

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended: September 30, 1994

Commission File No. 1-7533

FEDERAL REALTY INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

District of Columbia

52-0782497

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

4800 Hampden Lane, Suite 500, Bethesda, Maryland 20814

(Address of principal executive offices)

(Zip Code)

(301) 652-3360

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X . No .
----- -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at November 7, 1994

Common Shares of Beneficial Interest

31,598,152

This report, including exhibits, contains 20 pages.

FEDERAL REALTY INVESTMENT TRUST

S.E.C. FORM 10-Q

September 30, 1994

I N D E X

PART I. FINANCIAL INFORMATION	PAGE NO.
Accountants' Report	4
Consolidated Balance Sheets September 30, 1994 (unaudited) and December 31, 1993 (audited)	5
Consolidated Statements of Operations (unaudited)	6

Nine months ended September 30, 1994 and 1993	
Consolidated Statements of Operations (unaudited) Three months ended September 30, 1994 and 1993	7
Consolidated Statements of Shareholders' Equity (unaudited) Nine months ended September 30, 1994 and 1993	8
Consolidated Statements of Cash Flows (unaudited) Nine months ended September 30, 1994 and 1993	9
Notes to Financial Statements	10-13
Management's Discussion and Analysis of Financial Condition and Results of Operations	14-19

PART II.

OTHER INFORMATION

Exhibit 27 - Financial Data Schedule (For Edgar
filing only)

FEDERAL REALTY INVESTMENT TRUST

S.E.C. FORM 10-Q

September 30, 1994

PART I. FINANCIAL INFORMATION

The following financial information is submitted in response to the requirements of Form 10-Q and does not purport to be financial statements prepared in accordance with generally accepted accounting principles since they do not include all disclosures which might be associated with such statements. In the opinion of management, such information includes all adjustments, consisting only of normal recurring accruals, necessary to a fair statement of the results for the interim periods presented.

The balance sheet as of December 31, 1993 was audited by Grant Thornton, independent public accountants, who expressed an unqualified opinion on it in their report dated February 14, 1994. All other financial information presented is unaudited but has been reviewed as of September 30, 1994 and for each of the nine month and three month periods ended September 30, 1994 and 1993 by Grant Thornton whose report thereon appears on Page 4. All adjustments and disclosures proposed by them have been reflected in the data presented.

Accountants' Review Report

Trustees and Shareholders
Federal Realty Investment Trust

We have reviewed the accompanying consolidated balance sheet of Federal Realty Investment Trust as of September 30, 1994 and the related consolidated statements of operations, shareholders' equity and cash flows for the nine-month periods ended September 30, 1994 and 1993, and the consolidated statements of operations for the three-month periods ended September 30, 1994 and 1993. These financial statements are the responsibility of the Trust's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1993 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 14, 1994, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1993 is stated fairly, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Grant Thornton

Washington, D.C.
November 9, 1994

Federal Realty Investment Trust

CONSOLIDATED BALANCE SHEETS
(see accountants' review report)

	September 30, 1994 (unaudited) (in thousands)	December 31, 1993
ASSETS		
Investments		
Real estate, at cost	\$822,549	\$758,088
Less accumulated depreciation and amortization	(153,476)	(135,045)
	-----	-----
Mortgage notes receivable	669,073	623,043
	13,177	13,871
	-----	-----
	682,250	636,914
Other Assets		
Cash	7,314	9,635
Investments	3,673	4,008
Notes receivable - officers	2,797	1,890
Accounts receivable	14,910	15,681
Prepaid expenses and other assets, principally property taxes, interest, and lease commissions	20,466	19,499
Debt issue costs (net of accumulated amortization of \$3,087,000 and \$3,862,000, respectively)	2,991	3,316
	-----	-----
	\$734,401	\$690,943
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Obligations under capital leases	\$136,580	\$137,308
Mortgages payable	103,028	81,237
Notes payable	34,053	30,519
Accrued expenses	10,186	19,104
Accounts payable	6,624	5,785
Dividends payable	12,466	10,927
Security deposits	2,603	2,430
Prepaid rents	1,216	1,783
5 1/4% Convertible subordinated debentures, due 2003	75,000	75,000
5 1/4% Convertible subordinated debentures, due 2002	289	40,167
Investors' interest in consolidated assets	2,379	2,484
Commitments and contingencies	-	-
Shareholders' equity		
Common shares of beneficial interest, no par or stated value, unlimited authorization, issued 31,618,611 and 28,077,999 shares, respectively	495,914	408,005
Accumulated dividends in excess of Trust net income	(138,278)	(116,823)
Allowance for unrealized loss on marketable securities	(462)	(364)
	-----	-----
	357,174	290,818
Less 60,200 common shares in treasury - at cost, and subscriptions receivable	(7,197)	(6,619)
	-----	-----
	349,977	284,199
	-----	-----
	\$734,401	\$690,943
	=====	=====

