CRESCENT REAL ESTATE EQUITIES CO
Form 10-K
March 13, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________________ to
Commission file number 1-13038
CRESCENT REAL ESTATE EQUITIES COMPANY

(Exact name of registrant as specified in its charter)

TEXAS	52-1862813
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

777 Main Street, Suite 2100, Fort Worth, Texas 76102

(Address of principal executive offices) (Zip code)

Registrant s telephone number, including area code (817) 321-2100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of Each Exchange on Which Registered:
Common Shares of Beneficial Interest par value $0.01 per share	New York Stock Exchange
Series A Convertible Cumulative Preferred Shares of Beneficial Interest par value $0.01 per share	New York Stock Exchange
Series B Cumulative Redeemable Preferred Shares of Beneficial Interest par value $0.01 per share	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES o NO þ

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 twelve (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 ninety (90) days.

YES þ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO þ
As of June 30, 2005, the aggregate market value of the 92,715,187 common shares held by non-affiliates of the registrant was approximately $1.7 billion.

Number of Common Shares outstanding as of February 23, 2006:	101,660,271
Number of Series A Preferred Shares outstanding as of February 23, 2006:	14,200,000
Number of Series B Preferred Shares outstanding as of February 23, 2006:	3,400,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be filed with the Securities and Exchange Commission for Registrant s 2006 Annual Meeting of Shareholders to be held in May 2006 are incorporated by reference into Part III.

TABLE OF CONTENTS

	Page
PART I.	
Item 1. Business	3
Item 1A. Risk Factors	12
Item 1B. Unresolved Staff Comments	23
Item 2. Properties	23
Item 3. Legal Proceedings	33
Item 4. Submission of Matters to a Vote of Security Holders	33
PART II.	
Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	34
Item 6. Selected Financial Data	36
Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations	37
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	71
Item 8. Financial Statements and Supplementary Data	72
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	131
Item 9A. Controls and Procedures	131
Item 9B. Other Information	135
PART III.	
Item 10. Trust Managers and Executive Officers of the Registrant	135
Item 11. Executive Compensation	135
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	135
Item 13. Certain Relationships and Related Transactions	135
Item 14. Principal Accountant Fees and Services	135
PART IV.	
Item 15. Exhibits and Financial Statement Schedules	136
Fourth Amended and Restated Bylaws	
List of Subsidiaries	
Consent of Ernst & Young LLP	
Certifications of CEO and CFO Pursuant to Section 302	
Certifications of CEO and CFO Pursuant to Section 906	

Table of Contents

PART I

Item 1. Business

References to we, us or our refer to Crescent Real Estate Equities Company and, unless the context otherwise requires, Crescent Real Estate Equities Limited Partnership, which we refer to as our Operating Partnership, and our other direct and indirect subsidiaries. We conduct our business and operations through the Operating Partnership, our other subsidiaries and our joint ventures. References to Crescent refer to Crescent Real Estate Equities Company. The sole general partner of the Operating Partnership is Crescent Real Estate Equities, Ltd., a wholly-owned subsidiary of Crescent Real Estate Equities Company, which we refer to as the General Partner.

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as plans, intends, estimates, anticipates, expects, believes or similar expressions in this Form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors, see Item 1A. Risk Factors in this Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

General

We operate as a real estate investment trust, or REIT, for federal income tax purposes and provide management, leasing and development services for some of our properties.

At December 31, 2005, our assets and operations consisted of four investment segments:

- Office Segment;
- Resort Residential Development Segment;
- Resort/Hotel Segment; and
- Temperature-Controlled Logistics Segment.

Within these segments, we owned in whole or in part the following operating real estate assets, which we refer to as the Properties, as of December 31, 2005:

- **Office Segment** consisted of 75 office properties, which we refer to as the Office Properties, located in 26 metropolitan submarkets in seven states, with an aggregate of approximately 30.7 million net rentable square feet. Fifty-four of the Office Properties are wholly-owned and 21 are owned through joint ventures, one of which is consolidated in our financial statements contained in Item 8, Financial Statements and Supplementary Data, and 20 of which are unconsolidated.

- **Resort Residential Development Segment** consisted of our ownership of common stock representing interests of 98% to 100% in four Resort Residential Development Corporations and two limited partnerships, which are consolidated. These Resort Residential Development Corporations, through partnership arrangements, owned in whole or in part 23 active and planned upscale resort residential development properties, which we refer to as the Resort Residential Development Properties.

Resort/Hotel Segment consisted of five luxury and destination fitness resorts and spas with a total of 1,034 rooms/guest nights and three upscale business-class hotel properties with a total of 1,376 rooms, which we refer to as the Resort/Hotel Properties. Five of the Resort/Hotel Properties are wholly-owned, one is owned through a joint venture that is consolidated and two are owned through joint ventures that are unconsolidated.

Temperature-Controlled Logistics Segment consisted of our 31.7% interest in AmeriCold Realty Trust, or AmeriCold, a REIT. As of December 31, 2005, AmeriCold operated 101 facilities, of which 84 were wholly-owned, one was partially-owned and sixteen were managed for outside owners. The 85 owned facilities, which we refer to as the Temperature-Controlled Logistics Properties, had an aggregate of approximately 437.2 million cubic feet (17.4 million square feet) of warehouse space. AmeriCold also owned two quarries and the related land.

See Note 3, Segment Reporting, included in Item 8, Financial Statements and Supplementary Data, for a table showing selected financial information for each of these investment segments for the three years ended December 31, 2005, 2004 and 2003, and total assets, consolidated property level financing, consolidated other liabilities and minority interests for each of these investment segments at December 31, 2005 and 2004.

See Note 1, Organization and Basis of Presentation, included in Item 8, Financial Statements and Supplementary Data, for a table that lists our principal subsidiaries and the properties that they own.

See Note 10, Investments in Unconsolidated Companies, included in Item 8, Financial Statements and Supplementary Data, for a table that lists our ownership in significant unconsolidated joint ventures and investments as of December 31, 2005.

Business Objectives and Strategies Overview

We are a REIT with assets and operations divided into four investment segments: Office, Resort Residential Development, Resort/Hotel and Temperature-Controlled Logistics. Our primary business objective is to be the recognized leader in real estate investment management of premier commercial office assets and to allocate capital to high-yielding resort and resort residential real estate. We strive to provide an attractive return on equity to our shareholders, through our focus on increasing earnings, cash flow growth and predictability, and continually strengthening our balance sheet. We also strive to attract and retain the best talent available, to align their interests with the interests of our shareholders and to empower management through the development and implementation of a cohesive set of operating, investing and financing strategies. Our overall business strategy has two key elements.

First, we seek to capitalize on our award-winning office management platform. We intend to accomplish this by investing in premier office properties in select markets that offer attractive returns on invested capital. Our strategy is to align ourselves with institutional partners and become a significant manager of institutional capital. We believe this partnering makes us more competitive in acquiring new properties, and it enhances our return on equity by 300 to 500 basis points when compared to the returns we receive as a 100% owner. Where possible, we strive to negotiate performance-based incentives that allow for additional equity to be earned if return targets are exceeded. We were able to realize this increased return on equity from our promoted interest earned on the sale of Five Houston Center in December 2005.

Consistent with this strategy, we continually evaluate our existing portfolio for potential joint-venture opportunities. We currently hold 48% of our office portfolio in joint ventures, and we will continue to joint venture more assets in our portfolio, which will enable us to further increase our return on equity as well as gain access to equity for reinvestment.

We also seek to selectively develop new office properties where we see the opportunity for attractive returns. We started construction in the third quarter of 2005 on a new 239,000 square-foot office building as an addition to the Hughes Center complex in Las Vegas, Nevada. We recently entered into a joint venture with Hines to develop a 265,000 square-foot office building in Irvine, California, and we also entered into a joint venture with JMI Realty to co-develop a 233,000 square-foot, three-building office complex in San Diego, California. Additionally, we provide mezzanine financing to other office and hotel investors where we see attractive returns relative to owning the equity. We have entered into approximately $187.7 million of mezzanine financing investments, of which approximately $124.7 million relates to Office Properties, since the end of 2004. Subsequent to December 31, 2005, two of our

mezzanine investments totaling $50.3 million were repaid.

Table of Contents

Second, we invest in real estate businesses that offer returns equal to or superior to what we are able to achieve in our office investments. We develop and sell residential properties in resort locations primarily through Harry Frampton and his East West Partners development team with the most significant project in terms of future cash flow being our investment in Tahoe Mountain Resorts in California. This development encompasses more than 2,500 total lots and units, of which 340 have been sold, 89 are currently in inventory, and over 2,150 are scheduled for development over the next 14 years, and is expected to generate in excess of $4.7 billion in sales. We expect our investment in Tahoe to be a long-term source of earnings and cash flow growth as new projects are designed and developed. We view our resort residential developments as a business and believe that, beyond the net present value of existing projects, there is value in our strategic relationships with the development teams and our collective ability to identify and develop new projects.

In 2005, we also completed the recapitalization of our Canyon Ranch investment. We believe Canyon Ranch is well positioned for significant growth, with a large portion of this growth over the near term coming from the addition of several Canyon Ranch Living communities. The focal point of these communities is a large, comprehensive wellness facility. Canyon Ranch will partner with developers on these projects and earn fees for the licensing of the brand name, design and technical services, and the ongoing management of the facilities. Canyon Ranch currently has one such development under construction in Miami Beach and others are under consideration or in negotiation.

Available Information

You can find our website on the Internet at www.crescent.com. We provide free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after electronically filed with or furnished to the Securities and Exchange Commission.

Employees

As of February 23, 2006, we had approximately 749 employees. None of these employees are covered by collective bargaining agreements. We consider our employee relations to be good.

Tax Status

We have elected to be taxed as a REIT under Sections 856 through 860 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, and operate in a manner intended to enable us to continue to qualify as a REIT. As a REIT, we generally will not be subject to corporate federal income tax on net income that we currently distribute to our shareholders, provided that we satisfy certain organizational and operational requirements including the requirement to distribute at least 90% of our REIT taxable income to our shareholders each year. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates. We are subject to certain state and local taxes.

We have elected to treat certain of our corporate subsidiaries as taxable REIT subsidiaries, each of which we refer to as a TRS. In general, a TRS may perform additional services for our tenants and may engage in any real estate or non-real estate business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax.

Table of Contents

Environmental Matters

We and our Properties are subject to a variety of federal, state and local environmental, health and safety laws, including:

- Comprehensive Environmental Response, Compensation, and Liability Act, as amended (CERCLA);
- Resource Conservation & Recovery Act;
- Clean Water Act;
- Clean Air Act;
- Toxic Substances Control Act; and
- Occupational Safety & Health Act.

The application of these laws to a specific property that we own will be dependent on a variety of property-specific circumstances, including the former uses of the property and the building materials used at each property. Under certain environmental laws, principally CERCLA and comparable state laws, a current or previous owner or operator of real estate may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum product releases at the property. They may also be held liable to a governmental entity or third parties for property damage and for investigation and clean up costs such parties incur in connection with the contamination, whether or not the owner or operator knew of, or was responsible for, the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The owner or operator of a site also may be liable under certain environmental laws and common law to third parties for damages and injuries resulting from environmental contamination emanating from the site. Such costs or liabilities could exceed the value of the affected real estate. The presence of contamination or the failure to remediate contamination may adversely affect the owner s ability to sell or lease real estate or to borrow using the real estate as collateral.

Our compliance with existing environmental, health and safety laws has not had a material adverse effect on our financial condition or results of operations, and management does not believe it will have such an effect in the future. To further protect our financial interests regarding environmental matters, we have in place a Pollution and Remediation Legal Liability insurance policy which will respond in the event of certain future environmental liabilities. In addition, we are not aware of any outstanding or future material costs or liabilities due to environmental contamination at properties we currently own or owned in the past. However, we cannot predict the impact of new or changed laws or regulations on our current properties or on properties that we may acquire in the future.

Table of Contents

INDUSTRY SEGMENTS

Office Segment

Ownership Structure

As of December 31, 2005, we owned or had an interest in 75 Office Properties located in 26 metropolitan submarkets in seven states, with an aggregate of approximately 30.7 million net rentable square feet. As lessor, we have retained substantially all of the risks and benefits of ownership of the Office Properties and account for the leases of our 55 consolidated Office Properties as operating leases. Fifty-four of the Office Properties are wholly-owned and 21 are owned through joint ventures, one of which is consolidated and 20 of which are unconsolidated. Additionally, we provide management and leasing oversight services for all of our Office Properties.

Market Information

The Office Property portfolio reflects our strategy of investing in first-class assets within markets that have significant potential for long-term rental growth. Within our selected submarkets, we have focused on premier locations that management believes are able to attract and retain the highest quality tenants and command premium rents. Consistent with our long-term investment strategies, we have sought new acquisitions that have strong economic returns based on in-place tenancy and/or strong value-creation potential given the market and Crescent s core competencies. Moreover, we have also sought assets with dominant positions within their markets and submarkets due to quality and/or location, which mitigates the risks of market volatility. Accordingly, management s long-term investment strategy not only demands an acceptable current cash flow return on invested capital, but also considers long-term cash flow growth prospects. We apply a well-defined leasing strategy in order to capture the potential rental growth in our portfolio of Office Properties from occupancy gains within the markets and the submarkets in which we have invested.

In selecting the Office Properties, we have analyzed demographic, economic and market data to identify metropolitan areas expected to enjoy significant long-term employment and office demand growth. The markets in which we are currently invested are projected to continue to exceed national employment and population growth rates, as illustrated in the following table. In addition, we consider these markets demand-driven. Our office investment strategy also includes metropolitan regions with above national average economic expansion rates combined with significant office development supply constraints. Additionally, our investment strategy seeks geographic and regional economic diversification within markets expected to experience excellent economic and office demand growth.

Our major office markets, which include Dallas, Houston, Austin, Denver, Miami and Las Vegas, currently enjoy rising employment and are anticipated to be among the leading metropolitan areas for population and employment growth over the next three years.

Projected Population Growth and Employment Growth for all Company Markets

Metropolitan Statistical Area	Population Growth 2006-2008	Employment Growth 2006-2008
United States	3.3%	4.5%
Atlanta, GA	6.6	5.7
Austin, TX	8.6	12.2
Dallas, TX	6.1	7.6
Denver, CO	3.6	4.8
Fort Worth, TX	6.2	7.9
Houston, TX	5.6	7.6
Las Vegas, NV	10.2	6.7
Miami, FL	3.0	2.5
Orange County, CA	3.7	5.6
Seattle, WA	4.8	8.3

Source: Reis, Inc. Data represents total percentage change for years 2006, 2007 and 2008.

Table of Contents

Unemployment Rates for Company Markets

Market	As of December 31, 2005	2004
United States	4.6%	5.1%
Texas	4.8	5.8
Dallas	4.7	5.7
Houston	5.3	5.9
Austin	3.9	4.7
Denver	4.6	5.4
Miami	3.7	5.5
Las Vegas	3.5	3.8

Source: U.S. Bureau of Labor Statistics and Texas Workforce Commission. Not seasonally adjusted.

The performance of all of our office markets improved in 2005. Occupancy rose in all of our major markets except Dallas. Dallas would have had a positive absorption of over 1.5 million square feet had not three essentially vacant owner-occupied buildings been sold for multi-tenant use. In all other measures, Dallas is showing slow improvement. Net absorption was positive in all but one of our major markets. Houston had negative absorption in the first half of the year but a strong fourth quarter 2005 performance of 1.2 million square feet. The Denver and Austin markets both experienced substantial improvement in 2005, although Austin s gains are still primarily in the suburban office markets. Miami and Las Vegas remain among the healthiest office markets in the country.

Office Market Absorption and Occupancy for Major Company Markets

	Economic Net Absorption[1] All Classes (in square feet)		Economic Net Absorption[1] Class A (in square feet)		Economic Occupancy[2] All Classes		Economic Occupancy[2] Class A	
Market	2005	2004	2005	2004	2005	2004	2005	2004
Dallas	(128,000)	1,281,000	1,111,000	759,000	76.7%	77.0%	80.6%	79.5%
Houston	1,201,000	315,000	(204,000)	(328,000)	83.4	83.0	83.7	84.3
Austin	1,079,000	1,098,000	362,000	1,150,000	83.8	81.9	83.2	81.3
Denver	2,864,000	580,0000	799,000	678,000	84.1	82.4	84.8	82.7
Miami	2,308,000	1,507,000	895,000	1,076,000	89.9	89.6	88.7	88.1
Las Vegas	2,068,000	1,892,000	305,000	615,000	91.5	88.8	91.9	91.1

Sources: CoStar Group for non-medical and non-owner-occupied buildings greater than 15,000 square feet (Dallas, Houston, Austin, Denver and Miami); Grubb & Ellis Las Vegas (Las Vegas).

(1) Economic net absorption is the change in leased space from one period to another.

(2) Economic occupancy reflects the occupancy of all tenants paying rent.

One of the reasons for the improved occupancy in 2005 is that most of our major markets have relatively low levels of construction activity. Therefore, all positive net absorption translates directly into higher occupancy rates. The only market that has significant construction (relative to its size) is Las Vegas, and its occupancy levels demonstrate that this space, which is almost entirely Class B, is being readily absorbed.

Table of Contents

Office Market Construction Activity for Major Company Markets

(in square feet)	Office Space Completions All Classes		Office Space Completions Class A		Office Space Under Construction 2005	
Market	**2005**	**2004**	**2005**	**2004**	**All Classes**	**Class A**
Dallas	583,000	462,000	335,000	181,000	2,676,000	2,211,000
Houston	669,000	460,000	312,000	160,000	746,000	439,000
Austin	340,000	222,000		74,000	291,000	148,000
Denver	487,000	946,000		351,000	1,110,000	364,000
Miami	557,000	1,164,000	36,000	889,000	694,000	328,000
Las Vegas	1,043,000	1,714,000	326,000	210,000	1,865,000	328,000

Sources: CoStar Group (Dallas, Houston, Austin, Denver and Miami); Restrepo Consulting Group, LLC (Las Vegas).

Competition

Our Office Properties, primarily Class A properties located within the Southwest, individually compete against a wide range of property owners and developers, including property management companies and other REITs that offer space in similar classes of office properties (specifically Class A properties). A number of these owners and developers may own more than one property. The number and type of competing properties in a particular market or submarket could have a material effect on our ability to lease space and maintain or increase occupancy or rents in our existing Office Properties. We believe, however, that the quality services and individualized attention that we offer our tenants, together with our active preventive maintenance program and superior building locations within markets, enhance our ability to attract and retain tenants for our Office Properties. In addition, as of December 31, 2005, on a weighted average basis, we owned approximately 13.0% of the Class A office space in the 26 submarkets in which we owned Class A office properties, and 22.7% of the Class B office space in the one submarket in which we owned Class B office properties. We believe that ownership of a significant percentage of office space in a particular market reduces property operating expenses, enhances our ability to attract and retain tenants and potentially results in increases in our net income.

