	1,061.6	\$28.97
Granted	70.0	41.25	495.0	27.89	—	—
Exercised	(62.1)	34.95	(18.1)	23.38	(52.4)	23.38
Outstanding						
end of year	1,494.0	\$29.36	1,486.1	\$28.87	1,009.2	\$29.26
Exercisable at						
end of year	955.0	\$28.04	786.1	\$27.40	695.2	\$26.35
Weighted average fair value of options granted during the year	\$5.08		\$5.26		—	

Exercise prices for options outstanding as of December 31, 2001 ranged from \$23.38 to \$41.25 per share. The weighted average remaining contractual life of the options was 5.7 years.

Notes to Financial Statements

19. EMPLOYEE STOCK PURCHASE PLAN

The Company's Board of Directors and shareholders approved an Employee Stock Purchase Plan (the "Purchase Plan"), effective July 1, 1998. The Purchase Plan covers an aggregate of 500,000 shares of common stock. Eligible employees have been in the employ of the Company or a participating subsidiary for six months or more and customarily work more than 20 hours per week. The Purchase Plan excludes employees who are "highly compensated employees", as defined, or own 5% or more of the voting power of the Company's stock. Eligible employees will purchase shares through automatic payroll deductions up to a maximum of 10% of weekly base pay. The Purchase Plan will be implemented by consecutive three-month offerings (each an "Option Period"). The price at which shares may be purchased shall be the lower of (a) 85% of the fair market value of the stock on the first day of the Option Period or (b) 85% of the fair market value of the stock on the last day of the Option Period. As of December 31, 2001, 45 employees were enrolled in the Purchase Plan and \$5,100 in expenses has been incurred and is included in the Company's general and administrative expense. The Purchase Plan will terminate after five years unless terminated earlier by the Board of Directors.

20. 401(K) PLAN

The Company maintains a defined contribution 401(k) savings plan (the "Plan"), which was established to allow eligible employees to make tax-deferred contributions through voluntary payroll withholdings. All employees of the Company are eligible to participate in the Plan after completing six months of service and attaining age 21. Employees who elect to enroll in the Plan may elect to have from 1% to 15% of their pre-tax gross pay contributed to their account each pay period. As of January 1, 1998 the Plan was amended to include an employer discretionary matching contribution in an amount not to exceed 100% of each participant's first 6% of yearly compensation to the Plan. Matching contributions of approximately \$128,000 in 2001, \$141,000 in 2000 and \$97,000 in 1999 are included in the Company's general and administrative expense.

21. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following summary represents the results of operations, expressed in thousands except per share amounts, for each quarter during 2001 and 2000:

	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2001				
Base rental revenue	\$28,751	\$28,651	\$30,528	\$39,299
Total revenues	44,824	46,297	49,065	66,669
Net income available to common shareholders	8,506	9,474	11,838	17,808
Net income per weighted average common share (diluted)	\$ 0.53	\$ 0.57	\$ 0.69	\$ 0.93
2000				
Base rental revenue	\$26,252	\$26,607	\$26,867	\$28,397
Total revenues	39,595	42,050	44,566	53,692
Net income available to common shareholders	7,781	8,720	10,894	14,197
Net income per weighted average common share (diluted)	\$ 0.49	\$ 0.54	\$ 0.67	\$ 0.88

22. SEGMENT INFORMATION

The Company is principally engaged in the development, ownership, acquisition and operation of manufacturers' outlet centers and has determined that under SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" it has three reportable retail real estate segments: premium domestic, other domestic and international in 2001. The Company evaluates real estate performance and allocates resources based on

Notes to Financial Statements

Net Operating Income ("NOI") defined as total revenue less operating and maintenance expense. The primary sources of revenue are generated from tenant base rents, percentage rents and reimbursement revenue. Operating expenses primarily consist of common area maintenance, real estate taxes and promotional expenses. The retail real estate business segments meet the quantitative threshold for determining reportable segments.