The accompanying notes are an integral part of these statements.

Federal Realty Investment Trust
CONSOLIDATED STATEMENTS OF OPERATIONS
(see accountants' review report)
(unaudited)

Nine months ended September 30
1994 1993

(In thousands, except per share data)

Revenue		
Rental income	\$94,168	\$77,185
Interest	3,046	2,858
Other income	4,068	3,943
	-----	-----
	101,282	83,986
Expenses		
Rental	27,183	19,393
Real estate taxes	8,874	7,606
Interest	23,533	23,474
Administrative	4,448	3,286
Other charges	758	
Depreciation and amortization	21,736	18,643
	-----	-----
	86,532	72,402
Operating income before investors' share of operations and extraordinary item	14,750	11,584
Investors' share of operations	(495)	(673)
	-----	-----
Income before extraordinary item	14,255	10,911
Extraordinary item	---	(1,027)
Net loss on early extinguishment of debt	-----	-----
Net Income	\$14,255	\$9,884
	=====	=====
Weighted Average Number of Common Shares	30,368	26,713
	=====	=====
Earnings per share	\$0.47	\$0.41

Income before extraordinary item	---	(0.04)
Extraordinary item	-----	-----
	\$0.47	\$0.37
	=====	=====

The accompanying notes are an integral part of these statements.

7

Federal Realty Investment Trust
CONSOLIDATED STATEMENTS OF OPERATIONS
(see accountants' review report)
(unaudited)

Three months ended
September 30,

	1994	1993
	-----	-----
(In thousands, except per share data)		
Revenue		
Rental income	\$32,238	\$26,460
Interest	1,009	802
Other income	1,549	1,636
	-----	-----
	34,796	28,898
Expenses		
Rental	9,247	6,655
Real estate taxes	3,254	2,758
Interest	7,718	7,268
Administrative	1,264	964
Other charges	758	
Depreciation and amortization	7,570	6,522
	-----	-----
	29,811	24,167
Operating income before investors' share of operations and extraordinary item	4,985	4,731
Investors' share of operations	(19)	(193)
	-----	-----
Net Income	\$4,966	\$4,538
	=====	=====
Weighted Average Number of Common Shares	31,563	27,852
	=====	=====
Earnings per share	\$0.16	\$0.16
	=====	=====

The accompanying notes are an integral part of these statements.

8

Federal Realty Investment Trust
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(see accountants' review report)
(unaudited)