Diversified Tenant Base

Our top five tenants accounted for approximately 11.5% of our total Office Segment revenues as of December 31, 2005. The loss of one or more of our major tenants would have a temporary adverse effect on our financial condition and results of operations until we are able to re-lease the space previously leased to these tenants. Based on rental revenues from office leases in effect as of December 31, 2005, no single tenant accounted for more than 6.0% of our total Office Segment revenues for 2005.

In June 2005, we entered into an agreement with our largest office tenant, El Paso Energy Services Company and certain of its subsidiaries, which will terminate El Paso s leases relating to a total of 888,000 square feet at Greenway Plaza in Houston, Texas effective December 31, 2007. See Recent Developments in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, for additional information on this lease termination.

Resort Residential Development Segment

Ownership Structure

As of December 31, 2005, we owned equity interests of 98% to 100% in four Resort Residential Development Corporations and two limited partnerships which are consolidated. These Resort Residential Development Corporations, through partnership arrangements, owned in whole or in part 23 active and planned upscale resort residential development properties, which we refer to as the Resort Residential Development Properties. The partnerships, for the majority of which we are not the general partner, are responsible for the continued development and the day-to-day operations of the Resort Residential Development Properties.

Competition and Market Information

Our Resort Residential Development Properties compete against a variety of other housing alternatives in each of their respective areas. These alternatives include other planned developments, pre-existing single-family homes, condominiums, townhouses and non-owner occupied housing, such as luxury apartments. These developments focus primarily on the buying power of aging baby boomers. Management believes that the properties owned by CRDI and Desert Mountain, representing our most significant investments in Resort Residential Development Properties, contain certain features that provide competitive advantages to these developments.

CRDI invests primarily in mountain resort residential real estate in Colorado and California, as well as in downtown Denver, Colorado. Management believes that the Properties owned by CRDI have limited direct competitors because the projects locations and product offerings are unique, land availability is limited and development rights are restricted in most of these locations.

Desert Mountain, a luxury resort residential and recreational private community in Scottsdale, Arizona, offers six 18-hole Jack Nicklaus signature golf courses with adjacent clubhouses. Management believes Desert Mountain has few direct competitors due in part to the superior natural surroundings and the amenity package that Desert Mountain offers to its members. Sources of competition come from the resale market of existing lots and homes within Desert Mountain and from a few smaller projects in the area. In addition, future resort residential golf development in the Scottsdale area is limited due to the lack of water available for golf course use.

Resort residential development demand is highly dependent upon the national economy, mortgage interest rates and home sales. As the economy showed signs of improvement in 2005, we generally experienced improved activity, absorption and pricing in all regions of our resort residential development investments.

Resort/Hotel Segment

Ownership Structure

As of December 31, 2005, we owned or had an interest in five luxury and destination fitness resorts and spas and three upscale business-class hotel properties which we refer to as the Resort/Hotel Properties. We hold one of the Resort/Hotel Properties, the Fairmont Sonoma Mission Inn & Spa, through a joint venture arrangement, pursuant to which we own an 80.1% interest in the limited liability company, which is consolidated, that owns the property. We hold two of the Resort/Hotel Properties, Canyon Ranch Tucson and Canyon Ranch Lenox, through an unconsolidated joint-venture arrangement, pursuant to which we own a 48% interest in the limited liability companies that own the properties. The remaining five Resort/Hotel Properties are wholly-owned.

Seven of the Resort/Hotel Properties are leased to taxable REIT subsidiaries that we own or in which we have an interest. The Omni Austin Hotel is leased to HCD Austin Corporation, an unrelated third party. Third-party operators manage all of the Resort/Hotel Properties.

Market Information

Lodging demand is highly dependent upon the global economy and volume of business travel as well as leisure travel. The hospitality market began to soften in early 2001 as the national economy went into recession. In 2001 and 2002, the industry experienced declines in occupancy, room rates and revenue per available room, or RevPAR, (RevPAR is a combination of occupancy and room rates and is the chief measure of hotel market performance). Leisure travel recovered slightly in 2003, but business travel remained weak. As a result, market conditions were flat in 2003. In 2004, not only did leisure travel rise, but business travel increased for the first time since 2000, registering healthy gains in occupancy, room rates and RevPAR. 2005 was also favorable for the national hotel industry. In 2005, the national occupancy rate as reported by Smith Travel Research experienced a 1.8 percentage point increase to 63.1%, a 5.3% rise in average daily room rates, or ADR, and an 8.4% gain in RevPAR. For the luxury section of the industry, the most comparable to our 2005 portfolio, hotel occupancy rose 2.4 percentage points to 70.2%, ADR increased 7.6% and RevPAR climbed 11.5%.

Table of Contents

Competition

We believe that our luxury and destination fitness resorts and spas are unique properties due to location, concept and high replacement cost, all of which create barriers for competition to enter. However, the luxury and destination fitness resorts and spas do compete against business-class hotels or middle-market resorts in their geographic areas, as well as against luxury resorts nationwide and around the world. Our upscale business class Resort/Hotel Properties in Denver, Austin and Houston are business and convention center hotels that compete against other business and convention center hotels.

Temperature-Controlled Logistics Segment

Ownership Structure

As of December 31, 2005, the Temperature-Controlled Logistics Segment consisted of our 31.7% interest in AmeriCold Realty Trust, or AmeriCold, a REIT, which is unconsolidated. AmeriCold operates 101 facilities, of which 84 are wholly-owned, one is partially-owned and sixteen are managed for outside owners. The 85 owned facilities, which we refer to as the Temperature-Controlled Logistics Properties, have an aggregate of approximately 437.2 million cubic feet (17.4 million square feet) of warehouse space. AmeriCold also owns two quarries and the related land.

Business and Industry Information

AmeriCold provides the food industry with refrigerated warehousing, transportation management services and other logistical services. The Temperature-Controlled Logistics Properties consist of production, distribution and public facilities. In addition, AmeriCold manages facilities owned by its customers for which it earns fixed and incentive fees. Production facilities differ from distribution facilities in that they typically serve one or a small number of customers located nearby. These customers store large quantities of processed or partially processed products in the facility until they are further processed or shipped to the next stage of production or distribution. Distribution facilities primarily serve customers who store a wide variety of finished products to support shipment to end-users, such as food retailers and food service companies, in a specific geographic market. Public facilities generally serve the needs of local and regional customers under short-term agreements. Food manufacturers and processors use public facilities to store capacity overflow from their production facilities or warehouses. These facilities also provide a number of additional services such as blast freezing, import/export and labeling.

AmeriCold provides supply chain management solutions to food manufacturers and retailers who require multi-temperature storage, handling and distribution capability for their products. Service offerings include comprehensive transportation management, supply chain network modeling and optimization, consulting and grocery retail-based distribution strategies such as multi-vendor consolidation, direct-store delivery (DSD) and seasonal product distribution. AmeriCold s technology provides food manufacturers with real-time detailed inventory information via the Internet.

AmeriCold s customers consist primarily of national, regional and local food manufacturers, distributors, retailers and food service organizations. A breakdown of AmeriCold s largest customers includes:

	Percentage of 2005 Segment Revenue
H.J. Heinz Company	15.0%
ConAgra Foods, Inc.	10.8
U.S. Government	10.4
Altria Group Inc. (Kraft Foods)	5.3
Sara Lee Corp.	4.5
Schwan Corp.	4.1
Tyson Foods, Inc.	3.7
General Mills, Inc.	3.4
McCain Foods, Inc.	2.6
Smithfield Companies Inc.	2.3
Other	37.9
Total	100.0%

Competition

AmeriCold is the largest operator of temperature-controlled warehouse space in North America. As a result, AmeriCold does not have any competitors of comparable size. AmeriCold operates in an environment in which competition is national, regional and local in nature and in which the range of service, temperature-controlled logistics facilities, customer mix, service performance and price are the principal competitive factors.

Item 1A. Risk Factors

We derive the substantial majority of our office rental revenues from geographically concentrated markets.

As of December 31, 2005, approximately 69% of our office portfolio, based on total net rentable square feet, was located in the metropolitan areas of Houston and Dallas, Texas. Due to our geographic concentration in these metropolitan areas, any deterioration in economic conditions in the Houston or Dallas metropolitan areas, or in other geographic markets in which we in the future may acquire substantial assets, could adversely affect our results of operations and our ability to make distributions to our shareholders and could decrease our cash flow. For the majority of the past five years, the Houston and Dallas office markets experienced negative net absorption which resulted in decreased occupancy and rental rates. In addition, we compete for tenants based on rental rates, attractiveness and location of a property and quality of maintenance and management services. An increase in the supply of properties competitive with ours in these markets could have a material adverse effect on our ability to attract and retain tenants in these markets.

Our performance and value are subject to general risks associated with the real estate industry.

Our economic performance and the value of our real estate assets, and consequently the value of our investments, will be adversely affected if our Office, Resort Residential Development, Resort/Hotel and Temperature-Controlled Logistics properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures. Any reduction in the revenues that our properties generate will adversely affect our cash flow and ability to meet our obligations. As a real estate company, we are susceptible to the following real estate industry risks:

- downturns in the national, regional and local economic conditions where our properties are located;
- competition from other Office, Resort Residential Development, Resort/Hotel and Temperature-Controlled Logistics properties;

adverse changes in local real estate market conditions, such as oversupply or reduction in demand for office space, luxury residences, Resort/Hotel space or Temperature-Controlled Logistics storage space;

changes in tenant preferences that reduce the attractiveness of our properties to tenants;

tenant defaults;

zoning or other regulatory restrictions;

decreases in market rental rates;

costs associated with the need to periodically repair, renovate and re-lease space;

increases in the cost of maintenance, insurance and other operating costs, including real estate taxes, associated with one or more properties, which may occur even when circumstances such as market factors and competition cause a reduction in revenues from one or more properties; and

illiquidity of real estate investments, which may limit our ability to vary our portfolio promptly in response to changes in economic or other conditions.

We depend on leasing office space to tenants on economically favorable terms and collecting rent from our tenants, who may not be able to pay.

Our financial results depend significantly on leasing space in our office properties to tenants on economically favorable terms. In addition, because a large portion of our income comes from the renting of real property, our income, funds available to pay debt and funds available for distribution to our shareholders will decrease if a significant number of our tenants cannot pay their rent. If a tenant does not pay its rent, we might not be able to enforce our rights as landlord without delays and might incur substantial legal costs.

A number of companies, including some of our tenants, have declared bankruptcy in recent years, and other tenants may declare bankruptcy or become insolvent in the future. If a major tenant declares bankruptcy or becomes insolvent, the rental property where it leases space may have lower revenues and financial difficulties. Our leases generally do not contain restrictions designed to ensure the creditworthiness of our tenants. As a result, the bankruptcy or insolvency of a major tenant could result in a lower level of funds from operations available for distribution to our shareholders or the payment of our debt.

We maintain an allowance for doubtful accounts that is reviewed for adequacy by assessing such factors as the credit quality of our tenants, any delinquency in payment, historical trends and current economic conditions. If our assumptions regarding the collectibility of tenant accounts receivable prove incorrect, we could experience write-offs in excess of the allowance for doubtful accounts, which would result in a decrease in our earnings. Bad debt as a percentage of office rental revenue has averaged less than 0.2% over the last three years.

Our results of operations depends on the ability of El Paso Energy to meet its obligations pursuant to its lease termination agreement with us.

In June 2005, we entered into an agreement with our largest office tenant, El Paso Energy Services Company and certain of its subsidiaries, which will terminate El Paso s leases relating to a total of 888,000 square feet at Greenway Plaza in Houston, Texas, effective December 31, 2007. Original expirations for the space ranged from 2007 through 2014. Under the agreement, El Paso is required to pay in cash to us:

$65 million in termination fees in periodic installments through December 31, 2007 (of which $10.0 million was received as of December 31, 2005 and is included in restricted cash in our Consolidated Balance Sheets as it is required to be escrowed with the lender); and

$62 million in rent according to original contractual lease terms from July 1, 2005, through December 31, 2007 (of which $13.6 million was received as of December 31, 2005).

If El Paso does not comply with the terms of the agreement, our revenues will decline, which will adversely affect our results of operations and reduce the cash available for distribution to our shareholders or the payment of our debt.

We may experience difficulty or delay in renewing leases or re-leasing space.

We derive most of our revenue in the form of rent received from our tenants. We are subject to the risks that, upon expiration, leases for space in our office properties may not be renewed, the space may not be re-leased, or the terms of renewal or re-lease, including the cost of required renovations or concessions to tenants, may be less favorable than current lease terms. In the event of any of these circumstances, our results of operations and our ability to meet our obligations could be adversely affected.

As of December 31, 2005, leases of office space for approximately 2.2 million, 2.3 million and 2.9 million square feet, representing approximately 8.4%, 8.9% and 11.2% of net rentable area**,** expire in 2006, 2007 and 2008, respectively. During these same three years, leases of approximately 24.5% of the net rentable area of our office properties in Dallas and approximately 32.2% of the net rentable area of our office properties in Houston expire.

Table of Contents

Many real estate costs are fixed, even if income from our properties decreases.

Our financial results depend primarily on leasing space in our office properties to tenants, renting rooms at our resorts and hotels and successfully developing and selling lots, single-family homes, condominiums, town homes and time-share units at our residential development properties, in each case on terms favorable to us. Fixed costs associated with real estate investment, such as real estate taxes and insurance costs, generally do not decrease even when a property is not fully occupied, or the rate of sales at a project decreases, or other circumstances cause a reduction in income from the investment.

We may be unable to sell properties when appropriate because real estate investments are illiquid.

Real estate investments generally cannot be sold quickly. In addition, there are some limitations under federal income tax laws applicable to REITs that may limit our ability to sell assets. We may not be able to alter our portfolio promptly in response to changes in economic or other conditions. Our inability to respond quickly to adverse changes in the performance of our investments could have an adverse effect on our ability to meet our obligations.

The revenues from our eight Resort/Hotel properties are subject to risks associated with the hospitality industry.

The following factors, among others, are common to the Resort/Hotel industry, and may reduce the receipts generated by our Resort/Hotel properties.

- Based on features such as access, location, quality of accommodations, room-rate structure and, to a lesser extent, the quality and scope of other amenities such as food and beverage facilities, our Resort/Hotel properties compete for guests with other resorts and hotels, a number of which have greater marketing and financial resources than our lessees or the Resort/Hotel property managers;

- If there is an increase in operating costs resulting from inflation or other factors, we or the property managers may not be able to offset the increase by increasing room rates;

- Our Resort/Hotel properties are subject to fluctuating and seasonal demands for business travel and tourism; and

- Our Resort/Hotel properties are subject to general and local economic conditions that may affect the demand for travel in general and other factors that are beyond our control, such as acts of terrorism.

Military actions against terrorists, new terrorist attacks (actual or threatened) and other political events could cause a lengthy period of uncertainty that might increase customer reluctance to travel and therefore adversely affect our results of operations and our ability to meet our obligations.

The revenues from our eight Resort/Hotel properties depend on third-party operators that we do not control.

We own or have an interest in eight Resort/Hotel properties, seven of which are leased to our own subsidiaries. We currently lease the remaining Resort/Hotel property, the Omni Austin Hotel, to a third-party entity, HCD Austin Corporation. To maintain our status as a REIT, third-party property managers manage each of the eight Resort/Hotel properties. As a result, we are unable to directly implement strategic business decisions with respect to the operation and marketing of our Resort/Hotel properties, such as decisions about quality of accommodations, room-rate structure and the quality and scope of other amenities such as food and beverage facilities and similar matters. The amount of revenue that we receive from the Resort/Hotel properties is dependent on the ability of the property managers to maintain and increase the gross receipts from these properties. If the gross receipts of our Resort/Hotel properties decline, our revenues will decrease as well, which could adversely affect our results of operations and reduce the amount of cash available to meet our obligations.

Table of Contents

The performance of our Resort Residential Development properties is affected by national, regional and local economic conditions.

Our Resort Residential Development properties, which include Desert Mountain and CRDI properties, are generally targeted toward purchasers of high-end primary residences or seasonal secondary residences. As a result, the economic performance and value of these properties is particularly sensitive to changes in national, regional and local economic and market conditions. Economic downturns may discourage potential customers from purchasing new, larger primary residences or vacation or seasonal homes. In addition, other factors may affect the performance and value of a property adversely, including changes in laws and governmental regulations (including those governing usage, zoning and taxes), changes in interest rates (including the risk that increased interest rates may result in decreased sales of lots in any resort residential development property) and the availability to potential customers of financing. Adverse changes in any of these factors, each of which is beyond our control, could reduce the income that we receive from the properties, and adversely affect our ability to meet our obligations.

The amount of debt that we have and the restrictions imposed by that debt could adversely affect our business and our financial condition.

We have a substantial amount of debt. As of December 31, 2005, we had approximately $2.3 billion of consolidated debt outstanding, of which approximately $1.3 billion was secured by approximately 48% of our gross total assets.

Our organizational documents do not limit the level or amount of debt that we may incur. We do not have a policy limiting the ratio of our debt to our total capitalization or assets. The amount of debt we have and may have outstanding could have important consequences to you. For example, it could:

- make it difficult to satisfy our debt service requirements;
- prevent us from making distributions on our outstanding common shares and preferred shares;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, property acquisitions and other appropriate business opportunities that may arise in the future;
- require us to dedicate increased amounts of our cash flow from operations to payments on our variable rate, unhedged debt if interest rates rise;
- limit our flexibility in planning for, or reacting to, changes in our business and the factors that affect the profitability of our business;
- limit our ability to obtain additional financing, if we need it in the future for working capital, debt refinancing, capital expenditures, acquisitions, development or other general corporate purposes;
- increase the adverse effect on our available cash flow from operations that may result from changes in conditions in the economy in general and in the areas in which our properties are located; and
- limit our flexibility in conducting our business, which may place us at a disadvantage compared to competitors with less debt.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance, our indebtedness will depend on our future performance, which to a certain extent is subject to economic, financial, competitive and other factors beyond our control. There can be no assurance that our business will continue to generate sufficient cash flow from operations in the future to service our debt or meet our other cash needs. If we are unable to do so, we may be required to refinance all or a portion of our existing debt, or to sell assets or obtain additional financing. We cannot assure you that any such refinancing, sale of assets or additional financing would be possible on terms that we would find acceptable.

If we were to breach certain of our debt covenants, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately take possession of the property securing the loan. In addition, if any other lender declared its loan in an amount in excess of $5.0 million due and payable as a result of a default, the holders of our public and private notes, along with the lenders under our credit facility and certain other lenders would be able to require that those debts be paid immediately. As a result, any default under our debt covenants could have an adverse effect on our financial condition, results of operations and our ability to meet our obligations.

We are obligated to comply with financial and other covenants in our debt that could restrict our operating activities, and the failure to comply could result in defaults that accelerate the payment under our debt.

Our secured debt generally contains customary covenants, including, among others, provisions:

- relating to the maintenance of the property securing the debt;
- restricting our ability to pledge assets or create other liens;
- restricting our ability to incur additional debt;
- restricting our ability to amend or modify existing leases; and
- restricting our ability to enter into transactions with affiliates.