FOR THE YEAR ENDED DECEMBER 31, 2001 (IN THOUSANDS)	PREMIUM DOMESTIC	OTHER DOMESTIC ⁽¹⁾	INTERNATIONAL ⁽²⁾	OTHER ⁽³⁾	TOTAL
Total revenues	\$187,588	\$ 12,196	\$ –	\$ 7,071	\$ 206,855
Interest income	848	45	–	1,913	2,806
Income from unconsolidated investments	12,014	–	3,628	(5,337)	10,305
NOI	148,570	5,021	6,562	1,849	162,002
Fixed asset additions	36,848	181,729	–	1,159	219,736
Total assets	866,738	194,406	15,092	23,072	1,099,308

(1) APPROXIMATELY 25% OF THE RETAIL DOMESTIC OTHER GLA IS LEASED TO ONE TENANT FROM WHICH APPROXIMATELY 15% OF THE ANNUALIZED REVENUES ARE DERIVED.

(2) PRINCIPALLY COMPRISED OF THE COMPANY'S EQUITY INTEREST IN CHELSEA JAPAN.

(3) INCLUDES RESULTS OF CORPORATE ASSETS AND CHELSEA INTERACTIVE.

The Company operated in one segment in 2000.

Following is a reconciliation of net operating income to net income for the year ended December 31, 2001 (in thousands):

Segment NOI	\$162,002
Interest expense – consolidated	(36,865)
Interest expense – unconsolidated investments	(597)
Depreciation expense – consolidated	(48,554)
Depreciation expense – unconsolidated investments	(5,964)
Depreciation expense – Chelsea Interactive	(2,888)
Income tax – unconsolidated investments	(947)
Loss on Sale – Retail Domestic Premium	(284)
Gain/(loss) on sale or writedown – Retail International	617
Minority interest	(14,706)
Net income	\$ 51,814

23. NON-CASH FINANCING ACTIVITIES

In December 2001, 2000 and 1999, the Company declared quarterly distributions per share of \$0.78, \$0.75 and \$0.72, respectively. The limited partners' distributions were paid in January of each subsequent year.

In connection with the Konover acquisition the Company assumed approximately \$131.0 million in REMIC and mortgage loans payable.

Report of
Independent
Auditors

Board of Directors
Chelsea Property Group, Inc.

We have audited the accompanying consolidated balance sheets of Chelsea Property Group, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the management of Chelsea Property Group, Inc. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chelsea Property Group, Inc. as of December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

New York, New York
February 15, 2002

Chelsea Property Group, Inc.

BOARD OF DIRECTORS

David Bloom⁽¹⁾
Chairman &
Chief Executive Officer
Chelsea Property
Group, Inc.

William Bloom
Vice Chairman
Chelsea Property
Group, Inc.

Brendan T. Byrne^(2,3)
Senior Partner
Carella, Byrne, Bain,
Gilfillan, Cecchi,
Stewart & Olstein

Robert Frommer⁽³⁾
Managing Member
Chatham Development
Partners, LLC

Barry M. Ginsburg⁽¹⁾
Retired Vice Chairman
Chelsea Property
Group, Inc.