	Nine months ended September 30			
	1994		1993	
(In thousands, except per share amounts)	Shares	Amount	Shares	Amount
Common Shares of Beneficial Interest				
Balance, beginning of period	28,077,999	\$408,005	24,777,831	\$322,903
Exercise of stock options	45,740	1,009	53,384	1,053
Shares issued under dividend reinvestment plan	113,143	2,873	100,841	2,709
Conversion of 8 3/4% subordinated debentures, net of costs of \$50,000	-	-	137,364	2,209
Conversion of 5 1/4% subordinated debentures, net	1,729	64		
Shares purchased under share purchase plan	40,000	1,000		
Net proceeds of public offering and private placement	3,340,000	82,963	2,757,800	72,807
Balance, end of period	31,618,611	\$495,914	27,827,220	\$401,681
Common Shares of Beneficial Interest in Treasury, Deferred Compensation and Subscriptions Receivable				
Balance, beginning of period	(422,575)	(\$6,619)	(426,575)	(\$6,708)
Amortization of deferred compensation	27,875	422	3,000	67
Subscription of shares under share purchase plan	(40,000)	(1,000)	-	-
Balance, end of period	(434,700)	(\$7,197)	(423,575)	(\$6,641)
Allowance for Unrealized Loss on Marketable Securities				
Balance, beginning of period		(\$364)		(\$385)
Unrealized (loss) recovery		(98)		(93)
		(\$462)		(\$292)
Accumulated Dividends in Excess of Trust				
Net Income				
Balance, beginning of period		(\$116,823)		(\$92,932)
Net income		14,255		9,884
Dividends declared to shareholders		(35,710)		(31,094)
Balance, end of period		(\$138,278)		(\$114,142)

The accompanying notes are an integral part of these statements.
</TABLE/

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Federal Realty Investment Trust
CONSOLIDATED STATEMENTS OF CASH FLOWS
(see accountants' review report)
(unaudited)
(In thousands)

	Nine months ended September 30,	
	1994	1993
OPERATING ACTIVITIES		
Net income	\$14,255	\$9,884
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	21,736	18,643
Rent abatements in lieu of leasehold improvements, net of tenant improvements retired	(394)	(866)
Imputed interest and amortization of debt cost	418	374
Amortization of deferred compensation and forgiveness of officers' notes	460	443
Payment of trustees' fees in shares of beneficial interest	132	185
Write off of mortgage note receivable and accrued interest	758	
Net loss on early extinguishment of debt	---	1,027
Changes in assets and liabilities		

(Increase) decrease in accounts receivable	713	(3,445)
Increase in prepaid expenses and other assets before depreciation and amortization	(4,668)	(3,960)
(Decrease) increase in operating accounts payable, security deposits and prepaid rent	(1,963)	1,556
Decrease in accrued expenses, net of the premium put on the 5 1/4% convertible subordinated debentures	(884)	(372)
Net cash provided by operating activities	30,563	23,469
INVESTING ACTIVITIES		
Acquisition of real estate	(33,840)	(76,723)
Capital expenditures	(27,504)	(19,945)
Net payment on (issuance of) notes receivable	(122)	11
Net decrease in temporary investments	237	31,512
Net cash used in investing activities	(61,229)	(65,145)
FINANCING ACTIVITIES		
Regular payments on mortgages, capital leases, and notes payable	(1,543)	(1,649)
Balloon payments on mortgages, including prepayment fees	---	(10,046)
Proceeds of mortgage financings, net of costs	22,500	---

10

Borrowings of short term debt, net	3,587	32,100
Redemption of 8 3/4% convertible debentures	---	(176)
Redemption of senior notes		(50,505)
Redemption of 5 1/4% convertible subordinated debentures including premium put	(47,790)	
Dividends paid	(32,185)	(27,912)
Issuance of shares of beneficial interest	83,881	73,819
(Decrease) increase in minority interest	(105)	24
Net cash provided by financing activities	28,345	15,655
Decrease in cash	(2,321)	(26,021)
Cash at beginning of period	9,635	36,316
Cash at end of period	\$7,314	\$10,295

The accompanying notes are an integral part of these statements.

Federal Realty Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1994
(see accountants' review report)
(unaudited)

NOTE A - ACCOUNTING POLICIES AND OTHER DATA

Reference should be made to the notes to financial statements included in the Annual Report to shareholders for the year ended December 31, 1993 which contain the Trust's accounting policies and other data.

NOTE B - DIVIDENDS PAYABLE

On September 14, 1994 the Trustees declared a cash dividend of \$.395 per share, payable October 14, 1994 to shareholders of record September 26, 1994.