Our unsecured debt generally contains various restrictive covenants. The covenants in our unsecured debt include, among others, provisions restricting our ability to:

- incur additional debt;
- incur additional secured debt and subsidiary debt;
- make certain distributions, investments and other restricted payments, including distribution payments on our or our subsidiaries outstanding common and preferred equity;
- limit the ability of restricted subsidiaries to make payments to us;
- enter into transactions with affiliates;
- create certain liens;
- enter into certain sale-leaseback transactions; and
- consolidate, merge or sell all or substantially all of our assets.

In addition, certain covenants in our bank facilities require us and our subsidiaries to maintain certain financial ratios, which include minimum debt service ratios, maximum leverage ratios and, in the case of the Operating Partnership, a minimum tangible net worth limitation and a fixed charge coverage ratio. The indentures under which our senior unsecured debt have been issued require us to meet thresholds for a number of customary financial and other covenants, including maximum leverage ratios, minimum debt service coverage ratios, maximum secured debt as a percentage of total undepreciated assets, and ongoing maintenance of unencumbered assets, in order to incur additional debt.

Any of the covenants described in this risk factor may restrict our operations and our ability to pursue potentially advantageous business opportunities. Our failure to comply with these covenants could also result in an event of default that, if not cured or waived, could result in the acceleration of all or a substantial portion of our debt.

Many factors affect the trading price of our shares.

As with other publicly traded securities, the trading price of our shares will depend on a number of factors that change from time to time, including:

- the amount of distributions paid on our common and preferred shares;
- the market for similar securities;
- additional issuance of other classes or series of our shares, particularly preferred shares, or the issuance of debt securities;

- our financial condition, performance and prospects;
- general economic and financial market conditions; and
- prevailing interest rates, increases in which may have a negative effect on the trading value of our preferred shares.

Rising interest rates could adversely affect our cash flow and the market price of our outstanding debt securities and preferred shares.

Of our approximately $2.3 billion of debt outstanding as of December 31, 2005, approximately $235.3 million bears interest at variable rates and is unhedged. We also may borrow additional funds at variable interest rates in the future. To mitigate part of this risk, we have entered, and in the future may enter into other transactions to limit our exposure to rising interest rates. Increases in interest rates, or the loss of the benefits of any interest rate hedging arrangements, would increase our interest expense on our variable rate debt, which would adversely affect cash flow and our ability to service our debt and meet our obligations. In addition, an increase in market interest rates may lead purchasers of our securities to demand a higher annual yield, which could adversely affect the market price of our outstanding debt securities and preferred shares.

In order to pay distributions to our common shareholders at current levels, we may be required to use proceeds from a combination of asset sales and joint ventures, additional leverage on assets and borrowings under our credit facility.

Lower occupancy levels, reduced rental rates, increased leasing costs and reduced revenues as a result of asset sales have had the effect of reducing our cash flow from operations. For year ended December 31, 2005, our cash flow from operations was insufficient to fully cover the distributions on our common shares. We funded this shortfall primarily with a combination of proceeds from asset sales and joint ventures, proceeds from investment land sales and borrowings under our credit facility. While we believe that cash flow from operations will be sufficient to cover our normal operating expenses, interest payments on our debt, distributions on our preferred shares, non-revenue enhancing capital expenditures and revenue enhancing capital expenditures (including property improvements, tenant improvements and leasing commissions) in 2006 and 2007, if our Board of Trustees continues to declare distributions on our common shares at current levels, we expect that our cash flow from operations will continue to be insufficient to fully cover distributions to our common shareholders in 2006 and 2007. We intend to use proceeds from asset sales and joint ventures, additional leverage on assets, and borrowings under our credit facility to cover this shortfall. There can be no assurance that we will maintain the current quarterly distribution level on our common shares.

The terms of some of our debt may prevent us from paying distributions on our shares.

Some of our debt limits the Operating Partnership s ability to make some types of payments on equity and other distributions to us, which would limit our ability to make some types of payments, including payment of distributions on our shares, unless we meet certain financial tests or are required to make the distributions to maintain our qualification as a REIT. As a result, if we are unable to meet the applicable financial tests, we may not be able to pay distributions on our shares in one or more periods.

Payment of distributions on any class of our shares may be adversely affected by the level of our debt and the terms and number of our other shares that rank on an equal basis with or senior to that class of shares.

Payment of distributions due on our common shares is subordinated to distributions on our preferred shares, and distributions on both our common and our preferred shares will be subordinated to all of our existing and future debt and will be structurally subordinated to the payment of dividends and distributions on equity, if any, issued by our subsidiaries, including the Operating Partnership. In addition, we may issue additional shares of the same or another class or series of shares that rank on a parity with any class or series of our shares as to the payment of distributions and the amounts payable upon liquidation, dissolution or winding up of our business.

We may have limited flexibility in dealing with our jointly owned investments.

Our organizational documents do not limit the amount of funds that we may invest in properties and assets jointly with other persons or entities. As of December 31, 2005, approximately 48% of the net rentable area of our office properties was held jointly with other persons or entities. In addition, three of our five Resort/Hotel properties, all of our Resort Residential Development properties and our Temperature-Controlled Logistics properties were owned jointly.

Joint ownership of properties may involve special risks, including the possibility that our partners or co-investors might:

become bankrupt;

have economic or other business interests or goals which are unlike or incompatible with our business interests or goals;

be in a position to take action contrary to our suggestions or instructions, or in opposition to our policies or objectives (including actions that may be inconsistent with our REIT status); and

have different objectives from us regarding the appropriate timing and pricing of any sale or refinancing of the properties.

Joint ownership also gives a third party the opportunity to influence the return we can achieve on some of our investments and may adversely affect our results of operations and our ability to meet our obligations. In addition, in

many cases we do not control the timing or amount of distributions that we receive from the joint investment, and amounts otherwise available for distribution to us instead may be reinvested in the property or used for other costs and expenses of the joint operation.

We also have joint-venture agreements that contain buy-sell clauses that could require us to buy or sell our interest at a time we do not deem favorable for financial or other reasons, including the availability of cash at such time and the impact of tax consequences resulting from any sale.

The management and leasing agreements under which we operate our office properties owned through joint ventures may be terminated after an initial period.

We generally manage the day-to-day operations of our 21 properties held through joint ventures pursuant to separate management and leasing agreements. Under these agreements we receive fees for management of the properties and leasing commissions. The management and leasing agreements may be terminated, after an initial period of one to five years, by our partners in the joint ventures. The termination of one or more of the management and leasing agreements would result in the loss of the management fees and leasing commissions payable under such agreement or agreements.

Mezzanine loans involve greater risks of loss than senior loans secured by income producing properties.

We invest in mezzanine loans that typically take the form of limited recourse loans made to a special purpose entity which is the direct or indirect parent of another special purpose entity owning a commercial real estate property. These mezzanine loans are secured by a pledge of the ownership interest in the property owner (or in an entity that directly or indirectly owns the property owner) and are thus structurally subordinate to a conventional first mortgage loan made to the property owner. We also offer mezzanine financing by taking a junior participating interest in a first mortgage loan.

These types of investments involve more risk than conventional senior mortgage lending directly secured by real property because these investments are structurally or contractually subordinated to the senior loans (or senior participations) and may become unsecured as a result of foreclosure by a senior lender on its collateral. While we will typically have cure rights with respect to loans senior to ours and the right to purchase these senior loans if in default, an exercise of this right may require our investing substantial additional capital on short notice to avoid loss of our initial investment.

In addition, mezzanine loans usually have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Reflecting the risk of these loans, mezzanine borrowers are generally required to pay significantly higher rates of interest than conventional mortgage loan borrowers, increasing borrowers cash-flow vulnerability. In the event of a bankruptcy of the borrower, we may not have full recourse to the borrower s assets, or the assets of the borrower may not be sufficient to satisfy our mezzanine loan. Additionally, we have no right to participate in the bankruptcy proceedings of any senior borrower (including the property owner). While we normally obtain recourse guaranties to protect against a voluntary bankruptcy or uncontested involuntary bankruptcy of the mezzanine borrower and the senior borrowers, these guaranties may not fully cover our debt.

As a result of any or all of the foregoing, we may not recover some or all of our mezzanine loan investment.

In many cases, we do not develop our Resort Residential Development Properties and are dependent on the developer of these properties.

Some of our Resort Residential Development Corporations co-own Resort Residential Development Properties in partnership with third parties, which are the developers of the properties. Our partner for the majority of our Resort Residential Development Properties is Harry Frampton and his East West Partners development team. Our income from the development and sale of these properties may be adversely affected if East West Partners fails to provide quality services and workmanship or if it fails to maintain a quality brand name. In addition, although we have entered into agreements with East West Partners that contain limited non-competition provisions, at certain times and upon certain conditions, East West Partners may develop, and in some cases own or invest in, Resort Residential Development Properties that compete with our properties, which may result in conflicts of interest. As a result, East West Partners may in the future make decisions regarding competing properties that would not be in our best interests. While we believe that we could find a replacement for East West Partners, the loss of its services could have an adverse effect on the financial performance of our Resort Residential Development Segment.

Development and construction risks could adversely affect our profitability.

We currently are developing, expanding or renovating some of our office or Resort/Hotel properties and may in the future engage in these activities for other properties we own. In addition, our Resort Residential Development properties engage in the development of raw land and construction of single-family homes, condominiums, town homes and time-share units. These activities may be exposed to the following risks, each of which could adversely affect our results of operations and our ability to meet our obligations:

- We may be unable to obtain, or suffer delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased costs or our abandonment of these activities;

- We may incur costs for development, expansion or renovation of a property which exceed our original estimates due to increased costs for materials or labor or other costs that were unexpected;

- We may not be able to obtain financing with favorable terms, which may make us unable to proceed with our development and other related activities on the schedule we originally planned or at all;

- We may be unable to complete construction and sale or lease-up of a lot, office property or resort residential development unit on schedule, which could result in increased debt service expense or construction costs;

- We may lease, rent or sell developed properties at below expected rental rates, room rates or unit prices; and

- Occupancy rates, rents or unit sales at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

Additionally, the time frame required for development, construction and lease-up of these properties means that we may have to wait a few years for a significant cash return. As a REIT, we are required to make cash distributions to our shareholders. If our cash flows from operations are not sufficient, we may be forced to borrow to fund these distributions, which could affect our ability to meet our other obligations.

Environmental problems are possible and may be costly.

Under various federal, state and local laws, ordinances and regulations, we may be required to investigate and clean up certain hazardous or toxic substances released on or in properties we own or operate, and also may be required to pay other costs relating to hazardous or toxic substances. This liability may be imposed without regard to whether we knew about the release of these types of substances or were responsible for their release. The presence of contamination or the failure to remediate properly contamination at any of our properties may adversely affect our ability to sell or lease those properties or to borrow using those properties as collateral. The costs or liabilities could exceed the value of the affected real estate. We have not been notified by any governmental authority, however, of any material environmental non-compliance, liability or other environmental claim in connection with any of our properties, and we are not aware of any other environmental condition with respect to any of our properties that management believes would have a material adverse effect on our business, assets or results of operations taken as a whole.

The uses of any of our properties prior to our acquisition of the property and the building materials used at the property are among the property-specific factors that will affect how the environmental laws are applied to our properties. In general, before we purchased each of our properties, independent environmental consultants conducted Phase I environmental assessments, which generally do not involve invasive techniques such as soil or ground water sampling, and where indicated, based on the Phase I results, conducted Phase II environmental assessments which do involve this type of sampling. None of these assessments revealed any materially adverse environmental condition relating to any particular property not previously known to us. We believe that all of those previously known conditions either have been remediated or are in the process of being remediated at this time. There can be no assurance, however, that environmental liabilities have not developed since these environmental assessments were prepared or that future uses or conditions (including changes in applicable environmental laws and regulations) or new

information about previously unidentified historical conditions will not result in the imposition of environmental liabilities. If we are subject to any material environmental liabilities, the liabilities could adversely affect our results of operations and our ability to meet our obligations.

Table of Contents

Compliance with the Americans with Disabilities Act could be costly.

Under the Americans with Disabilities Act of 1990, all public accommodations and commercial facilities must meet certain federal requirements related to access and use by disabled persons. Compliance with the ADA requirements could involve removal of structural barriers from certain disabled persons entrances. Other federal, state and local laws may require modifications to or restrict further renovations of our properties with respect to such accesses. Although we believe that our properties are substantially in compliance with present requirements, noncompliance with the ADA or related laws or regulations could result in the United States government s imposition of fines or in the award to private litigants of damages against us. Costs such as these, as well as the general costs of compliance with these laws or regulations, may adversely affect our ability to meet our obligations.

Our insurance coverage on our properties may be inadequate.

We currently carry comprehensive insurance on all of our properties, including insurance for property damage and third-party liability. We believe this coverage is of the type and amount customarily obtained for or by an owner of real property assets. We intend to obtain similar insurance coverage on subsequently acquired properties. Our existing primary insurance policies expire on November 1 annually.

In the future, we may be unable to renew or duplicate our current insurance coverage in adequate amounts or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts, environmental liabilities, or other catastrophic events including hurricanes and floods, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property, but still remain obligated for any mortgage debt or other financial obligations related to the property. We cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed. Events such as these could adversely affect our results of operations and our ability to meet our obligations.

Competition for acquisitions and dispositions could adversely affect us.

We plan to make select additional investments from time to time in the future and may compete for available investment opportunities with entities that have greater liquidity or financial resources. Several real estate companies may compete with us in seeking properties for acquisition or land for development and prospective tenants, guests or purchasers. This competition may increase the costs of any acquisitions that we make and adversely affect our results of operations and our ability to meet our obligations by:

- reducing the number of suitable investment opportunities offered to us; and
- increasing the bargaining power of property owners.

We face similar competition with other real estate companies in our efforts to dispose of properties, which may result in lower sales prices. In addition, if a competitor succeeds in making an acquisition in a market in which our properties compete, ownership of that investment by a competitor may adversely affect our results of operations and our ability to meet our obligations by:

- interfering with our ability to attract and retain tenants, guests or purchasers; and
- adversely affecting our ability to minimize expenses of operation.

Table of Contents

Acquisitions may fail to perform as expected.

We intend to focus our investment strategy on investment opportunities and markets considered demand-driven, primarily within our Office Property Segment, with a long-term strategy of acquiring properties at a cost significantly below that which would be required to develop a comparable property. Acquisition of properties entails risks that include the following, any of which could adversely affect our results of operations and our ability to meet our obligations:

- We may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties we select for acquisition;
- We may not be able to integrate new acquisitions into our existing operations successfully;
- Our estimate of the costs of improving, repositioning or redeveloping an acquired property may prove to be too low, and, as a result, the property may fail to meet our estimates of the profitability of the property, either temporarily or for a longer time;
- Office properties, resorts or hotels we acquire may fail to achieve the occupancy and rental or room rates we anticipate at the time we make the decision to invest in the properties, resulting in lower profitability than we expected in analyzing the properties;
- Our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or necessary repairs until after the property is acquired, which could significantly increase our total acquisition costs; and
- Our investigation of a property or building prior to its acquisition, and any representations we may receive from the seller, may fail to reveal various liabilities, which could effectively reduce the cash flow from the property or building, or increase our acquisition cost.

We are dependent on our key personnel whose continued service is not guaranteed.

To a large extent we are dependent on our executive officers, particularly John C. Goff and Dennis H. Alberts, and we also depend on each of the other Trust Managers for strategic business direction and real estate experience.

Provisions of our declaration of trust and bylaws could inhibit changes in control or discourage takeover attempts beneficial to our shareholders.

There are certain provisions of our declaration of trust and bylaws that may have the effect of discouraging, delaying or making more difficult a change in control and preventing the removal of incumbent directors. The existence of these provisions may discourage third-party bids and reduce any premiums paid to you for common shares that you own. These include a staggered Board of Trust Managers, which makes it more difficult for a third party to gain control of our Board, and the ownership limit described below. In addition, any future series of preferred shares may have certain voting provisions that could delay or prevent a change of control or other transaction that might involve a premium price or otherwise be beneficial to our security holders. The declaration of trust also establishes special requirements with respect to business combinations, including certain issuances of equity securities, between us and an interested shareholder, and mandates procedures for obtaining voting rights with respect to control shares acquired in a control share acquisition.

Your ownership of our shares is subject to limitation for REIT tax purposes.

To remain qualified as a REIT for federal income tax purposes, not more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal income tax laws applicable to REITs) at any time during the last half of any taxable year, and our outstanding shares must be beneficially owned by 100 or more persons at least 335 days of a taxable year. To facilitate maintenance of our REIT qualification, our declaration of trust, subject to certain exceptions, prohibits ownership by any single shareholder of more than 8.0% of our issued and outstanding common shares or such greater percentage as established by our Board of Trust Managers, but in no event greater than 9.9%, or more than 9.9% of any class of our issued and outstanding preferred shares. We refer to these limits together as the ownership limit. In addition, the declaration of trust prohibits ownership by Richard E. Rainwater, the Chairman of our Board of Trust Managers, together with certain of his affiliates or relatives, initially, of more than 8.0% and subsequently, of more than 9.5% of our issued and outstanding common shares. We refer to this limit as the Rainwater ownership limit. Any transfer of shares may be null and void if it causes a person to violate the ownership limit, or Mr. Rainwater, together with his affiliates and relatives, to violate the Rainwater ownership limit, and the intended transferee or holder will acquire no rights in the shares. Those shares will automatically convert into excess shares, and the shareholder s rights to distributions and to vote will terminate. The shareholder would have the right to receive payment of the purchase price for such excess shares and certain distributions upon our liquidation. Excess shares will be subject to repurchase by us at our election. While the ownership limit and the Rainwater ownership limit help preserve our status as a REIT, they could also delay or prevent any person or small group of persons from acquiring, or attempting to acquire, control of us and, therefore, could adversely affect our shareholders ability to realize a premium over the then-prevailing market price for their shares.

The number of shares available for future sale could adversely affect the market price of our publicly traded securities.

We have entered into various private placement transactions whereby units of limited partnership interests in our Operating Partnership were issued in exchange for properties or interests in properties. These units and interests are currently exchangeable for our common shares on the basis of two shares for each one unit or, at our option, an equivalent amount of cash. Upon exchange for our common shares, those common shares may be sold in the public market pursuant to registration rights. As of December 31, 2005, approximately 11,416,173 units were outstanding, 8,550,673 of which were exchangeable for 17,101,346 of our common shares or, at our option, an equivalent amount of cash. In addition, as of December 31, 2005, the Operating Partnership had outstanding options to acquire approximately 3,609,533 units, of which 868,401 were exercisable and exchangeable for 1,736,802 of our common shares or, at our option, an equivalent amount of cash. These options were exercisable at a weighted average exercise price of $34 per unit, or $17 per common share, with a weighted average remaining contractual life of three years. We have also reserved a number of common shares for issuance pursuant to our employee benefit plans, and such common shares will be available for sale from time to time. As of December 31, 2005, we had outstanding options to acquire approximately 5,144,158 common shares, of which approximately 4,585,817 options were exercisable at a weighted average exercise price of $20, with a weighted average remaining contractual life of 4.3 years. We cannot predict the effect that future sales of common shares, or the perception that such sales could occur, will have on the market prices of our equity securities.