Philip D. Kaltenbacher⁽²⁾
Chairman &
Chief Executive Officer
Seton Company

Reuben S. Leibowitz^(1,2,3)
Managing Director
E.M. Warburg,
Pincus & Co., LLC

(1) EXECUTIVE COMMITTEE

(2) AUDIT COMMITTEE

(3) COMPENSATION COMMITTEE

OFFICERS

David Bloom
Chairman &
Chief Executive Officer

William Bloom
Vice Chairman

Leslie T. Chao
President

Thomas J. Davis
Chief Operating Officer
President – U.S.
Premium Outlets

Michael J. Clarke
Chief Financial Officer

Bruce Zalaznick
Executive Vice President
International

Anthony J. Galvin
Senior Vice President
Leasing

John R. Klein
Senior Vice President
Real Estate

Christina M. Casey
Vice President
Human Resources

Denise M. Elmer
Vice President
General Counsel & Secretary

Philip E. Ende
Vice President
Leasing

Eric K. Helstrom
Vice President
Architecture & Construction

Daniel L. Kelly
Vice President
International Leasing

Gregory C. Link
Vice President
Operations

Michele Rothstein
Vice President
Marketing

Catherine A. Lassi
Treasurer

Sharon M. Vuskalns
Controller

DEPARTMENTS

Karen E. Fluharty
Senior Director
International Marketing

Mark J. Silvestri
Senior Director
Development &
Acquisitions

Bradley T. Stipe
Senior Director
Architecture & Construction

Robert G. Ufland
Senior Director
Architecture & Construction

Matthew Broas
Assistant General Counsel

Steven R. Goodman
Associate General Counsel

Eric Abramson
Director
International Leasing

J. Dan Bernier
Director
Operations, Western Region

Steven Cupelli
Director
Operations, Eastern Region

Timothy R. Cutting
Director
Leasing

Elizabeth A. Dion
Director
Marketing, Factory Outlets

Vietta Durnin
Treasury Director

Tina Dzubina
Director
Lease Administration

Maura Egan
Director
Marketing, Western Region

Carmela Farrell
Director
Budgeting

Jean A. Guinup
Director
Marketing, Eastern Region

Kathleen A. Hackshaw
Director
Operations, Factory Outlets

Kathleen Magnier
Director
Media

Christina L. Quesenberry
Director
Tenant Improvements

Lillian Salvemini
Director
Lease Accounting

Jeffrey A. Spector
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Larry Weinstein
Director
Leasing

Andrew Wexler
Director
Financial Analysis

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Leslie T. Chao
Chairman &
Representative Director

Takuo Kato
President &
Representative Director

Izumi Yamaguchi
Senior Managing Director &
Representative Director

Kazushige Okuma
Senior Managing Director

Katsuhiro Suzuki
General Manager
Operations

Shigenori Takahashi
General Manager
Administration & Human Resources

Shuichi Yamaguchi
General Manager
Development

Hitoshi Murahama
Comptroller

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Reston, VA 20190
Phone (571) 203-4442
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www.chelseainteractive.com

William Bloom
Chief Executive Officer

Justin M. Ryan, Jr.
Chief Operating Officer

John L. Reilly
Chief Technology Officer

Dena K. Kisala
Vice President
Brand Operations

Matthew J. DiLiberto
Controller

Michelle Hayes
Director
Human Resources

David C. Hong
Director
Technology Development

Gregory S. Powers
Director
Systems Operations

Conrad R. Varblow
Director
Quality Assurance

Corporate Offices
Chelsea Property Group, Inc.
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Roseland, NJ 07068
Phone (973) 228-6111
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Independent Auditors
Ernst & Young LLP
New York, New York

Counsel
Stroock & Stroock & Lavan LLP
New York, New York

Transfer Agent and Registrar
EquiServe Trust Company, N.A.

P.O. Box 43010
Providence, RI 02940

150 Royall Street
Canton, MA 02021

Phone (781) 575-3100
www.equiserve.com

Dividend Reinvestment Plan
The Company's automatic dividend reinvestment plan is available through Equiserve, the transfer agent and registrar, which may be contacted at the addresses above.

Annual Meeting
The 2002 annual meeting of shareholders will be held at 10:00 a.m. on Thursday, June 6 at the Westin Morristown Hotel in Morristown, New Jersey.

Form 10-K
Copies of Chelsea Property Group's Form 10-K Annual Report to the Securities and Exchange Commission are available upon request to the company at the address above.

CPG
LISTED
NYSE

Listed on the
New York Stock Exchange

REIT
INVESTMENT

Member
National Association of Real Estate
Investment Trusts, Inc.



chelsea property group

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