NOTE C - REAL ESTATE

On April 15, 1994 the Trust purchased Idylwood Plaza in Fairfax, Virginia for a cash price of \$14.3 million. On April 29, 1994 the Trust purchased North Lake Commons Shopping Center in Lake Zurich, Illinois for a cash price of \$10.8 million. A parcel of land with a grocery store adjoining the Trust's Bala Cynwyd Shopping Center was also purchased on April 29, for a cash price of \$990,000.

On July 28, 1994 the Trust acquired Garden Market Shopping Center which is located in the Village of Western Springs, Illinois, a suburb of Chicago for a cash price of \$7.3 million.

NOTE D - MORTGAGE NOTES RECEIVABLE

On March 1, 1994 the Trust loaned \$4.4 million to the lessor of Bethesda Row. The note, which bore interest at 10.625%, was due and repaid in September, 1994 and was secured by a portion of Bethesda Row, the leasehold interest in which was acquired by the Trust in December 1993.

At September 1994, the Trust has written off a \$700,000 second mortgage note plus accrued interest on a shopping center in Delaware. The note was issued in connection with the sale of the shopping center by the Trust in 1982.

NOTE E - MORTGAGES PAYABLE

On January 31, 1994 the Trust placed with a bank a \$22.5 million mortgage on Northeast Plaza in Atlanta, Georgia. The mortgage, which matures on January 31, 1995, originally bore interest at 150 basis points

over LIBOR (London Interbank Offered Rate). The interest rate was reduced to 100 basis points over LIBOR as of April 7, 1994 provided that the Trust does not draw over \$15.0 million on its \$20.0 million line of credit with the bank.

NOTE F - NOTES PAYABLE

In February 1994 the Trust obtained a \$15.0 million revolving credit facility with a bank, bringing the Trust's total availability of revolving credit facilities to \$85.0 million. All four facilities require fees and have covenants requiring a minimum shareholders' equity and a maximum ratio of debt to net worth. At September 30, 1994 there was \$28.0 million outstanding on these facilities. The average weighted interest rate on borrowings as of September 30, 1994 was 5.1%. The maximum amount borrowed under these facilities during the first nine months of 1994 was \$33.5 million.

In October 1994 the Trust either restated or amended its four separate bank agreements, increasing the total availability of revolving credit facilities to \$130.0 million. All four agreements have original maturities of three years and bear interest at LIBOR plus 85-100 basis points. All four agreements require fees and have covenants requiring, among other things, a minimum shareholders' equity and a maximum ratio of debt to net worth.

NOTE G - 5 1/4% CONVERTIBLE SUBORDINATED DEBENTURES DUE 2002

On April 30, 1994 \$39.8 million of the Trust's 5 1/4% convertible subordinated debentures due 2002 were redeemed at a redemption price equal to 120% of their principal amount or \$47.8 million. A principal amount of \$53,000 of these debentures were converted into 1,729 shares.

NOTE H - SHAREHOLDERS' EQUITY

On April 5, 1994 the Trust sold 840,000 shares at \$25.875 to an institutional investor, raising net proceeds of \$21.7 million. In a concurrent public offering, on April 6, 1994 the Trust sold 2.5 million shares at \$26 per share, raising net proceeds of \$61.3 million.

On January 1, 1994 under the terms of the 1993 Long-Term Incentive Plan, an officer of the Trust purchased 40,000 common shares at \$25 per share with the assistance of a \$1.0 million loan from the Trust. The loan, which has a term of 12 years, bears interest at 6.24%. One-sixteenth of the loan will be forgiven on January 31, 1995. Forgiveness of the remainder of the loan is subject to the future performance of the Trust.

13

During the first nine months of 1994, 45,740 shares were issued at prices ranging from \$20.50 a share to \$22.63 a share as the result of the exercise of stock options. The Trust accepted notes from its officers and employees of \$846,000 in connection with the issuance of certain of these shares.

NOTE I - INTEREST EXPENSE

The Trust incurred interest expense totaling \$23.7 million during the first nine months of 1994 and \$23.7 million during the first nine months of 1993, of which \$190,000 and \$200,000, respectively, were capitalized. Interest paid was \$31.3 million in the first nine months of 1994 and \$24.0 million in the first nine months of 1993.