Failure to qualify as a REIT would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of distributions.

We intend to continue to operate in a manner that allows us to meet the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to as the Code. A REIT generally is not taxed at the corporate level on income it distributes to its shareholders, as long as it distributes at least 90 percent of its income to its shareholders annually and satisfies certain other highly technical and complex requirements. Unlike many REITs, which tend to make only one or two types of real estate investments, we invest in a broad range of real estate products. Several of our investments also are more complicated than those of other REITs. As a result, we are likely to encounter a greater number of interpretative issues under the REIT qualification rules, and more issues which lack clear guidance, than are other REITs. We, as a matter of policy, consult with outside tax counsel in structuring our new investments in an effort to satisfy the REIT qualification rules.

We must meet the requirements of the Code in order to qualify as a REIT now and in the future, so it is possible that we will not continue to qualify as a REIT in the future. The laws and regulations governing federal income taxation are the subject of frequent review and amendment, and proposed or contemplated changes in the laws or regulations may affect our ability to qualify as a REIT and the manner in which we conduct our business. If we fail to qualify as a REIT for federal income tax purposes, we would not be allowed a deduction for distributions to our shareholders in computing taxable income and would be subject to federal income tax at regular corporate rates. In addition to these taxes, we may be subject to the federal alternative minimum tax. Unless we are entitled to relief under certain statutory provisions, we could not elect to be taxed as a REIT for four taxable years following any year during which we were first disqualified. Therefore, if we lose our REIT status, we could be required to pay significant income taxes, which would reduce our funds available for investments or for distributions to our shareholders. This would likely adversely affect the value of your investment in us. In addition, we would no longer be required by law or our operating agreements to make any distributions to our shareholders.

The lower tax rate on dividends from regular corporations may cause investors to prefer to hold stock in regular corporations instead of REITs.

On May 28, 2003, the President signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which we refer to as the Act. Under the Act, the current maximum tax rate on the long-term capital gains of non-corporate taxpayers is reduced to 15% for the tax years beginning on or before December 31, 2008. The Act also reduced the tax rate on qualified dividend income to the maximum capital gains rate. Because, as a REIT, we are not generally subject to tax on the portion of our REIT taxable income or capital gains distributed to our shareholders, our distributions are not generally eligible for this new tax rate on dividends. As a result, the non-capital-gain portion of our REIT distributions generally continues to be taxed at the higher tax rates applicable to ordinary income. Without further legislation, the maximum tax rate on long-term capital gains will revert to 20% in 2009, and dividends will again be subject to tax at ordinary rates.

Item 1B. Unresolved Staff Comments.

We have received no written comments from the Commission staff regarding our periodic or current reports in the 180 days preceding December 31, 2005 that remain unresolved.

Item 2. Properties

We consider all of our Properties to be in good condition, well-maintained, suitable and adequate to carry on our business.

Office Properties

As of December 31, 2005, we owned or had an interest in 75 Office Properties, located in 26 metropolitan submarkets in seven states, with an aggregate of approximately 30.7 million net rentable square feet. Our Office Properties are located primarily in the Houston and Dallas, Texas, metropolitan areas. As of December 31, 2005, our Office Properties in Houston and Dallas represented an aggregate of approximately 69% of our office portfolio based on total net rentable square feet (39% for Houston and 30% for Dallas).

Table of Contents

Office Property Table[1]

The following table shows, as of December 31, 2005, certain information about our Office Properties. In the table, CBD means central business district.

State, City, Property	No. of Properties	Submarket	Year Completed	Net Rentable Area (Sq. Ft.)	Economic Occupancy Percentage	Weighted Average Full-Service Rental Rate Per Occupied Sq. Ft.[2]	Our Ownership[1] Percentage
Texas							
Dallas							
Bank One Center	1	CBD	1987	1,530,957	81.4 %	$22.30	50%
The Crescent	2	Uptown/Turtle Creek	1985	1,299,522	96.9	33.62	24
Fountain Place	1	CBD	1986	1,200,266	86.4 [3]	21.44	24
Trammell Crow Center	1	CBD	1984	1,128,331	93.0	24.78	24
Stemmons Place	1	Stemmons Freeway	1983	634,381	81.9	16.96	100
Spectrum Center	1	Quorum/Bent Tree	1983	598,250	85.7	19.82	100
Waterside Commons[4]	1	Las Colinas	1986	458,906	46.6	15.33	100
125 E. John Carpenter Freeway	1	Las Colinas	1982	446,031	85.1	20.69	100
The Aberdeen	1	Quorum/Bent Tree	1986	319,760	91.3	16.49	100
MacArthur Center I & II	1	Las Colinas	1982/1986	298,161	69.6 [3]	19.03	100
Stanford Corporate Centre	1	Quorum/Bent Tree	1985	274,684	96.3	21.01	100
Palisades Central II	1	Richardson	1985	237,731	95.2	20.23	100
3333 Lee Parkway	1	Uptown/Turtle Creek	1983	233,543	88.3	17.70	100
The Addison	1	Quorum/Bent Tree	1981	215,016	100.0	23.40	100
Palisades Central I	1	Richardson	1980	180,503	73.7	17.23	100
Greenway II	1	Richardson	1985	154,329	100.0	17.85	100
Greenway I & IA	2	Richardson	1983	146,704	71.3	15.60	100
Subtotal/Weighted Average	19			9,357,075	85.7 %	$22.77	62%
Fort Worth							
Carter Burgess Plaza	1	CBD	1982	954,895	97.9 %	$18.59	100%
Houston							
Greenway Plaza	10	Greenway Plaza	1969-1982	4,348,052	90.9 %	$20.22	100%
Houston Center	4	CBD	1974-1983	2,960,544	88.2	20.29	24
Post Oak Central	3	West Loop/Galleria	1974-1981	1,279,759	95.4	20.23	24
Five Post Oak Park	1	West Loop/Galleria	1986	567,396	85.3	18.34	30
Four Westlake Park	1	Katy Freeway West	1992	561,065	99.9	22.39	20
BriarLake Plaza	1	Westchase	2000	502,410	96.2	24.20	30
Three Westlake Park	1	Katy Freeway West	1983	414,792	100.0	22.80	20
Subtotal/Weighted Average	21			10,634,018	91.5 %	$20.59	55%

Austin							
816 Congress	1	CBD	1984	433,024	72.3 %	$ 18.20	100%
301 Congress Avenue	1	CBD	1986	418,338	59.0 (3)	21.94	50
Chase Tower	1	CBD	1974	389,503	65.4	20.49	20
Austin Centre	1	CBD	1986	343,664	96.1	19.34	100
The Avallon	3	Northwest	1993/1997	318,217	85.7	19.28	100
Subtotal/Weighted Average	7			1,902,746	74.5 %	$ 19.73	73%
Colorado							
Denver							
Johns Manville Plaza	1	CBD	1978	675,400	98.0 %	$ 19.87	100%
707 17th Street	1	CBD	1982	550,805	91.3	20.69	100
Regency Plaza	1	Denver Technology Center	1985	309,862	92.6	20.11	100
Peakview Tower(5)	1	Greenwood Village	2001	264,149	87.4	23.80	100
55 Madison	1	Cherry Creek	1982	137,176	92.2	19.19	100
The Citadel	1	Cherry Creek	1987	130,652	84.2	25.28	100
44 Cook	1	Cherry Creek	1984	124,174	66.0	19.01	100
Subtotal/Weighted Average	7			2,192,218	91.3 %	$ 20.78	100%
Colorado Springs							
Briargate Office and Research Center	1	Colorado Springs	1988	260,046	57.2 % (3)	$ 17.51	100%

Table of Contents

State, City, Property	No. of Properties	Submarket	Year Completed	Net Rentable Area (Sq. Ft.)	Economic Occupancy Percentage	Weighted Average Full-Service Rental Rate Per Occupied Sq. Ft. (2)	Our Ownership(1) Percentage
Florida							
Miami							
Miami Center	1	CBD	1983	782,211	95.1%	$ 31.36	40%
Datran Center	2	South Dade/Kendall	1986/1988	476,412	93.6	27.33	100
The Alhambra	2	Coral Gables	1961/1987	325,005	85.9(3)	30.47	100
The BAC Colonnade Building	1	Coral Gables	1989	218,170	88.6(3)	31.62	100
Subtotal/Weighted Average	6			1,801,798	92.3%	$ 30.16	74%
California							
Irvine							
Dupont Centre	1	John Wayne Airport	1986	250,782	96.4%	$ 27.10	100%
Nevada							
Las Vegas							
Hughes Center(6)	8	Central East	1986 - 1999	1,110,890	93.5%	$ 32.35	100%
Georgia							
Atlanta							
One Buckhead Plaza(5)	1	Buckhead	1987	461,669	90.6%	$ 28.50	35%
One Live Oak(5)	1	Buckhead	1981	201,488	74.9(3)	22.84	100
Subtotal/Weighted Average	2			663,157	85.9%	$ 27.01	55%
Washington							
Seattle							
Exchange Building	1	CBD	1929/2001	295,515	94.5%	$ 24.38	100%
	74			29,423,140	88.5%(3)	$ 22.48 (7)	67%

Total Office Portfolio Excluding Properties Not Stabilized							
PROPERTIES NOT STABILIZED							
Texas							
Houston							
Fulbright Tower[8]	1	CBD	1982	1,247,061	62.5%	$ 20.31	24%
Total Office Portfolio	75			30,670,201			65%

(1) Office Property Table data is presented without adjustments to reflect our actual ownership percentage in joint ventured properties. Our actual ownership percentage in each property has been included for informational purposes.

(2) Calculated in accordance with GAAP based on base rent payable as of December 31, 2005, giving effect to free rent and scheduled rent increases and including adjustments for expenses payable by or reimbursable from customers. The weighted average full-service rental rate for the El Paso lease (Greenway Plaza, Houston, Texas) reflects weighted average full-service rental rate over the shortened term (due to lease termination effective December 31, 2007) and excludes the impact of the net lease termination fee being amortized into revenue through December 31, 2007.

(3) Leases have been executed at certain Office Properties but had not commenced as of December 31, 2005. If such leases had commenced as of December 31, 2005, the percent leased for Office Properties would have been 90.8%. Properties whose percent leased exceeds economic occupancy by 5 percentage points or more are as follows: Fountain Place 92.1%, MacArthur Center 75.0%, 301 Congress 68.5%, Briargate Office 71.2%, The Alhambra 92.0%, The BAC Colonnade Building 93.6% and One Live Oak 80.1%.

(4) On February 17, 2006, we completed the sale of the Waterside Commons Office Property.

(5) One Buckhead Plaza stabilized as of July 2005. Peakview Tower and One Live Oak stabilized as of December 2005.

(6) In October 2005, we purchased the remaining 33% minority interest in 3770 Howard Hughes. Hughes Center now consists of eight wholly-owned office properties.

(7) The weighted average full-service cash rental rate per square foot calculated based on base rent payable for Office Properties as of December 31, 2005, without giving effect to free rent and scheduled rent increases that are taken into consideration under GAAP but including adjustments for expenses paid by or reimbursed from customers is $21.86.

(8) Property statistics exclude Fulbright Tower (formerly known as 1301 McKinney Street acquired December 2004). This office property will be included in portfolio statistics once stabilized. Stabilization is deemed to occur upon the earlier of (a) achieving 90% occupancy, (b) one year following the acquisition date or (c) two years following the acquisition date for properties which are being repositioned.

Table of Contents

The following table shows, as of December 31, 2005, the principal businesses conducted by the tenants at our Office Properties, based on information supplied to us from the tenants. Based on rental revenues from office leases in effect as of December 31, 2005, no single tenant accounted for more than 6.0% of our total Office Segment revenues for 2005.

Industry Sector	Percent of Leased Sq. Ft.
Professional Services [1]	31%
Financial Services [2]	21
Energy[3]	19
Technology	5
Manufacturing	4
Telecommunications	4
Food Service	3
Government	3
Medical	2
Retail	2
Other [4]	6
Total Leased	100%

[1] Includes legal, accounting, engineering, architectural and advertising services.

[2] Includes banking, title and insurance and investment services.

[3] Includes oil and gas and utility companies.

[4] Includes construction, real estate, transportation and other industries.

Aggregate Lease Expirations of Office Properties

The following tables show schedules of lease expirations for leases in place as of December 31, 2005, for our total Office Properties and for Dallas, Houston and Austin, Texas; Denver, Colorado; Miami, Florida and Las Vegas, Nevada, individually, for each of the 10 years beginning 2006.

Table of Contents

Total Office Properties[(1)]

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases [(2)]	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Our Share of Expiring Square Footage (After Renewals)	Annual Full-Service Rent Under Expiring Leases [(3)]	Percentage of Annual Full-Service Rent Expiring	Annual Expiring per Square Footage Full-Service Rent[(3)]	Number of Customers With Expiring Leases
2006	3,161,531 (4)	(1,007,503)	2,154,028 (4)(5)	8.4%	1,402,466	$ 48,345,754	8.4%	$ 22.44	450
2007	2,674,868	(405,799)	2,269,069 (6)	8.9	1,529,289	51,406,465	9.0	22.66	277
2008	2,935,533	(55,892)	2,879,641	11.2	2,355,607	66,842,083	11.6	23.21	299
2009	2,532,229	53,413	2,585,642	10.1	1,780,359	59,064,088	10.3	22.84	245
2010	3,183,161	73,942	3,257,103	12.7	1,831,558	75,712,517	13.2	23.25	259
2011	1,727,138	176,118	1,903,256	7.4	1,202,633	45,422,858	7.9	23.87	112
2012	1,246,746	26,767	1,273,513	5.0	958,199	30,455,745	5.3	23.91	74
2013	1,515,837	97,620	1,613,457	6.3	1,225,157	34,496,189	6.0	21.38	60
2014	2,783,823	124,474	2,908,297	11.4	1,949,914	60,148,038	10.5	20.68	44
2015	1,745,757	29,531	1,775,288	6.9	1,267,014	39,510,299	6.9	22.26	64
2016 and thereafter	2,112,766	887,329	3,000,095	11.7	1,605,392	62,995,006	10.9	21.00	51
Total	25,619,389		25,619,389 (7)	100.0%	17,107,588	$ 574,399,042	100.0%	$ 22.42	1,935

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties, except for the Our Share of Expiring Square Footage (After Renewals) column.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent and scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels.

(4) As of December 31, 2005, leases totaling 1,645,712 square feet (including renewals of 1,007,503 square feet and new leases of 638,209 square feet) have been signed and will commence during 2006. These signed leases represent approximately 52% of gross square footage expiring during 2006.

(5) Expirations by quarter are as follows: Q1: 900,654 square feet Q2: 440,875 square feet Q3: 387,845 square feet Q4: 424,654 square feet.

(6) Expirations by quarter are as follows: Q1: 739,288 square feet Q2: 521,167 square feet Q3: 519,348 square feet Q4: 489,266 square feet.

(7) Reconciliation of Occupied Square Feet to Net Rentable Area:

	Square feet
Occupied Square Footage, per above:	25,619,389
Non-revenue Generating Space:	421,302
Total Occupied Office Square Footage:	26,040,691
Total Vacant Square Footage:	3,382,449
Total Stabilized Office Net Rentable Area:	29,423,140

Dallas Office Properties[1]

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases[2]	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Annual Full-Service Rent Under Expiring Leases [3]	Percentage of Annual Full-Service Rent Expiring	Annual Expiring per Square Footage Full-Service Rent[3]	Number of Customers With Expiring Leases
2006	914,110 (4)	(273,871)	640,239 (4)(5)	8.1%	$ 14,302,605	7.9%	$ 22.34	93
2007	816,562	1,381	817,943 (6)	10.3	18,510,625	10.3	22.63	54
2008	492,818	(6,120)	486,698	6.1	11,138,692	6.2	22.89	75
2009	440,598	(9,057)	431,541	5.4	11,204,316	6.2	25.96	46
2010	1,107,088	(5,239)	1,101,849	13.9	26,457,924	14.7	24.01	63
2011	488,871	(49,660)	439,211	5.5	10,374,803	5.8	23.62	24
2012	382,023	12,113	394,136	5.0	8,203,484	4.6	20.81	26
2013	370,738	92,340	463,078	5.8	10,585,654	5.9	22.86	17
2014	749,005		749,005	9.4	16,322,270	9.1	21.79	13
2015	932,265	17,599	949,864	12.0	21,265,890	11.8	22.39	24
2016 and thereafter	1,245,275	220,514	1,465,789	18.5	31,690,470	17.5	21.62	15
Total	7,939,353		7,939,353	100.0%	$ 180,056,733	100.0%	$ 22.68	450

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent and scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels.

(4) As of December 31, 2005, leases totaling 482,508 square feet (including renewals of 273,871 square feet and new leases of 208,637 square feet) have been signed and will commence during 2006. These signed leases represent approximately 53% of gross square footage expiring during 2006.

(5)

Expirations by quarter are as follows: Q1: 311,609 square feet Q2: 160,572 square feet Q3: 133,267 square feet Q4: 34,791 square feet.

(6) Expirations by quarter are as follows: Q1: 401,934 square feet Q2: 118,654 square feet Q3: 208,961 square feet Q4: 88,394 square feet.

Table of Contents

Houston Office Properties [1]

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases [2]	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Annual Full-Service Rent Under Expiring Leases [3]	Percentage of Annual Full-Service Rent Expiring	Annual Expiring per Square Footage Full-Service Rent[3]	Number of Customers With Expiring Leases
2006	1,189,723 (4)	(451,929)	737,794 (4)(5)	7.7%	$ 13,392,820	6.9%	$ 18.15	171
2007	1,085,575	(365,167)	720,408(6)	7.5	14,627,121	7.5	20.30	82
2008	1,666,887	(37,854)	1,629,033	17.0	35,771,636	18.3	21.96	87
2009	955,069	18,886	973,955	10.2	18,359,918	9.4	18.85	76
2010	1,117,221	67,552	1,184,773	12.3	24,478,283	12.5	20.66	82
2011	714,330	148,924	863,254	9.0	19,011,620	9.7	22.02	35
2012	394,758	(28,071)	366,687	3.8	8,219,384	4.2	22.42	18
2013	364,770	10,013	374,783	3.9	7,519,808	3.8	20.06	9
2014	1,334,454	51,264	1,385,718	14.4	27,827,379	14.2	20.08	14
2015	386,304		386,304	4.0	7,566,397	3.9	19.59	14
2016 and thereafter	384,691	586,382	971,073	10.2	18,867,153	9.6	19.43	13
Total	9,593,782		9,593,782	100.0%	$ 195,641,519	100.0%	$ 20.39	601

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent or scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels. The annual full-service rent under the El Paso lease (the majority of which expires December 31, 2007) reflects weighted average full service rental revenue over the shortened term and excludes the impact of the net termination fee being amortized into revenue through December 31, 2007.