NOTE J - COMMITMENTS AND CONTINGENCIES

The State of New Jersey Division of Taxation has assessed the Trust \$364,000 in taxes, penalty and interest for the years 1985 through 1990, since the State has disallowed the dividends paid deduction in

computing New Jersey taxable income. The Trust is protesting this assessment since the Trust believes that it is entitled to the deduction. At this time, the outcome of this matter is unknown; however in a case involving another real estate investment trust, the New Jersey tax court recently ruled that the dividends paid deduction was allowable.

The Trust's non real estate investments consist principally of \$426,000 of marketable equity securities, at market, and \$3.2 million of Olympia and York Senior First Mortgage Notes. The Olympia & York notes were written down in 1992 to management's best estimate of their net realizable value.

The North Carolina Department of the Environment, Health and Natural Resources ("DEHNR") issued a Notice of Violation ("NOV") against a drycleaner tenant at Eastgate Shopping Center in Chapel Hill, North Carolina concerning a spill at the shopping center. As owner of the shopping center, the Trust was named in and received a copy of the NOV. Estimates to remediate the spill range from \$300,000 to \$500,000. The Trust has entered into an agreement with two previous owners of the shopping center to share the costs to assess and remediate. In 1993 the Trust recorded a liability of \$120,000 as its estimated share of the clean up costs.

As previously reported, contaminants at levels in excess of New Jersey cleanup standards were identified at a shopping center in New Jersey. The Trust has retained an environmental consultant to investigate the contamination. The Trust is also evaluating whether it has insurance coverage for this matter. At this time, the Trust is unable to determine what the range of remediation costs might be. The Trust has also identified chlorinated solvent contamination at two Virginia properties. In each case, the contamination appears to be linked to the current and/or previous dry cleaner. The Trust intends to look to the responsible parties for any remediation effort. Evaluation of these situations is

14

preliminary and it is impossible to estimate the range of remediation costs, if any.

The Trust reserved \$2.25 million at closing in 1993 for environmental issues principally associated with Gaithersburg Square Shopping Center. Pursuant to an indemnity agreement entered into with the seller at closing, the Trust agreed to take certain actions with respect to identified chlorinated solvent contamination. The seller indemnified the Trust for certain third party claims and government requirements related to contamination at adjacent properties.

At September 30, 1994 in connection with certain redevelopment projects, the Trust is contractually obligated on contracts of approximately \$5.9 million. At September 30, 1994 the Trust is also contractually obligated under leases with tenants to provide approximately \$4.4 million for improvements.

NOTE K - COMPONENTS OF RENTAL INCOME

The components of rental income for the nine months ended September 30 are as follows:

	1994	1993
	(in thousands)	
Shopping Centers		
Minimum rents	\$72,043	\$59,796
Cost reimbursements	17,025	12,677
Percentage rents	3,328	2,953
Apartments	1,772	1,759
	-----	-----
	\$94,168	\$77,185
	=====	=====

FEDERAL REALTY INVESTMENT TRUST
FORM 10-Q
SEPTEMBER 30, 1994

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Federal Realty meets its liquidity requirements through net cash provided by operating activities, long-term borrowing through debt offerings and mortgages, medium and short-term borrowing under lines of credit, and equity offerings. Because all or a significant portion of the Trust's net cash provided by operating activities is distributed to shareholders, capital outlays for property acquisitions, renovation projects and debt repayments require funding from borrowing or equity offerings.

During the first nine months of 1994, the Trust spent \$33.8 million in cash to acquire properties: the 73,405 square foot Idylwood Shopping Center in Fairfax, Virginia; the 121,000 square foot North Lake Commons Shopping Center and the 125,747 square foot Garden Market Shopping Center in suburban Chicago, Illinois; and a parcel of land adjacent to the Trust's Bala Cynwyd Shopping Center containing a 36,370 square foot grocery store. During this period the Trust also spent \$27.5 million in improvements to its properties; included in these improvements were \$9.7 million, \$3.8 million and \$1.7 million towards the redevelopment and retenanting of Congressional Shopping Center, Ellisburg Circle Shopping Center and Gaithersburg Square Shopping Center, respectively.

In April 1994 \$39.8 million of the Trust's 5 1/4% convertible subordinated debentures due 2002 were redeemed at a price equal to 120% of their principal amount or \$47.8 million.

These expenditures were funded by sales of equity and additional borrowings. In April the Trust raised net proceeds of \$61.3 million from a public offering of 2.5 million shares. In a concurrent offering of 840,000 shares to an institutional investor, the Trust raised net proceeds of \$21.7 million; since there was no underwriter in this offering, the Trust saved approximately \$1.2 million in underwriting fees, based on the schedule of fees in the concurrent public offering. In January 1994 the Trust placed a \$22.5 million one year mortgage on Northeast Plaza in Atlanta, Georgia.

At September 30, 1994 the Trust had available \$85.0 million of

unsecured medium-term revolving credit facilities with four banks. In October 1994 the Trust either amended or restated these agreements, increasing the total availability to \$130.0 million. The facilities, which require fees and have covenants requiring a minimum shareholders' equity and a maximum ratio of debt to net worth, are used to fund

16

acquisitions and other cash requirements until conditions are favorable for issuing equity or long-term debt. At September 30, 1994 there was \$28.0 million outstanding on these facilities. The facilities bear interest at LIBOR plus 85-100 basis points. The average weighted interest rate on borrowings through September 30, 1994 was 5.1%. The maximum amount borrowed under these facilities during the first nine months of 1994 was \$33.5 million.

The Trust is committed under leases for approximately \$4.4 million in tenant work. In addition in connection with certain redevelopment projects, the Trust is contractually obligated on contracts of approximately \$5.9 million. The Trust is actively seeking to acquire both existing shopping centers and sites for development of new shopping centers. Accordingly since the Trust has identified certain opportunities for development of new shopping centers, the Trustees have amended the Bylaws to allow the Trust to acquire raw land for the purpose of new development of shopping centers. Management believes that carefully planned development can offer yields that exceed the yields obtainable on the purchase of existing properties, thereby compensating for the additional risk to the Trust. These expenditures will be funded with the revolving credit facilities pending their permanent financing with either equity or debt. The Trust believes that the unencumbered value of its properties and its access to the capital markets, as demonstrated by its past success in raising capital, give it the ability to raise the capital, both debt and equity, needed to fund these activities as well as its longer term growth and debt refinancing needs.

CONTINGENCIES

The State of New Jersey Division of Taxation has assessed the Trust \$364,000 in taxes, penalty and interest for the years 1985 through 1990, since the State has disallowed the dividends paid deduction in computing New Jersey taxable income. The Trust is protesting this assessment since the Trust believes that it is entitled to the deduction. At this time, the outcome of this matter is unknown; however in a case involving another real estate investment trust, the New Jersey tax court recently ruled that the dividends paid deduction was allowable.

Included in the Trust's non real estate investments of \$3.7 million is \$3.2 million of Olympia and York Senior First Mortgage Notes. The Olympia and York notes were written down during 1992 to management's best estimate of their net realizable value. Interest income on these notes is not being recorded as revenue, but is being treated as a reduction of principal.

As previously reported, certain of the Trust's shopping centers have been contaminated. The North Carolina Department of the Environment, Health and Natural Resources ("DEHNR") issued a Notice of Violation ("NOV") against a drycleaner tenant at Eastgate Shopping Center in Chapel Hill, North Carolina concerning a spill at the shopping center. As owner of the shopping center, the Trust was named in and received a copy of the NOV. Estimates to remediate the spill range from \$300,000 to \$500,000.

17

The Trust has entered into an agreement with two previous owners of the shopping center to share the costs to assess and remediate. In 1993 the Trust recorded a liability of \$120,000 as its estimated share of the clean up costs.