(4) As of December 31, 2005, leases totaling 632,377 square feet (including renewals of 451,929 square feet and new leases of 180,448 square feet) have been signed and will commence during 2006. These signed leases represent approximately 53% of gross square footage expiring during 2006.

(5) Expirations by quarter are as follows: Q1: 302,765 square feet Q2: 114,101 square feet Q3: 118,221 square feet Q4: 202,707 square feet.

(6)

Expirations by quarter are as follows: Q1: 185,084 square feet Q2: 270,669 square feet Q3: 149,464 square feet Q4: 115,191 square feet.

Austin Office Properties [1]

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases [2]	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Annual Full-Service Rent Under Expiring Leases [3]	Percentage of Annual Full-Service Rent Expiring	Annual Expiring per Square Footage Full-Service Rent[3]	Number of Customers With Expiring Leases
2006	81,221 (4)	(5,775)	75,446 (4)(5)	5.5%	$ 1,749,930	6.5%	$ 23.19	24
2007	93,323	(7,658)	85,665 (6)	6.3	1,977,787	7.4	23.09	21
2008	91,637	983	92,620	6.8	1,685,080	6.3	18.19	21
2009	173,112	12,450	185,562	13.6	3,957,754	14.7	21.33	20
2010	204,947		204,947	15.0	3,577,893	13.3	17.46	29
2011	52,269		52,269	3.8	982,217	3.7	18.79	9
2012	45,599		45,599	3.3	849,209	3.2	18.62	5
2013	53,118		53,118	3.9	1,079,542	4.0	20.32	6
2014	241,570		241,570	17.7	4,998,281	18.6	20.69	3
2015	171,688		171,688	12.6	3,306,608	12.3	19.26	13
2016 and thereafter	153,826		153,826	11.5	2,689,424	10.0	17.48	6
Total	1,362,310		1,362,310	100.0%	$ 26,853,725	100.0%	$ 19.71	157

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent or scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels.

(4) As of December 31, 2005, leases totaling 42,194 square feet (including renewals of 5,775 square feet and new leases of 36,419 square feet) have been signed and will commence during 2006. These signed leases represent approximately 52% of gross square footage expiring during 2006.

(5) Expirations by quarter are as follows: Q1: 38,305 square feet Q2: 23,353 square feet Q3: 4,058 square feet Q4: 9,730 square feet.

(6) Expirations by quarter are as follows: Q1: 36,308 square feet Q2: 8,410 square feet Q3: 16,342 square feet Q4: 24,605 square feet.

Table of Contents

Denver Office Properties (1)

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases (2)	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Annual Full-Service Rent Under Expiring Leases (3)	Percentage of Annual Full-Service Rent Expiring	Annual Expiring Per Square Footage Full-Service Rent(3)	Number Of Customers With Expiring Leases
2006	167,256 (4)	(35,417)	131,839 (4)(5)	6.6%	$ 2,757,281	6.7%	$ 20.91	25
2007	110,198	(15,948)	94,250 (6)	4.7	2,169,066	5.3	23.01	18
2008	209,432	(4,075)	205,357	10.3	4,480,130	10.9	21.82	21
2009	320,562	(9,941)	310,621	15.6	6,734,500	16.3	21.68	26
2010	196,908	16,081	212,989	10.7	4,637,797	11.2	21.77	18
2011	120,993	11,844	132,837	6.7	2,969,044	7.2	22.35	8
2012	134,134	37,456	171,590	8.6	3,897,083	9.4	22.71	8
2013	134,750	(73,210)	61,540	3.1	1,216,914	3.0	19.77	6
2014	344,885	73,210	418,095	21.0	8,129,618	19.7	19.44	4
2015	18,637		18,637	0.9	364,338	0.9	19.55	3
2016 and thereafter	230,007		230,007	11.8	3,916,607	9.4	17.03	7
Total	1,987,762		1,987,762	100.0%	$ 41,272,378	100.0%	$ 20.76	144

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent or scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels.

(4) As of December 31, 2005, leases totaling 35,644 square feet (including renewals of 35,417 square feet and new leases of 227 square feet) have been signed and will commence during 2006. These signed leases represent approximately 21% of gross square footage expiring during 2006.

(5) Expirations by quarter are as follows: Q1: 74,890 square feet Q2: 21,168 square feet Q3: 21,388 square feet Q4: 14,303 square feet.

(6) Expirations by quarter are as follows: Q1: 40,405 square feet Q2: 14,652 square feet Q3: 27,315 square feet Q4: 11,878 square feet.

Miami Office Properties (1)

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases (2)	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Annual Full-Service Rent Under Expiring Leases (3)	Percentage of Annual Full-Service Rent Expiring	Annual Expiring Per Square Footage Full-Service Rent(3)	Number of Customers With Expiring Leases
2006	284,284 (4)	(113,543)	170,741 (4)(5)	10.3%	$ 5,044,729	10.0%	$ 29.55	56
2007	159,033	(22,763)	136,270 (6)	8.3	3,730,173	7.4	27.37	36
2008	147,617	11,163	158,780	9.6	4,873,806	9.7	30.70	37
2009	324,804	2,992	327,796	19.9	9,498,910	18.8	28.98	34
2010	281,266	(10,368)	270,898	16.4	8,383,921	16.6	30.95	26
2011	64,140	48,497	112,637	6.8	3,555,001	7.1	31.56	9
2012	150,546		150,546	9.1	5,167,896	10.3	34.33	8
2013	47,684	4,590	52,274	3.2	1,703,723	3.4	32.59	5
2014	36,952		36,952	2.2	1,042,283	2.1	28.21	2
2015	94,545	11,932	106,477	6.5	3,298,286	6.5	30.98	3
2016 and thereafter	59,285	67,500	126,785	7.7	4,120,294	8.1	32.50	6
Total	1,650,156		1,650,156	100.0%	$ 50,419,022	100.0%	$ 30.55	222

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent or scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels.

(4) As of December 31, 2005, leases totaling 162,890 square feet (including renewals of 113,543 square feet and new leases of 49,347 square feet) have been signed and will commence during 2006. These signed leases represent approximately 57% of gross square footage expiring during 2006.

(5) Expirations by quarter are as follows: Q1: 42,947 square feet Q2: 28,269 square feet Q3: 28,016 square feet Q4: 71,509 square feet.

(6) Expirations by quarter are as follows: Q1: 45,577 square feet Q2: 42,657 square feet Q3: 23,921 square feet Q4: 24,115 square feet.

Las Vegas Office Properties [1]

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases [2]	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Annual Full-Service Rent Under Expiring Leases [3]	Percentage of Annual Full-Service Rent Expiring	Annual Expiring Per Square Footage Full-Service Rent[3]	Number of Customers With Expiring Leases
2006	235,519 [4]	(38,741)	196,778 [4][5]	19.1%	$ 6,353,129	18.9%	$ 32.29	32
2007	116,689	1,659	118,348 [6]	11.5	3,579,111	10.7	30.24	27
2008	180,700		180,700	17.5	5,661,840	16.9	31.33	25
2009	117,643	26,370	144,013	14.0	4,653,505	13.9	32.31	16
2010	110,800		110,800	10.7	3,634,233	10.8	32.80	16
2011	128,917	7,127	136,044	13.2	4,743,390	14.1	34.87	9
2012	33,278		33,278	3.2	1,126,356	3.4	33.85	2
2013	33,317	3,585	36,902	3.6	1,272,812	3.8	34.49	4
2014	19,295		19,295	1.9	597,339	1.8	30.96	2
2015	40,231		40,231	3.9	1,270,540	3.8	31.58	1
2016 and thereafter	15,498		15,498	1.4	660,315	1.9	42.61	1
Total	1,031,887		1,031,887	100.0%	$ 33,552,570	100.0%	$ 32.52	135

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent or scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels.

(4) As of December 31, 2005, leases totaling 101,260 square feet (including renewals of 38,741 square feet and new leases of 62,519 square feet) have been signed and will commence during 2006. These signed leases represent approximately 43% of gross square footage expiring during 2006.

(5) Expirations by quarter are as follows: Q1: 35,236 square feet Q2: 47,261 square feet Q3: 62,361 square feet Q4: 51,920 square feet.

(6) Expirations by quarter are as follows: Q1: 7,342 square feet Q2: 27,054 square feet Q3: 58,485 square feet Q4: 25,467 square feet.

Other Office Properties [1]

Year of Lease Expiration	Square Footage of Expiring Leases (Before Renewals)	Signed Renewals of Expiring Leases (2)	Square Footage of Expiring Leases (After Renewals)	Percentage of Square Footage Expiring	Annual Full-Service Rent Under Expiring Leases (3)	Percentage of Annual Full-Service Rent Expiring	Annual Expiring Per Square Footage Full-Service Rent(3)	Number of Customers With Expiring Leases
2006	289,418 (4)	(88,227)	201,191 (4)(5)	9.8%	$ 4,745,260	10.2%	$ 23.59	49
2007	293,488 (6)	2,697	296,185 (6)	14.4	6,812,582	14.6	23.00	39
2008	146,442	(19,989)	126,453	6.2	3,230,899	6.9	25.55	33
2009	200,441	11,713	212,154	10.3	4,655,185	10.0	21.94	27
2010	164,931	5,916	170,847	8.3	4,542,466	9.8	26.59	25
2011	157,618	9,386	167,004	8.1	3,786,783	8.1	22.67	18
2012	106,408	5,269	111,677	5.4	2,992,333	6.4	26.79	7
2013	511,460	60,302	571,762	27.8	11,117,736	23.9	19.44	13
2014	57,662		57,662	2.8	1,230,868	2.6	21.35	6
2015	102,087		102,087	5.0	2,438,240	5.2	23.88	6
2016 and thereafter	24,184	12,933	37,117	1.9	1,050,743	2.3	28.31	3
Total	2,054,139		2,054,139	100.0%	$ 46,603,095	100.0%	$ 22.69	226

(1) Square footage is presented without adjustment to reflect our actual ownership percentage in joint ventured properties.

(2) Signed renewals extend the expiration dates of in-place leases to the end of the renewed term.

(3) Calculated based on base rent payable under the lease for net rentable square feet expiring (after renewals), giving effect to free rent or scheduled rent increases taken into account under GAAP and including adjustments for expenses payable by or reimbursable from customers based on current expense levels.

(4) As of December 31, 2005, leases totaling 188,839 square feet (including renewals of 88,227 square feet and new leases of 100,612 square feet) have been signed and will commence during 2006. These signed leases represent approximately 65% of gross square footage expiring during 2006.

(5) Expirations by quarter are as follows: Q1: 94,812 square feet Q2: 46,151 square feet Q3: 20,534 square feet Q4: 39,694 square feet.

(6) Expirations by quarter are as follows: Q1: 22,638 square feet Q2: 39,071 square feet Q3: 34,860 square feet Q4: 199,616 square feet.

Table of Contents

Resort Residential Development Properties

The following table shows certain information as of December 31, 2005, relating to the Resort Residential Development Properties.

rporation / Project	Location	Our Preferred Return / Ownership [1]		Product Type [2]	Planned Sales Lots/ Units	Closed Lots/ Units	Remaining Lots/Units	Physical Inventory Lots/Units	Averag Sales Price on Closed Lots/Unit
untain Development Corp.									
untain [4]	Scottsdale, AZ	93%		SF, SH, TH[B]	2,481	2,399	82	20	$ 570
Resort Development Inc.									
untain Resorts									
Iron Horse and Great Bear	Lake Tahoe, CA	13% / 57%	(5)	CO[S]	100	71	29	29	1,200
Big Horn and Catamount	Lake Tahoe, CA	13% / 57%	(5)	CO[S]	113		113		N/A
Remaining Phases	Lake Tahoe, CA	13% / 57%	(5)	CO, TH, TS [S]	1,587		1,587		N/A
wood-Units	Lake Tahoe, CA	13% / 71%		TH, TS [S]	165	27.4	137.6	6	1,870
rossing Lots	Lake Tahoe, CA	13% / 71%		SF [B]	377	242	135	54	310
rossing Units	Lake Tahoe, CA	13% / 71%		CO[B]	169		169		N/A
evelopment									
Townhomes at Riverfront									
	Denver, CO	12% / 64%		TH [P]	23	16	7	7	730
nes (Phase I)	Denver, CO	12% / 64%		TH [P]	16	9	7	7	1,580
	Denver, CO	12% / 64%		CO [P]	42	34	8	8	680
Future Projects	Denver, CO	12%/26%-64%	(5)	TH, CO [B]	934		934		N/A
and Other Development									
bird	Bachelor Gulch, CO	12% / 64%		CO [S]	40	35	5	5	2,510
ch	Eagle, CO	12% / 76%		SF [P]	1,395	1,084	311	4	90
et Station Vacation Club	Breckenridge, CO	12% / 30%	(5)	TS [S]	42	29.5	12.5	12.5	1,200
	Charlotte, NC	12% / 68%		SF [P]	630	442	188	28	30
ks	Silverthorne, CO	12% / 33%	(5)	SF [S]	327	281	46	46	210
alk	Beaver Creek, CO	12% / 58%		TH[B]	26		26		N/A
eek Landing	Beaver Creek, CO	12% / 64%		CO [P]	52		52		N/A
Future Projects	Colorado	12% / 64%		TS, CO, TH[S]	392		392		N/A
Area Development Corp.									
kes	Houston, TX	98%		SF [P]	497	464	33	17	35
Plaza Residential									
ences at the Ritz-Carlton	Dallas, TX	100%		CO, TH [P]	171		171		N/A

(1) Our ownership percentage represents the profit percentage allocation after we receive a preferred return on invested capital.

(2) SF (Single-Family Lot); CO (Condominium); TH (Townhome); TS (Timeshare Equivalent Unit) and SH (Single-Family Home). Superscript items represent P (Primary residence); S (Secondary residence); and B (Both Primary and Secondary residence).

(3) Based on lots, units and acres closed during our ownership period.

(4) Average Sales Price includes golf membership, which as of December 31, 2005 is $0.3 million.

(5) A joint venture partner participates in this project.

Table of Contents

Resort/Hotel Properties[1]

The following table shows certain information for the years ended December 31, 2005 and 2004, with respect to our Resort/Hotel Properties. The information for the Resort/Hotel Properties is based on available rooms, except for Canyon Ranch-Tucson and Canyon Ranch-Lenox, which measure their performance based on available guest nights.

				For the years ended December 31,					
		Year		Average Occupancy		Average Daily		Reven Per Availal Room/G Nigh	
		Completed/		Rate		Rate			
ORT/HOTEL PROPERTY [2]	**Location**	**Renovated**	**Rooms**	**2005**	**2004**	**2005**	**2004**	**2005**	**2**
rating Properties									
ination Fitness Resorts and Spas: [3]									
yon Ranch-Tucson & Lenox	Tucson, AZ / Lenox, MA	1980/1989	471(4)	82%	79%	$ 739	$ 713	$ 567	$
ury Resorts and Spas:									
Hyatt Beaver Creek Resort and Spa	Avon, CO	1989/2001	275	57%	60%	$ 303	$ 277	$ 172	$
mont Sonoma Mission Inn & Spa[5]	Sonoma, CA	1927/1987/1997/2004	228	71	59	292	253	207	
ana Inn & Spa[6]	Big Sur, CA	1975/1982/1988	60	73	64	480	430	349	
l/Weighted Average			563	64%	60%	$ 319	$ 285	$ 206	$
l/Weighted Average for Canyon ch and Luxury Resorts and Spas perties			1,034	73%	69%	$ 529	$ 501	$ 371	$
ale Business Class Hotels:									
ver Marriott City Center	Denver, CO	1982/1994	613	73%	72%	$ 130	$ 124	$ 95	$
issance Houston Hotel	Houston, TX	1975/2000	388	70	61	105	103	74	
i Austin Hotel[7]	Austin, TX	1986	375	77	73	128	114	99	
l/Weighted Average			1,376	73%	69%	$ 123	$ 116	$ 90	$
l/Weighted Average for ort/Hotel Properties			2,410	73%	69%	$ 293	$ 277	$ 210	$

(1) Resort/Hotel Property Table is presented at 100% without any adjustment to give effect to our actual ownership percentage in the properties.

(2) We entered into agreements with Ritz-Carlton Hotel Company, L.L.C. to develop the Ritz-Carlton hotel and residence project in Dallas, Texas. The development plans include a Ritz-Carlton with approximately 217 hotel rooms and 70 residences.

(3) On January 18, 2005, we contributed the Canyon Ranch-Tucson and Canyon Ranch-Lenox properties to a newly formed entity, CR Operating LLC, for a 48% common member interest in that entity. The remaining 52% of CR

Operating LLC is owned by the founders of Canyon Ranch.

(4) Represents available guest nights, which is the maximum number of guests the resort can accommodate per night.

(5) We have an 80.1% member interest in the limited liability company that owns Fairmont Sonoma Mission Inn & Spa. Renovation of 97 historic inn rooms began in November 2003, at which time those rooms were removed from service. Total cost of the renovation was approximately $12.1 million and was completed in July 2004.

(6) Renovation of 13 suites began in January 2004, at which time those suites were removed from service. All 13 suites returned to service in September 2004. In addition, 11 suites were taken out of service in November 2004 for renovation. All 11 suites returned to service in April 2005.

(7) The Omni Austin Hotel is leased pursuant to a lease to HCD Austin Corporation.

Table of Contents

Temperature-Controlled Logistics Properties

The following table shows the number and aggregate size of Temperature-Controlled Logistics Properties by state as of December 31, 2005:

State	Number of Properties[1]	Total Cubic Footage (in millions)	Total Square feet (in millions)	State	Number of Properties[1]	Total Cubic Footage (in millions)	Total Square feet (in millions)
Alabama	4	10.7	0.4	Mississippi	1	4.7	0.2
Arizona	1	2.9	0.1	Missouri	2	46.8	2.7
Arkansas	6	33.1	1.0	Nebraska	2	4.4	0.2
California	6	23.7	0.9	New York	1	11.8	0.4
Colorado	1	2.8	0.1	North Carolina	3	10.0	0.4
Florida	5	6.5	0.3	Ohio	1	5.5	0.2
Georgia	8	49.5	1.7	Oklahoma	2	2.1	0.1
Idaho	2	18.7	0.8	Oregon	5	35.6	1.5
Illinois	2	11.6	0.4	Pennsylvania	2	27.4	0.9
Indiana	1	9.1	0.3	South Carolina	1	1.6	0.1
Iowa	2	12.5	0.5	South Dakota	1	2.9	0.1
Kansas	2	5.0	0.2	Tennessee	3	10.6	0.4
Kentucky	1	2.7	0.1	Texas	2	6.6	0.2
Maine	1	1.8	0.2	Utah	1	8.6	0.4
Massachusetts	4	10.2	0.5	Virginia	2	8.7	0.3
Minnesota	1	3.0	0.1	Washington	6	28.7	1.1
				Wisconsin	3	17.4	0.6
				TOTAL	85	437.2	17.4

(1) As of December 31, 2005, AmeriCold Realty Trust operated 101 facilities, of which 84 were wholly-owned facilities, one was partially-owned and sixteen were managed for outside owners.