Contaminants at levels in excess of New Jersey cleanup standards were identified at a shopping center in New Jersey. The Trust has retained an environmental consultant to investigate the contamination. The Trust is also evaluating whether it has insurance coverage for this matter. At this time, the Trust is unable to determine what the range of remediation costs might be. The Trust has also identified chlorinated solvent contamination at two Virginia properties. In each case, the contamination appears to be linked to the current and/or previous dry cleaner. The Trust intends to look to the responsible parties for any remediation effort. Evaluation of these situations is preliminary and it is impossible to estimate the range of remediation costs, if any.

The Trust reserved \$2.25 million at closing in 1993 for environmental issues principally associated with Gaithersburg Square Shopping Center. Pursuant to an indemnity agreement entered into with the seller at closing, the Trust agreed to take certain actions with respect to identified chlorinated solvent contamination. The seller indemnified the Trust of certain third party claims and government requirements related to contamination at adjacent properties.

RESULT OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 1994 AND 1993

Funds from operations is defined as income before depreciation and amortization and extraordinary items less gains on sale of real estate. Management believes that funds from operations is an appropriate supplemental measure of the Trust's operating performance because it believes that reductions for depreciation and amortization charges are not meaningful in evaluating income-producing real estate, which have historically been appreciating assets. The Trust acquires, evaluates and sells income-producing properties based upon operating income without taking into account property depreciation and amortization charges and utilizes funds from operations, together with other factors in setting shareholder distribution levels. Gains on sale of real estate and extraordinary items are also excluded from this supplemental measure of performance because such amounts are not part of the ongoing operations of the Trust's portfolio. Funds from operations does not replace net income as a measure of performance or net cash provided by operating activities as a measure of liquidity.

Funds from operations increased 22% to \$36.0 million in the first nine months of 1994 from \$29.6 million in the first nine months of 1993. If funds from operations are adjusted to remove the effect of a nonrecurring write off of a mortgage note receivable, funds from operations increased 24% to \$36.7 million from \$29.6 million.

During the first nine months of 1994, rental income, which consists of minimum rent, percentage rent and cost recoveries, increased

22% to \$94.2 million from 1993's \$77.2 million. If rental income is adjusted to remove the effect of properties purchased in 1993 and 1994, rental income increased 7.0%, despite a \$700,000 reduction in rental income at Congressional Plaza, whose occupancy was reduced during its redevelopment. The components of rental income with the greatest change are minimum rent and common area maintenance recovery (CAM recovery). Minimum rent increased 20% from the first nine months of 1993 to the comparable period of 1994; removing the effect of properties purchased in 1993 and 1994, the increase was 4%. CAM recovery on the portfolio, adjusted to remove the effect of properties purchased in 1993 and 1994, increased \$2.8 million due to the corresponding increase in CAM expenses such as snow removal, landscaping and security costs.

Other income, which includes items which tend to fluctuate from

period to period, such as utility reimbursements, telephone income, merchant association dues, lease termination fees, late fees and temporary tenant income, has increased from \$3.9 million in 1993 to \$4.1 million in 1994.

Rental expenses have increased from \$19.4 million for the first nine months of 1993 to \$27.2 million for the first nine months of 1994. If rental expenses are adjusted to remove the effect of properties purchased in 1993 and 1994, rental expenses increased 14% or \$2.5 million, primarily because of an increase in snow removal due to the heavy snows of 1994 and because of increased security costs. Real estate taxes have increased primarily because of the 1993 and 1994 acquisitions. Depreciation and amortization charges increased because of the new acquisitions, but also because of depreciation on recent tenant work and property improvements.

While interest expense has stayed relatively constant at \$23.5 million in both periods, the components have changed. Decreases in interest expense resulting from the repayment of several mortgages and the senior notes in 1993 and the redemption on April 30, 1994 of the 5 1/4% convertible debentures due 2002 were offset by increases in interest expense because of the issuance of the 5 1/4% convertible subordinated debentures due 2003, because of the interest portion of the capital lease payment on Bethesda Row, and because of interest on increased usage of the revolving credit facilities.