Item 3. Legal Proceedings

We are not currently subject to any material legal proceeding nor, to our knowledge, is any material legal proceeding contemplated against us.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of our security holders during the fourth quarter of our fiscal year ended December 31, 2005.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common shares have been traded on the New York Stock Exchange under the symbol CEI since the completion of our initial public offering in May 1994. For each calendar quarter indicated, the following table reflects the high and low sales prices during the quarter for the common shares and the distributions declared with respect to each quarter.

	Price		
	High	**Low**	**Distributions**
2004			
First Quarter	$18.75	$17.31	$0.375
Second Quarter	17.90	15.05	0.375
Third Quarter	16.58	15.37	0.375
Fourth Quarter	19.09	15.47	0.375
2005			
First Quarter	$18.14	$16.12	$0.375
Second Quarter	18.99	16.02	0.375
Third Quarter	20.65	17.95	0.375
Fourth Quarter	21.06	19.23	0.375

As of February 23, 2006, there were approximately 762 holders of record of our common shares.

Our actual results of operations and the amounts actually available for distribution will be affected by a number of factors, including:

- the general condition of the United States economy;
- general leasing activity and rental rates in the markets in which the Office Properties are located;
- the ability of tenants to meet their rent obligations;
- our operating and interest expenses;
- consumer preferences relating to the Resort/Hotel Properties and the Resort Residential Development Properties;
- cash flows from unconsolidated entities;
- the level of our property acquisitions and dispositions;
- capital expenditure requirements;
- federal, state and local taxes payable by us; and
- the adequacy of cash reserves.

Our future distributions will be at the discretion of our Board of Trust Managers. The Board of Trust Managers has indicated that it will review the adequacy of our distribution rate on a quarterly basis.

Under the Code, REITs are subject to numerous organizational and operational requirements, including the requirement to distribute at least 90% of REIT taxable income each year. Pursuant to this requirement, we were required to distribute $128.0 million and $88.0 million for 2005 and 2004, respectively. Our actual distributions to

common and preferred shareholders were $182.2 million and $180.6 million for 2005 and 2004, respectively.

Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a shareholder as ordinary dividend income. For tax years beginning after December 31, 2002, qualified dividends paid to shareholders are taxed at capital gains rates, as added by the Jobs and Growth Tax Relief Reconciliation Act of 2003. Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the shareholder s basis in such shareholder s shares, to the extent thereof, and thereafter as taxable gain. Distributions that are treated as a reduction of the shareholder s basis in its shares will have the effect of deferring taxation until the sale of the shareholder s shares. No assurances can be given regarding what portion, if any, of distributions in 2006 or subsequent years will constitute a return of capital for federal income tax purposes.

Table of Contents

Following is the income tax status of distributions paid during the years ended December 31, 2005 and 2004 to common shareholders:

	2005	2004
Ordinary dividend	6.3%	%
Qualified dividend eligible for 15% tax rate	2.7	
Capital gain	47.2	23.2
Return of capital	29.5	57.4
Unrecaptured Section 1250 gain	14.3	19.4
	100.0%	100.0%

Distributions on the 14,200,000 Series A Convertible Cumulative Preferred Shares issued by us in February 1998, April 2002 and January 2004 are payable at a rate of $1.6875 per annum per Series A Convertible Cumulative Preferred Share, prior to distributions on the common shares.

Distributions on the 3,400,000 Series B Cumulative Redeemable Preferred Shares issued by us in May and June 2002 are payable at a rate of $2.3750 per annum per Series B Cumulative Redeemable Preferred Share, prior to distributions on the common shares.

Following is the income tax status of distributions paid during the years ended December 31, 2005 and 2004 to preferred shareholders:

	Class A Preferred		Class B Preferred	
	2005	2004	2005	2004
Ordinary dividend	8.9%	%	8.9%	%
Qualified dividend eligible for 15% tax rate	3.8		3.8	
Capital gain	67.1	54.4	67.1	54.4
Unrecaptured Section 1250 Gain	20.2	45.6	20.2	45.6
	100.0%	100.0%	100.0%	100.0%

Unregistered Sales of Equity Securities

During the three months ended December 31, 2005, we issued an aggregate of 342,532 common shares to holders of Operating Partnership units in exchange for 171,266 units. Of the 342,532 shares, 340,000 were issued on December 27, 2005 and 2,532 were issued on December 28, 2005. The issuances of common shares were exempt from registration as private placements under Section 4(2) of the Securities Act of 1933, as amended. We registered the resale of such common shares under the Securities Act.

Table of Contents

Item 6. Selected Financial Data

The following table includes certain of our financial information on a consolidated historical basis. You should read this section in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data.

CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED HISTORICAL FINANCIAL DATA
(Dollars in thousands, except share data)

	For Years Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Operating Data:					
Total Property revenue	$ 1,023,523	$ 1,007,438	$ 899,790	$ 956,950	$ 593,511
Income from Property Operations	$ 280,354	$ 317,605	$ 303,379	$ 340,242	$ 346,764
Income (loss) from continuing operations before minority interests and income taxes	$ 24,488	$ 189,686	$ 57,323	$ 74,748	$ (14,372)
Net income (loss) available to common shareholders	$ 63,269	$ 141,138	$ (278)	$ 65,959	$ (18,160)
Basic earnings (loss) per common share:					
(Loss) income available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ (0.30)	$ 1.35	$ (0.01)	$ 0.36	$ (0.42)
Net income (loss) available to common shareholders-basic	$ 0.63	$ 1.43	$	$ 0.63	$ (0.17)
Diluted earnings (loss) per common share:					
(Loss) income available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ (0.30)	$ 1.34	$ (0.01)	$ 0.36	$ (0.42)

Net income (loss) available to common shareholders diluted	$	0.63	$	1.42	$		$	0.63	$	(0.17)
Balance Sheet Data (at period end):										
Total assets	$	4,141,862	$	4,037,764	$	4,314,463	$	4,289,433	$	4,142,149
Total debt	$	2,259,473	$	2,152,255	$	2,558,699	$	2,382,910	$	2,214,094
Total shareholders equity	$	1,241,995	$	1,300,250	$	1,221,804	$	1,354,813	$	1,405,940
Other Data:										
Cash distribution declared per common share	$	1.50	$	1.50	$	1.50	$	1.50	$	1.85
Weighted average Common shares and units outstanding basic		118,012,402		116,747,408		116,634,546		117,523,248		121,017,605
Weighted average Common shares and units outstanding diluted		118,836,421		116,965,897		116,676,242		117,725,984		122,544,421
Cash flow provided by (used in):										
Operating activities	$	139,629	$	89,620	$	126,046	$	280,303	$	210,055
Investing activities		(198,358)		632,931		(34,579)		55,181		212,752
Financing activities		52,666		(708,312)		(91,859)		(293,325)		(425,488)
Funds from operations available to common shareholders diluted[1]	$	144,317	$	95,723	$	174,762	$	221,284	$	155,412

(1) Funds from operations, or FFO, is a supplemental non-GAAP financial measurement used in the real estate industry to measure and compare the operating performance of real estate companies, although those companies may calculate funds from operations in different ways. The National Association of Real Estate Investment Trusts (NAREIT) defines funds from operations as Net Income (Loss) determined in accordance with generally accepted accounting principles (GAAP), excluding gains (or losses) from sales of depreciable operating property, excluding extraordinary items (determined by GAAP), plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. We calculate FFO available to common shareholders diluted in the same manner, except that Net Income (Loss) is replaced by Net Income (Loss) Available to Common Shareholders and we include the effect of Operating Partnership unitholder minority interests. For a more detailed definition and description of FFO and a reconciliation to net income determined in accordance with GAAP, see Funds from Operations included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

36

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Index to Management s Discussion and Analysis of Financial Condition and Results of Operations

	Page
Overview	38
Recent Developments	39
Results of Operations	
Years ended December 31, 2005 and 2004	46
Years ended December 31, 2004 and 2003	50
Liquidity and Capital Resources	
Overview	55
Liquidity Requirements	58
Debt and Equity Financing	61
Unconsolidated Investments	64
Significant Accounting Policies	65
Funds from Operations	70

Overview

We are a REIT with assets and operations divided into four investment segments: Office, Resort Residential Development, Resort/Hotel and Temperature-Controlled Logistics. Our strategy has two key elements.

First, we seek to capitalize on our award-winning office management platform. We intend to accomplish this by investing in premier office properties in select markets that offer attractive returns on invested capital. Our strategy is to align ourselves with institutional partners and become a significant manager of institutional capital. We believe this partnering makes us more competitive in acquiring new properties, and it enhances our return on equity by 300 to 500 basis points when compared to the returns we receive as a 100% owner. Where possible, we strive to negotiate performance-based incentives that allow for additional equity to be earned if return targets are exceeded. We were able to realize this increased return on equity from our promoted interest earned on the sale of Five Houston Center in December 2005.

Consistent with this strategy, we continually evaluate our existing portfolio for potential joint-venture opportunities. We currently hold 48% of our office portfolio in joint ventures, and we will continue to joint venture more assets in our portfolio, which will enable us to further increase our return on equity as well as gain access to equity for reinvestment.

We also seek to selectively develop new office properties where we see the opportunity for attractive returns. We started construction in the third quarter of 2005 on a new 239,000 square-foot office building as an addition to the Hughes Center complex in Las Vegas, Nevada. We recently entered into a joint venture with Hines to develop a 265,000 square-foot office building in Irvine, California, and we also entered into a joint venture with JMI Realty to co-develop a 233,000 square-foot, three-building office complex in San Diego, California. Additionally, we provide mezzanine financing to other office and hotel investors where we see attractive returns relative to owning the equity. We have entered into approximately $187.7 million of mezzanine financing investments, of which approximately $124.7 million relates to Office Properties, since the end of 2004. Subsequent to December 31, 2005, two of our mezzanine investments totaling $50.3 million were repaid.

Second, we invest in real estate businesses that offer returns equal to or superior to what we are able to achieve in our office investments. We develop and sell residential properties in resort locations primarily through Harry Frampton and his East West Partners development team with the most significant project in terms of future cash flow being our investment in Tahoe Mountain Resorts in California. This development encompasses more than 2,500 total lots and units, of which 340 have been sold, 89 are currently in inventory and over 2,150 are scheduled for development over the next 14 years, and is expected to generate in excess of $4.7 billion in sales. We expect our investment in Tahoe to be a long-term source of earnings and cash flow growth as new projects are designed and developed. We view our resort residential developments as a business and believe that, beyond the net present value of existing projects, there is value in our strategic relationships with the development teams and our collective ability to identify and develop new projects.

In 2005, we also completed the recapitalization of our Canyon Ranch investment. We believe Canyon Ranch is well positioned for significant growth, with a large portion of this growth over the near term coming from the addition of several Canyon Ranch Living communities. The focal point of these communities is a large, comprehensive wellness facility. Canyon Ranch will partner with developers on these projects and earn fees for the licensing of the brand name, design and technical services, and the ongoing management of the facilities. Canyon Ranch currently has one such development under construction in Miami Beach and others are under consideration or in negotiation.

Table of Contents

Recent Developments

Office Segment

Joint Ventures

Five Houston Center

On December 20, 2005, we completed the sale of Five Houston Center on behalf of Crescent 5 Houston Center, L.P., the joint venture which was owned 75% by a fund advised by JP Morgan Fleming Asset Management, or JPM, and 25% by us. The sale generated proceeds, net of selling costs, of approximately $164.6 million and a net gain of approximately $68.0 million. Our share of the net gain, including a promoted interest of approximately $13.6 million, was approximately $29.9 million. Our share of the proceeds was approximately $32.3 million, which was used to pay down the credit facility.

Paseo del Mar

On September 21, 2005, we entered into a joint venture arrangement, Crecent-JMIR Paseo Del Mar LLC, with JMI Realty. The joint venture has committed to co-develop a 233,000 square-foot, three-building office complex in the Del Mar Heights submarket of San Diego, California. The venture is structured such that we own an 80% interest and JMI Realty owns the remaining 20% interest. In connection with the joint venture, Crescent-JMIR Paseo Del Mar LLC entered into a maximum $53.1 million construction loan with Guaranty Bank. Affiliates of JMI Realty manage the joint venture, guarantee the loan, and have provided a completion guarantee to the joint venture. The initial cash equity contribution to the joint venture was $28.6 million, of which our portion was $22.9 million. The development, which is currently underway, is scheduled for delivery in the third quarter of 2006. Upon completion, we will manage the property on behalf of the joint venture. We consolidate Crescent-JMIR Paseo Del Mar LLC.

One Buckhead Plaza

On June 29, 2005, we contributed One Buckhead Plaza, subject to the Morgan Stanley Note of $85.0 million, to Crescent One Buckhead Plaza, L.P., a limited partnership in which we have a 35% interest and Metzler US Real Estate Fund L.P. has a 65% interest. The property was valued at $130.5 million and the transaction generated net proceeds to us of approximately $28.1 million, which were used to pay down our credit facility. The joint venture was accounted for as a partial sale of the Office Property, resulting in a net gain of approximately $0.4 million. None of the mortgage financing at the joint venture level is guaranteed by us. We manage the property on behalf of the joint venture. We account for our interest in Crescent One Buckhead Plaza, L.P. under the equity method.

2211 Michelson

On June 9, 2005, we entered into a joint venture arrangement, Crescent Irvine LLC, with an affiliate of Hines. The joint venture purchased a land parcel located in the John Wayne submarket in Irvine, California, for $12.0 million. In addition, we have committed to co-develop a 265,000 square-foot Class A office property on the acquired site. Hines owns a 60% interest and we own a 40% interest in the joint venture. The initial cash equity contribution to the joint venture was $12.2 million, of which our portion was $4.9 million. Development is expected to begin in the first quarter of 2006. We account for our interest in Crescent Irvine LLC under the equity method.

Fulbright Tower

On February 24, 2005, we contributed Fulbright Tower, subject to the Morgan Stanley Mortgage Capital Inc. Note of $73.4 million, and an adjacent parking garage, to Crescent 1301 McKinney, L.P., a limited partnership in which we have a 23.85% interest, a fund advised by JPMorgan Asset Management, or JPM, has a 60% interest and GE Asset Management, or GE, has a 16.15% interest. The property was valued at $106.0 million and the transaction generated net proceeds to us of approximately $33.4 million which were used to pay down our credit facility. The joint venture was accounted for as a partial sale of the Office Property, resulting in a net gain of approximately $0.5 million. None of the mortgage financing at the joint venture level is guaranteed by us. We manage this property on behalf of the joint venture. We account for our interest in Crescent 1301 McKinney, L.P. under the equity method.

Significant Tenant Lease Termination

In June 2005, we entered into an agreement with our largest office tenant, El Paso Energy Services Company and certain of its subsidiaries, which will terminate El Paso s leases relating to a total of 888,000 square feet at Greenway Plaza in Houston, Texas, effective December 31, 2007. Under the agreement, El Paso is required to pay us $65.0 million in termination fees in periodic installments through December 31, 2007 and $62.0 million in rent according to the original lease terms from July 1, 2005 through December 31, 2007. Original expirations for the space ranged from 2007 through 2014. The $65.0 million lease termination fee, net of the approximately $23.0 million deferred rent receivable balance, will be recognized ratably to income over the period July 1, 2005 through December 31, 2007. In December 2005, we collected the first installment of the lease termination fee in the amount of $10.0 million. As of December 31, 2005, El Paso was current on all rental obligations.

Asset Purchases

During the year ended December 31, 2005 and through February 2006, we completed the following acquisitions:

(in millions) Date	Property	Location	Purchase Price[1]
February 7, 2005	Exchange Building Class A Office Property	Seattle, Washington	$ 52.5
April 8, 2005	One Buckhead Plaza Class A Office Property[2]	Atlanta, Georgia	130.5
January 23, 2006	Financial Plaza Class A Office Property	Phoenix, Arizona	55.0

[1] The acquisitions were funded by draws on our credit facility and for One Buckhead Plaza and Financial Plaza, by mortgage loans with Morgan Stanley and Allstate, respectively.

[2] In June 2005, we contributed One Buckhead Plaza to Crescent One Buckhead Plaza L.P., as described above under Office Segment One Buckhead Plaza.

Asset Sales

The following table summarizes our significant asset sales during the year ended December 31, 2005 and through February 2006:

(in millions) Date	Property	Location	Net Proceeds	Gain
Office				
February 7, 2005	Albuquerque Plaza	Albuquerque, NM	$34.7[1]	$ 1.6
August 16, 2005	Barton Oaks Plaza One	Austin, TX	14.4[1]	5.3
September 19, 2005	Chancellor Park	San Diego, CA	55.4[2]	31.9
September 28, 2005	Two Renaissance Square	Phoenix, AZ	116.8[1]	67.4
February 17, 2006	Waterside Commons	Dallas, TX	24.8[2]	[3]

[1] Proceeds were used to pay down a portion of our Bank of America Fund XII Term Loan.

[2] Proceeds were used primarily to pay down our credit facility.

[3] We previously recorded an impairment charge of approximately $1.0 million during the year ended December 31, 2005.

Resort/Hotel Segment
Joint Ventures
Canyon Ranch

On January 18, 2005, we contributed Canyon Ranch Tucson, our 50% interest and our preferred interest in CR Las Vegas, LLC and our 30% interest in CR License, L.L.C., CR License II, L.L.C., CR Orlando LLC and CR Miami LLC, to two newly formed entities, CR Spa, LLC and CR Operating, LLC. In exchange, we received a 48% common equity interest in each new entity. The remaining 52% interest in these entities is held by the founders of Canyon Ranch, who contributed their interests in CR Las Vegas, LLC, CR License II, L.L.C., CR Orlando LLC and CR Miami LLC and the resort management contracts. In addition, we sold Canyon Ranch Lenox to a subsidiary of CR Operating, LLC. As a result of these transactions, the new entities own the following assets: Canyon Ranch Tucson, Canyon Ranch Lenox, Canyon Ranch SpaClub at the Venetian Resort in Las Vegas, Canyon Ranch SpaClub on the Queen Mary 2 ocean liner, Canyon Ranch Living Community in Miami, Florida, Canyon Ranch SpaClub at The Gaylord Palms Resort in Kissimmee, Florida, and the Canyon Ranch trade names and trademarks.

In addition, the newly formed entities completed a private placement of Mandatorily Redeemable Convertible Preferred Membership Units for aggregate gross proceeds of approximately $110.0 million. In this private placement, Richard E. Rainwater, Chairman of our Board of Trust Managers, and certain of his family members purchased approximately $27.1 million of these units on terms identical to those extended to all other investors. The units are convertible into a 25% common equity interest in CR Spa, LLC and CR Operating, LLC and pay distributions at the rate of 8.5% per year in years one through seven, and 11% in years eight through ten. At the end of ten years, or upon earlier redemption, the holders of the units are entitled to receive a premium in an amount sufficient to result in a cumulative return of 11% per year. The units are redeemable after seven years at the option of the issuer. Also on January 18, 2005, the new entities completed a $95.0 million financing with Bank of America. The loan has an interest-only term until maturity in February 2015, bears interest at 5.94% and is secured by the Canyon Ranch Tucson and Canyon Ranch Lenox Destination Fitness Properties. As a result of these transactions, we received proceeds of approximately $91.9 million, which was used to pay down or defease debt related to our previous investment in the Properties and to pay down our credit facility. No gain or loss was recorded in connection with the above transactions. Following these transactions, we account for our interests in CR Spa, LLC and CR Operating, LLC under the equity method.

Other Segment

Mezzanine Investments

We offer mezzanine financing in the form of limited recourse loans that are made to a special purpose entity which is the direct or indirect parent of another special purpose entity owning a commercial real estate property. These mezzanine loans are secured by a pledge of the ownership interest in the property owner (or in an entity that directly or indirectly owns the property owner) and are thus structurally subordinate to a conventional first mortgage loan made to the property owner. We also offer mezzanine financing by taking a junior participating interest in a first mortgage loan.

The underlying real estate assets may be a single office or hotel property, or a portfolio of cross-collateralized real estate assets. We typically require recourse guaranties from the ultimate owners of the property for such matters as voluntary bankruptcy filings, failure to contest involuntary bankruptcy filings, violation of special purpose entity covenants, environmental liability and other events such as misappropriation of rents or insurance. Although these types of loans generally have greater repayment risks than first mortgages due to the subordinated nature of the loans and the higher loan-to-value ratio, we have a disciplined approach in underwriting the value of the asset. The yield on these investments may be enhanced by front-end fees, prepayment fees, yield look-backs, participating interests and additional fees to allow prepayment during a prepayment black-out period.

(in millions) Date	Loan Amount	Investment	Maturity Date	Interest Rate at December 31, 2005	Fixed/ Variable
November 9, 2004	$22.0[(1)]	Los Angeles Office Property	2006	13.62%	Variable
February 7, 2005	17.3[(2)]	New York City Office Property	2007	12.05%	Variable
March 31, 2005	33.0[(3)]	Orlando Resort	2008	12.00%	Fixed
May 31, 2005	20.0[(4)]	Los Angeles Office Property	2007	12.59%	Variable
June 9, 2005	12.0[(5)]	Dallas Office Property	2007	12.87%	Variable
August 31, 2005	7.7[(6)]	Three Dallas Office Properties	2010	11.04%	Fixed
November 16, 2005	15.0[(7)]	Two Luxury Hotel Properties in California	2007	15.37%	Variable
November 16, 2005	25.0[(8)]	Los Angeles Office Property	2007	8.87%	Variable
December 30, 2005	20.7[(9)]	Office Portfolio in Southeastern U.S.	2007	11.23%	Variable
January 20, 2006	15.0[(10)]	Six Hotel Properties in Florida	2009	N/A	Variable

(1) The loan bears interest at LIBOR plus 925 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to four six-month extension options.

(2) On February 1, 2006, the loan was repaid in full.

(3) Outstanding amount excludes $0.1 million of unamortized premium. On February 24, 2006, the loan was repaid in full.

(4) The loan bears interest at LIBOR plus 825 basis points with an interest-only term until maturity, subject to the right of the borrower to two six-month extensions and a third extension ending December 1, 2008.

(5) The loan bears interest at LIBOR plus 850 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to three one-year extension options.

(6) The loan has an interest-only term through September 2007. Beginning October 2007, the borrower must make principal payments based on a 30-year amortization schedule until maturity.

(7) The loan bears interest at LIBOR plus 1100 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to five one-year extension options.

(8) The loan bears interest at LIBOR plus 453 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to three six-month extension options. The office property securing our investment is the same property securing our May 31, 2005 investment.

(9) The loan bears interest at LIBOR plus 685 basis points with an interest-only term until maturity, subject to the right of the borrower to extend pursuant to three one-year extension options.

(10) The loan bears interest at LIBOR plus 800 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to two one-year extension options.

Table of Contents

Redtail Capital Partners, L.P.

On May 10, 2005, we entered into an agreement with Capstead Mortgage Corporation pursuant to which we formed a joint venture, Redtail Capital Partners, L.P., to invest up to $100.0 million in select mezzanine loans on commercial real estate over a two-year period. The Redtail Capital Partners joint venture agreement also provides that we and Capstead may form a second joint venture to invest up to an additional $100.0 million in equity. Capstead is committed to 75% of the capital of the second joint venture, or up to $75.0 million, and we are committed to 25%, or up to $25.0 million. We will be responsible for identifying investment opportunities and managing the portfolios and will earn a management fee and incentives based on portfolio performance. A wholly-owned subsidiary of this joint venture has a $225.0 million warehouse borrowing facility in the form of a repurchase agreement. Borrowings under the warehouse facility are secured by the subsidiary s financed participation interests and mezzanine loans, and guaranteed by the joint venture. Total investments of the joint venture in mezzanine loans, assuming leverage, could be as much as $325.0 million. As of December 31, 2005, we have made capital contributions of $2.3 million. We account for our interest in Redtail Capital Partners, L.P. under the equity method.

2005 Operating Performance

Office Segment

The following table shows the performance factors on stabilized properties, excluding properties held for sale, used by management to assess the operating performance of the Office Segment:

	2005	2004
Ending Economic Occupancy[1]	88.5%	88.6%
Leased Occupancy[2]	90.8%	89.9%
In-Place Weighted Average Full-Service Rental Rate[3]	$22.48	$22.63
Tenant Improvement and Leasing Costs per Sq. Ft. per year	$ 3.55	$ 3.13
Average Lease Term[4]	6.2 years	7.4 years
Same-Store NOI[5] Decline	(1.5)%	(5.3)%
Same-Store Average Economic Occupancy	87.3%	86.0%

(1) Economic occupancy reflects the occupancy of all tenants paying rent.

(2) Leased occupancy reflects the amount of contractually obligated space, whether or not commencement has occurred.

(3) The weighted average full-service rental rate for the El Paso lease reflects weighted average full-service rental rate over the shortened term and excludes the impact of the net lease termination fee being recognized ratably to income through December 31, 2007.

(4) Reflects leases executed during the period.

(5) Same-store NOI (net operating income) represents office property net income excluding depreciation, amortization, interest expense and non-recurring items such as lease termination fees for Office Properties owned for the entirety of the comparable periods.

For 2006, we expect continued improvement in the economy. This allows us to remain cautiously optimistic about economic occupancy gains in 2006. We expect that 2006 ending economic occupancy for our portfolio will increase to approximately 90% to 91%.

Resort Residential Development Segment

The following tables show the performance factors used by management to assess the operating performance of the Resort Residential Development Segment. Information is provided for the CRDI Resort Residential Development Properties and the Desert Mountain Resort Residential Development Properties, which represent our significant investments in this segment as of December 31, 2005.

CRDI

	For the years ended December 31,	
(dollars in thousands)	**2005**	**2004**
Resort Residential Lot Sales	545	353
Resort Residential Unit Sales:		
Townhome Sales	25	12
Condominium Sales	187	41
Equivalent Timeshare Sales	15.7	14.6
Average Sales Price per Resort Residential Lot	$ 164	$ 152
Average Sales Price per Resort Residential Unit	$ 1,265	$ 1,831

CRDI, which invests primarily in mountain residential real estate in Colorado and California and residential real estate in downtown Denver, Colorado, is highly dependent upon the national economy and customer demand. For 2006, management expects that unit and lot sales will decrease due to the number of units and lots completed and available for sale as compared to 2005, but the average sales price will increase at CRDI due to product mix, with approximately 60% closed or pre-sold as of January 31, 2006.

Desert Mountain

	For the years ended December 31,	
(dollars in thousands)	**2005**	**2004**
Resort Residential Lot Sales	40	68
Average Sales Price per Lot [1]	$ 1,082	$ 756

[1] Includes equity golf membership

Desert Mountain is in the latter stages of development and management anticipates minor additions to its decreasing available inventory. Total lot and home sales are expected to be higher in 2006 compared to 2005 as a result of approximately 10 lots and 38 homes being completed in 2006.

Resort/Hotel Segment

The following table shows the performance factors used by management to assess the operating performance of our Resort/Hotel Properties.

	For the years ended December 31,							
	Same-Store NOI[1] % Change		Average Occupancy Rate		Average Daily Rate		Revenue Per Available Room/Guest Night	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Canyon Ranch and Luxury Resorts and Spas	41%	(3)%	73%	69%	$529	$501	$371	$331
Upscale Business Class Hotels	26%	(6)%	73%	69%	$123	$116	$ 90	$ 80

[1] Same-Store NOI (net operating income) represents net income excluding depreciation and amortization, interest expense and rent expense for Resort/Hotel Properties owned for the entirety of the comparable periods.

We anticipate a 3% to 5% increase in revenue per available room in 2006 at the Resort/Hotel Properties driven by the continued recovery of the economy and travel industry.

Results of Operations

The following table shows the variance in dollars for certain of our operating data between the years ended December 31, 2005 and 2004 and the years ended December 31, 2004 and 2003.

(in millions)	Total variance in dollars between the years ended December 31, 2005 and 2004	Total variance in dollars between the years ended December 31, 2004 and 2003
REVENUE:		
Office Property	$ (104.4)	$ 9.7
Resort Residential Development Property	192.4	89.5
Resort/Hotel Property	(71.9)	8.5
Total Property revenue	$ 16.1	$ 107.7
EXPENSE:		
Office Property real estate taxes	$ (19.6)	$ (3.7)
Office Property operating expenses	(19.3)	10.6
Resort Residential Development Property expense	160.8	74.3
Resort/Hotel Property expense	(68.5)	12.2
Total Property expense	$ 53.4	$ 93.4
Income from Property Operations	$ (37.3)	$ 14.3
OTHER INCOME (EXPENSE):		
Income from sale of investment in unconsolidated company, net	$ 29.9	$ (86.2)
Income from investment land sales, net	(10.2)	5.8
(Loss) gain on joint venture of properties, net	(268.5)	265.7
Gain on property sales, net	0.1	
Interest and other income	11.1	10.2
Corporate general and administrative	(11.5)	(6.2)
Interest expense	40.1	(4.7)
Amortization of deferred financing costs	4.9	(2.0)
Extinguishment of debt	40.5	(42.6)
Depreciation and amortization	17.9	(15.8)
Impairment charges related to real estate assets	3.0	4.5
Other expenses	(3.2)	5.2
Equity in net income (loss) of unconsolidated companies:		
Office Properties	5.2	(4.9)
Resort Residential Development Properties	1.8	(12.7)
Resort/Hotel Properties	(1.3)	(6.0)

Temperature-Controlled Logistics Properties		(5.9)		4.0
Other		18.2		3.8
Total other income (expense)	$	(127.9)	$	118.1
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES	$	(165.2)	$	132.4
Minority interests		22.1		(31.6)
Income tax (expense) benefit		(20.5)		40.0
INCOME BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	$	(163.6)	$	140.8
Income from discontinued operations, net of minority interests		(5.5)		(6.4)
Impairment charges related to real estate assets from discontinued operations, net of minority interests		2.9		22.1
Gain on real estate from discontinued operations, net of minority interests		88.2		(9.2)
Cumulative effect of a change in accounting principle, net of minority interests		0.4		(0.4)
NET INCOME	$	(77.6)	$	146.9
Series A Preferred Share distributions		(0.3)		(5.5)
Series B Preferred Share distributions				
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$	(77.9)	$	141.4

Table of Contents

Comparison of the year ended December 31, 2005 to the year ended December 31, 2004

Property Revenues

Total property revenues increased $16.1 million, or 1.6%, to $1,023.5 million for the year ended December 31, 2005, as compared to $1,007.4 million for the year ended December 31, 2004. The primary components of the increase in total property revenues are discussed below.

Office Property revenues decreased $104.4 million, or 21.7%, to $377.3 million, primarily due to:

§ a decrease of $154.6 million due to the joint ventures of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004; partially offset by Fulbright Tower, which was acquired in December 2004 and joint ventured in February 2005, and One Buckhead Plaza which was acquired in April 2005 and joint ventured in June 2005; partially offset by

§ an increase of $26.9 million from the acquisition of Hughes Center in January through May 2004, Dupont Centre in March 2004, The Alhambra in August 2004, One Live Oak and Peakview Tower in December 2004 and the Exchange Building in February 2005;

§ an increase of $17.1 million resulting from third party management and leasing services and related direct expense reimbursements due to the joint ventures of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004, and Fulbright Tower in February 2005 and One Buckhead Plaza in June 2005;

§ an increase of $4.9 million from the 43 consolidated Office Properties (excluding 2004 and 2005 acquisitions, dispositions and properties held for sale) that we owned or had an interest in, primarily due to a 2.2 percentage point increase in average occupancy (from 82.9% to 85.1%), increased expense recovery revenue related to the increase in occupancy and increased recoverable expenses, and increased parking revenue; partially offset by a decline in full service weighted average rental rates; and

§ an increase of $2.2 million in net lease termination fees (from $9.0 million to $11.2 million) primarily due to the El Paso lease termination.

Resort Residential Development Property revenues increased $192.4 million, or 61.8%, to $503.6 million, primarily due to:

§ an increase of $189.7 million in CRDI revenues related to product mix in lots and units available for sale in 2005 versus 2004, primarily at Hummingbird Lodge in Bachelor Gulch, Colorado, Northstar Village in Lake Tahoe, California, Creekside at Riverfront Park in Denver, Colorado, Delgany in Denver, Colorado, Brownstones in Denver, Colorado, and Gray s Crossing in Lake Tahoe, California, which had sales in the year ended December 31, 2005, but reduced or no sales in 2004; partially offset by the Cresta project in Arrowhead, Colorado, Old Greenwood in Lake Tahoe, California, and Horizon Pass in Bachelor Gulch, Colorado, which had sales in the year ended December 31, 2004, but reduced or no sales in 2005.

Resort/Hotel Property revenues decreased $71.9 million, or 33.5%, to $142.6 million, primarily due to:

§ a decrease of $88.8 million due to the contribution, in January 2005, of the Canyon Ranch Properties to a newly formed entity, CR Operating, LLC, in which we have a 48% member interest that is accounted for as an unconsolidated investment; partially offset by

§ an increase of $6.9 million in room revenue at the Luxury Resort and Spa Properties related to a 20% increase in revenue per available room (from $171 to $206) resulting from a 12% increase in average daily rate (from $285 to $319) and a 4 percentage point increase in occupancy (from 60% to 64%);

§ an increase of $4.5 million in food and beverage, spa and other revenue at the Luxury Resort and Spa Properties primarily due to a 12 percentage point increase in occupancy (from 59% to 71%) at the Sonoma Mission Inn primarily related to the renovation of the 97 historic inn rooms which were out of service

during the first two quarters of 2004;

- § an increase of $2.8 million in room revenue at the Upscale Business Class Hotel Properties primarily due to a 13% increase in revenue per available room (from $80 to $90) resulting from an increase of 6% in average daily rate (from $116 to $123) and 4 percentage point increase in occupancy (from 69% to 73%); and

- § an increase of $2.6 million in food and beverage and other revenue at the Upscale Business Class Hotel Properties primarily related to the 4 percentage point increase in occupancy (from 69% to 73%) in conjunction with increased group volume.

Property Expenses

Total property expenses increased $53.4 million, or 7.7%, to $743.2 million for the year ended December 31, 2005, as compared to $689.8 million for the year ended December 31, 2004. The primary components of the variances in property expenses are discussed below.

Office Property expenses decreased $38.9 million, or 16.3%, to $199.3 million, primarily due to:

§ a decrease of $73.3 million due to the joint ventures of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004, partially offset by Fulbright Tower, which was acquired in December 2004 and joint ventured in February 2005 and One Buckhead Plaza, which was acquired in April 2005 and joint ventured in June 2005; partially offset by

§ an increase of $14.4 million related to the cost of providing third-party management services due to the joint venture of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004, and Fulbright Tower in February 2005 and One Buckhead Plaza in June 2005, which are recouped by increased third party fee income and direct expense reimbursements;

§ an increase of $10.7 million from the acquisition of Hughes Center in January through May 2004, Dupont Centre in March 2004, The Alhambra in August 2004, One Live Oak and Peakview Tower in December 2004 and the Exchange Building in February 2005;

§ an increase of $4.7 million in operating expenses of the 43 consolidated Office Properties (excluding 2004 and 2005 acquisitions, dispositions and properties held for sale) that we owned or had an interest in primarily due to increased administrative costs, utilities, general building and property taxes; and

§ an increase of $4.5 million due to increased payroll and benefit costs and Sarbanes-Oxley compliance costs.

Resort Residential Development Property expenses increased $160.8 million, or 59.2%, to $432.6 million, primarily due to:

§ an increase of $160.5 million in CRDI cost of sales related to product mix in lots and units available for sale in 2005 versus 2004, primarily at the Hummingbird Lodge in Bachelor Gulch, Colorado, Northstar Village in Lake Tahoe, California, Creekside at Riverfront Park in Denver, Colorado, Delgany in Denver, Colorado, Brownstones in Denver, Colorado, and Gray s Crossing in Lake Tahoe, California, which had sales in the year ended December 31, 2005, but reduced or no sales in 2004; partially offset by the Cresta project in Arrowhead, Colorado, Old Greenwood in Lake Tahoe, California, and Horizon Pass in Bachelor Gulch, Colorado, which had sales in the year ended December 31, 2004, but reduced or no sales in 2005.

Resort/Hotel Property expenses decreased $68.5 million, or 38.1%, to $111.3 million, primarily due to:

§ a decrease of $76.5 million due to the contribution, in January 2005, of the Canyon Ranch Properties to a newly formed entity, CR Operating, LLC, in which we have a 48% member interest that is accounted for as an unconsolidated investment; partially offset by

§ an increase of $5.2 million in operating expenses at the Luxury Resort and Spa Properties primarily due to a 12 percentage point increase in occupancy at Sonoma Mission Inn (from 59% to 71%) primarily related to the renovation of the 97 historic inn rooms which were out of service during the first two quarters of 2004; and

§ an increase of $2.7 million in operating expenses at the Upscale Business Class Hotel Properties primarily related to a 9 percentage point increase in occupancy at Houston Renaissance (from 61% to 70%).

Other Income/Expense

Total other income and expenses increased $127.9 million, or 100.0%, to $255.8 million for the year ended December 31, 2005, compared to $127.9 million for year ended December 31, 2004. The primary components of the increase in total other income and expenses are discussed below.

47

Other Income

Other income decreased $219.6 million, or 70.3%, to $92.6 million for the year ended December 31, 2005, as compared to $312.2 million for the year ended December 31, 2004. The primary components of the decrease in other income are discussed below.