Administrative expenses are increasing as the Trust grows and as it seeks new acquisition and development opportunities. A major component of the increase in 1994 over 1993 is an increase in costs connected with the review and analysis of properties which were not acquired. During the third quarter of 1994 the Trust has written down a mortgage note receivable and accrued interest on the note, totalling \$758,000. The note was issued in 1982 in connection with the sale by the Trust of a shopping center in Delaware. Although the Trust will continue to pursue payment of the note, due to the current cash flow of the collateral property, collectibility is not certain.

Income before extraordinary item increased from \$10.9 million during the first nine months of 1993 to \$14.3 million during the

comparable period of 1994 because of the contribution of 1993 and 1994 acquisitions and because of growth in the core portfolio.

During the first nine months of 1993 the Trust incurred losses on the early extinguishment of debt of \$1.0 million due to the prepayment of two mortgages and the redemption of its 8 3/4% convertible subordinated debentures and senior notes.

As a result of the foregoing items, primarily the increases in property income, net income rose from \$9.9 million in the first nine months of 1993 to \$14.3 million in the first nine months of 1994.

RESULTS OF OPERATIONS-THREE MONTHS ENDED SEPTEMBER 30, 1994 AND 1993

Funds from operations increased 13% from \$11.1 million in the third quarter of 1993 to \$12.5 million in the third quarter of 1994. If funds from operations are adjusted to remove the nonrecurring charge of \$758,000 for a write down of a mortgage note, funds from operations increased 20% from \$11.1 million in the third quarter of 1993 to \$13.3 million in the third quarter of 1994. Rental income increased 22% from \$26.5 million in the third quarter of 1993 to \$32.2 million in the comparable period of 1994. If the contribution of the new acquisitions is excluded, rental income increased 7.6% or \$1.9 million; the increase is related primarily to increases in minimum rent and CAM recovery.

Rental expenses increased from \$6.7 million during the third quarter of 1993 to \$9.2 million during the same period of 1994, primarily

because of the 1993 and 1994 acquisitions. Real estate taxes also rose from 1993 to 1994 because of the recent acquisitions. If the properties acquired in 1993 and 1994 are excluded, rental expenses increased approximately \$500,000. The 1993 and 1994 acquisitions were the primary cause of the increase in depreciation and amortization expense, followed by increased depreciation on recent tenant work and renovations.

Interest expense has increased from \$7.3 million in the third quarter of 1993 to \$7.7 million in the third quarter of 1994. Decreases in interest expense resulting from the repayment of several mortgages in 1993 and the redemption on April 30, 1994 of the 5 1/4% convertible debentures due 2002 are offset by increases in interest because of the issuance of the 5 1/4% convertible subordinated debentures due 2003, because of the interest portion of the capital lease payment on Bethesda Row, and because of interest on increased usage of the revolving credit facilities.

Administrative expenses are increasing as the Trust grows and as it seeks new development and acquisition opportunities. During the third quarter of 1994, a major component of the increase in 1994 administrative expense over 1993 expenses is the increase of costs connected with the review and analysis of properties which were not acquired.

20

During the third quarter of 1994 the Trust has written down a mortgage note receivable and accrued interest on the note, totalling \$758,000. The note was issued in 1982 in connection with the sale by the Trust of a shopping center in Delaware. Although the Trust will continue to pursue payment of the note, due to the current cash flow of the collateral property, collectibility is not certain.

As a result of the foregoing items, net income rose from \$4.5 million for the third quarter of 1993 to \$5.0 million for the third quarter of 1994.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FEDERAL REALTY INVESTMENT TRUST
(Registrant)

Date: November 10, 1994

Steven J. Guttman

Steven J. Guttman, President
(Chief Executive Officer)

Date: November 10, 1994

Cecily A. Ward

Cecily A. Ward
(Principal Accounting Officer)

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the Consolidated Balance Sheet of Federal Realty Investment Trust as of September 30, 1994 and the related consolidated statement of operations for the nine months ended September 30, 1994 and is qualified in its entirety by reference to such financial statements.

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