Gain on joint venture of properties, net decreased $268.5 million, due primarily to:

§ $265.8 million decrease due to the gain on the joint venture of The Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central Office Properties in 2004; and

§ $4.9 million decrease due to the write-off of capitalized internal leasing costs related to prior year joint venture of properties; partially offset by

§ $1.9 million increase due to the gain on the joint venture of Fullbright Tower and One Buckhead in 2005.

Income from investment land sales, net decreased $10.2 million due to the gain of $8.6 million on sales of two parcels of undeveloped investment land in 2005 compared to $18.8 million gain on sales of five parcels of undeveloped investment land in 2004.

Income from sale of investment in unconsolidated company, net increased $29.9 million due to the sale of our interests in the entity that owned the 5 Houston Center Office Property in 2005.

Interest and other income increased $11.1 million to $29.1 million primarily due to:

§ $10.5 million interest from mezzanine loans;

§ $3.7 million interest from U.S. Treasury and government sponsored agency securities purchased in December 2004 and January 2005 related to debt defeasance in order to release the lien on properties securing the LaSalle Note I and Nomura Funding VI Note; and

§ $1.7 million increase in other income from legal settlement proceeds received in connection with certain deed transfer taxes; partially offset by

§ $3.7 million received in 2004 from COPI pursuant to the COPI bankruptcy plan for notes receivable previously written off in 2001.

Equity in net income of unconsolidated companies increased $18.0 million to $27.6 million primarily due to:

§ an increase of $18.2 million in Other equity in net income primarily attributable to an increase of $6.1 million of income from the G2 investment and an increase of $11.5 million of income from the SunTx investment; and

§ an increase of $5.2 million in Office equity in net income primarily attributable to the joint ventures of The Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central Office Properties; partially offset by

§ a decrease of $5.9 million in Temperature-Controlled Logistics equity in net income primarily attributable to the gain on the sale of a portion of our interests in AmeriCold to The Yucaipa Companies in 2004.

Other Expenses

Other expenses decreased $91.7 million, or 20.8%, to $348.5 million for the year ended December 31, 2005, compared to $440.2 million for the year ended December 31, 2004. The primary components of the decrease in other expenses are discussed below.

Extinguishment of debt expense decreased $40.5 million, or 94.8%, to $2.2 million due to:

§ $17.5 million related to the securities purchased in excess of the debt balance to defease LaSalle Note I in connection with the joint venture of Office Properties in 2004;

§ $17.5 million prepayment penalty associated with the payoff of the JP Morgan Chase Mortgage Loan in connection with the joint venture of Office Properties in 2004;

§ $1.0 million mortgage prepayment fee associated with the payoff of the Lehman Brothers Holdings, Inc. Loan in connection with the joint venture of Office Properties in 2004; and

§ $6.6 million write-off of deferred financing costs, of which $3.1 million related to the joint venture or sale of real estate assets in 2004; partially offset by

§ $2.1 million write-off of deferred financing costs, of which $0.7 million related to the joint venture or sale of real estate assets in 2005.

Interest expense decreased $40.1 million, or 22.7%, to $136.7 million due to a decrease of $392 million in the weighted average debt balance (from $2,664 billion to $2,272 billion), partially offset by a .03 percentage point increase in the hedged weighted average interest rate (from 6.95% to 6.98%) and $3.0 million cash flow payments recorded as interest expense related to the Fountain Place transaction in June 2004.

Depreciation and amortization costs decreased $17.9 million, or 10.1%, to $146.2 million due to:

§ $19.3 million decrease in Office Property depreciation expense, primarily due to:
  - ° $36.7 million decrease attributable to the joint ventures of The Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central in November 2004, partially offset by Fulbright Tower which was acquired in December 2004 and subsequently joint ventured in February 2005 and One Buckhead Plaza which was acquired in April 2005 and subsequently joint ventured in June 2005; partially offset by
  - ° $13.2 million increase from the acquisitions of Hughes Center in January through May 2004, Dupont Centre in March 2004, The Alhambra in August 2004, One Live Oak, Fulbright Tower and Peakview Tower in December 2004 and the Exchange Building in February 2005; and
  - ° $3.5 million increase primarily due to increased building and leasehold improvements; and

§ $5.2 million decrease in Resort/Hotel Property depreciation expense primarily related to the joint venture of the Canyon Ranch Properties, partially offset by the reclassification of the Denver City Marriott Hotel Property from held for sale to held and used; partially offset by

§ $6.6 million increase in Resort Residential Development Property depreciation expense primarily related to club amenities and golf course improvements at CRDI and DMDC.

Amortization of deferred financing costs decreased $4.9 million, or 37.7%, to $8.1 million primarily due to the refinancing and modification of the Credit Facility in February 2005 and December 2005, partially offset by the reduction of the Fleet Fund I and II Term Loan in January 2004 and the payoff of the Lehman Capital Note in November 2004.

Impairment charges related to real estate assets decreased $3.0 million due to the impairment of $4.1 million related to the demolition of the old clubhouse at the Sonoma Club in the third quarter 2004 in order to construct a new clubhouse, partially offset by $1.1 million impairment of the Waterside Commons Office Property in the fourth quarter 2005.

Corporate general and administrative costs increased $11.5 million, or 29.6%, to $50.4 million due primarily to an increase in compensation expense associated with restricted units granted under our long-term incentive compensation plans in December 2004 and May 2005.

Income Tax Expense/Benefit

The $20.5 million decrease in the income tax benefit to a $7.4 million income tax expense for the year ended December 31, 2005, as compared to the income tax benefit of $13.1 million for the year ended December 31, 2004, is primarily due:

$8.3 million decreased tax benefit on the Resort Residential Development Properties primarily attributable to the results of operations at CRDI;

$5.8 million decreased tax benefit on the Resort/Hotel Properties due to the contribution of the Canyon Ranch Properties to a newly formed entity, CR Operating, LLC, in which we have a 48% member interest that is accounted for as an unconsolidated investment and reduced taxable losses at the other properties;

$4.0 million tax expense related to income from our investment in SunTx; and

$2.8 million tax expense related to income from our investment in G2.

Table of Contents

Discontinued Operations

Income from discontinued operations on assets sold and held for sale increased $85.6 million to $93.4 million due to:

an increase of $88.2 million, net of minority interest, primarily due to the $89.2 million gain on the sale of four properties in 2005; and

an increase of $2.9 million, net of minority interest, due to an aggregate $3.0 million impairment on three office properties in 2004; partially offset by

a decrease of $5.5 million, net of minority interest, due to the reduction of net income associated with properties held for sale in 2005 compared to 2004.

Comparison of the year ended December 31, 2004 to the year ended December 31, 2003

Property Revenues

Total property revenues increased $107.7 million, or 12.0%, to $1,007.4 million for the year ended December 31, 2004, as compared to $899.7 million for the year ended December 31, 2003. The primary components of the increase in total property revenues are discussed below.

Office Property revenues increased $9.7 million, or 2.1%, to $481.7 million, primarily due to:

§ an increase of $48.1 million from the acquisitions of The Colonnade in August 2003, the Hughes Center Properties in December 2003 through May 2004, the Dupont Centre in March 2004 , The Alhambra in August 2004, and One Live Oak and Peakview Tower in December 2004; and

§ an increase of $3.3 million resulting from third party management services and related direct expense reimbursements; partially offset by

§ a decrease of $22.8 million due to the joint venture of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004;

§ a decrease of $17.4 million from the 40 consolidated Office Properties (excluding 2003 and 2004 acquisitions, dispositions and properties held for sale) that we owned or had an interest in, primarily due to a decrease in full service weighted average rental rates, a 0.5 percentage point decline in average occupancy (from 83.1% to 82.6%), a decrease in recoveries due to expense reductions and base year rollover of significant customers, and a decline in net parking revenues;

§ a decrease of $1.1 million due to nonrecurring revenue earned in 2003; and

§ a decrease of $0.7 million in net lease termination fees (from $9.7 million to $9.0 million).

Resort Residential Development Property revenues increased $89.5 million, or 40.4%, to $311.2 million, primarily due to:

§ an increase of $65.6 million in CRDI revenues related to product mix in lots and units available for sale in 2004 versus 2003, primarily at the Old Greenwood timeshare project and Gray s Crossing lot project in Tahoe, California, and the Horizon Pass project in Bachelor Gulch, Colorado, which had sales in 2004 but none for the year ended December 31, 2003 as the projects were not available for sale; partially offset by the Old Greenwood lot project in Tahoe, California, the Cresta project in Arrowhead, Colorado, the Creekside at Riverfront Park project in Denver, Colorado, and the One Vendue project in Charleston, South Carolina, which had reduced or no sales in 2004;

§ an increase of $13.4 million in DMDC revenues related to increased lots sales (from 60 to 68) and increased average price per lot;

§

an increase of $8.2 million in other revenue at DMDC and CRDI. The increase at DMDC is primarily due to a settlement for partial reimbursement of construction remediation costs and an increase in membership transfer fees, and at CRDI is primarily due to restaurant revenues in Denver, Colorado, beginning in the fourth quarter of 2003; and

§ an increase of $4.8 million in club revenue at DMDC and CRDI. The increase at DMDC is primarily due to increased membership levels and an increase in dues, and at CRDI is primarily due to the addition of a golf course in Truckee, California, and the full impact in 2004 of the sale of club memberships at the Tahoe Mountain Resorts property, which began selling memberships in mid-2003; partially offset by

§ a decrease of $1.7 million in other revenue due to interest income recorded in 2003 for our note receivable with the Woodlands entities which was sold in December 2003.

Resort/Hotel Property revenues increased $8.5 million, or 4.1%, to $214.5 million, primarily due to:

§ an increase of $8.7 million at the Destination Fitness Resort Properties related to a 10% increase in revenue per available room (from $475 to $521) as a result of an 8% increase in average daily rate (from $661 to $713) and a 3 percentage point increase in occupancy (from 76% to 79%); and

§ an increase of $1.1 million at the Luxury Resort and Spa Properties primarily related to an increase in food and beverage and spa revenue of $1.7 million, partially offset by a 2% decrease in revenue per available room (from $174 to $171) as a result of a 2 percentage point decrease in occupancy (from 62% to 60%) related to the renovation of 97 historic inn rooms at the Sonoma Mission Inn, which were out of service for the first six months of 2004, and the renovation of 13 suites at the Ventana Inn, which were out of service from January through September 2004; partially offset by

§ a decrease of $1.3 million at the Upscale Business Class Hotel Properties related to a 5% decrease in revenue per available room (from $84 to $80) as a result of a 3% decrease in average daily rate (from $119 to $116) and a 1 percentage point decrease in occupancy (from 70% to 69%).

Property Expenses

Total property expenses increased $93.4 million, or 15.7%, to $689.8 million for the year ended December 31, 2004, as compared to $596.4 million for the year ended December 31, 2003. The primary components of the variances in property expenses are discussed below.

Office Property expenses increased $6.9 million, or 3.0%, to $238.2 million, primarily due to:

§ an increase of $15.8 million from the acquisition of The Colonnade in August 2003, Hughes Center Properties in December 2003 through May 2004, the Dupont Centre in March 2004, the Alhambra in August 2004, One Live Oak and Peakview Tower in December 2004; and

§ an increase of $3.1 million related to the cost of providing third party management services to joint venture properties, which are recouped by increased third party fee income and direct expense reimbursements; partially offset by

§ a decrease of $10.3 million due to the joint venture of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004; and

§ a decrease of $2.2 million from the 40 consolidated Office properties (excluding 2003 and 2004 acquisitions, dispositions and properties held for sale) that we owned or had an interest in, primarily due to:

° $3.1 million decrease in property taxes and insurance; and

° $0.3 million decrease in utilities; partially offset by

° $0.4 million increase in building repairs and maintenance; and

° $0.9 million increase in administrative expenses.

Resort Residential Development Property expenses increased $74.3 million, or 37.6%, to $271.8 million, primarily due to:

§ an increase of $47.8 million in CRDI cost of sales related to product mix in lots and units available for sale in 2004 versus 2003, primarily at the Old Greenwood timeshare project and Gray s Crossing lot project in Tahoe, California, and the Horizon Pass project in Bachelor Gulch, Colorado, which had sales in 2004 but none for the year ended December 31, 2003 as the projects were not available for sale; partially offset by the Old Greenwood lot project in Tahoe, California, the Cresta project in Arrowhead, Colorado, the Creekside at Riverfront Park project in Denver, Colorado, and the One Vendue project in Charleston, South Carolina, which had reduced or no sales in 2004;

§ an increase of $10.6 million in marketing and other expenses at certain CRDI projects and the Ritz Carlton condominium Dallas residence project;

§ an increase of $8.3 million in DMDC cost of sales due to increased lot sales and higher priced lots sold in 2004 compared to 2003;

§ an increase of $6.3 million in club operating expenses due to increased membership levels at CRDI and DMDC, a restaurant addition at CRDI and golf course and clubhouse additions at DMDC and CRDI; and

§ an increase of $0.8 million in other expense categories.

Resort/Hotel Property expenses increased $12.2 million, or 7.3%, to $179.8 million, primarily due to:

§ an increase of $8.7 million primarily resulting from a $4.6 million increase in operating expenses at the Destination Fitness Resort Properties related to increased expenses associated with the medical service segment and the increase in average occupancy of 3 percentage points (from 76% to 79%), and a $3.7 million increase primarily in general and administrative, marketing and employee benefit costs;

§ an increase of $2.3 million in operating expenses primarily related to food and beverage and spa operating costs at Park Hyatt Beaver Creek resulting from increased volume; and

§ an increase of $1.9 million in other expense categories, primarily related to an increase in Sarbanes-Oxley compliance costs and management fees at the Destination Fitness Resort Properties as a result of higher revenues; partially offset by

§ a decrease of $0.7 million in operating expense at the Upscale Business Class Hotel Properties primarily related to the decrease in average occupancy of 1 percentage point (from 70% to 69%).

Other Income/Expense

Total other income and expenses decreased $118.1 million, or 48.0%, to $127.9 million for the year ended December 31, 2004, compared to $246.0 million for the year ended December 31, 2003. The primary components of the decrease in total other income and expenses are discussed below.

Other Income

Other income increased $179.7 million, or 135.6%, to $312.2 million for the year ended December 31, 2004, as compared to $132.5 million for the year ended December 31, 2003. The primary components of the increase in other income are discussed below.

Gain on joint venture of properties, net increased $265.7 million, due to the joint venture of The Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central Office Properties.

Income from sales of investments in unconsolidated company, net decreased $86.2 million due to the sale of our interest in the Woodlands entities in December 2003.

Income from investment land sales, net increased $5.8 million due to the gain of $18.8 million on sales of five parcels of undeveloped investment land in 2004 as compared to the gain of $13.1 million on sales of three parcels of undeveloped investment land in 2003.

Interest and other income increased $10.2 million, or 130.8%, primarily due to:

§ $3.7 million received from COPI pursuant to the COPI bankruptcy plan for notes receivable previously written off in 2001;

§ $2.8 million of interest on U.S. Treasury and government sponsored agency securities purchased in December 2003 and January 2004 related to debt defeasance;

§ $1.6 million of interest and dividends received on other marketable securities;

§ $1.1 million increase in interest on certain notes resulting from note amendments in December 2003; and

§ $0.4 million of interest on a mezzanine loan secured by an ownership interest in an entity that owns an office property in Los Angeles, California.

Equity in net income of unconsolidated companies decreased $15.8 million, or 62.2%, to $9.6 million, primarily due to:

- § a decrease of $13.8 million in Office Properties, Resort Residential Development Properties and Other equity in net income primarily due to:
  - ° a decrease of $14.4 million in net income recorded in 2003 related to our interests in the Woodlands entities which were sold in December 2003; partially offset by
  - ° an increase of $1.2 million in income recorded on Main Street Partners, L.P.; and
  - ° an increase of $1.0 million in income recorded from the joint venture of The Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central Office Properties.
- § a decrease of $6.0 million in Resort/Hotel Properties equity in net income primarily due to net income recorded in 2003 for our interest in the Ritz-Carlton Hotel, which was sold in November 2003, and included a $1.1 million payment which we received from the operator of the property pursuant to the terms of the operating agreement because the property did not achieve a specified net operating income level; partially offset by
- § an increase of $4.0 million in AmeriCold Realty Trust equity in net income primarily due to the $12.3 million gain, net of transaction costs, on the sale of a portion of our interests in AmeriCold to The Yucaipa Companies; partially offset by
  - ° a $3.6 million increase in interest expense primarily attributable to the $254.0 million mortgage financing with Morgan Stanley in February 2004;
  - ° a $1.9 million impairment recorded in connection with the business combination of the tenant and landlord entities; and
  - ° a $1.5 million decrease associated with a decrease in rental income.

Other Expenses

Other expenses increased $61.6 million, or 16.3%, to $440.2 million for the year ended December 2004, compared to $378.6 million for the year ended December 31, 2003. The primary components of the increase in other expenses are discussed below.

Extinguishment of debt increased $42.6 million, primarily due to:

- § $17.5 million related to the securities purchased in excess of the debt balance to defease LaSalle Note I in connection with the joint venture of Office Properties;
- § $17.5 million prepayment penalty associated with the payoff of the JP Morgan Chase Mortgage Loan in connection with the joint venture of Office Properties;
- § $1.0 million mortgage prepayment fee associated with the payoff of the Lehman Brothers Holdings, Inc. Loan in connection with the joint venture of Office Properties;
- § $6.6 million write-off of deferred financing costs, of which $3.1 million related to the joint venture or sale of real estate assets.

Depreciation and amortization costs increased $15.8 million, or 10.7%, to $164.1 million primarily due to:

- § $10.4 million increase in Office Property depreciation expense attributable to:
  - ° $16.1 million increase from the acquisitions of The Colonnade in August 2003, Hughes Center in December 2003 through May 2004, Dupont Centre in March 2004, and The Alhambra in August 2004; partially offset by
  - ° $3.3 million decrease due to accelerated depreciation for lease terminations in 2003; and

  - ° $2.3 million decrease due to the joint venture of The Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central in November 2004;
- § $4.1 million increase in Resort Residential Development Property depreciation and amortization costs; and
- § $1.7 million increase in Resort/Hotel Property depreciation and amortization costs.

Corporate general and administrative costs increased $6.2 million, or 19.0%, to $38.9 million due to Sarbanes-Oxley compliance related costs, increased legal and external audit costs, as well as costs associated with salary merit increases and employee benefits.

Interest expense increased $4.7 million, or 2.7%, to $176.8 million primarily due to:

§ $4.2 million related to the Fountain Place Office Property transaction;

§ $2.9 million related to an increase of $175.0 million in the weighted average debt balance (from $2,498 million to $2,673 million) partially offset by a 0.3% decrease in the hedged weighted average interest rate (from 7.1% to 6.8%); partially offset by

§ $2.4 million decrease related to amortization of above average interest rate on obligations assumed in the acquisition of Hughes Center.

Amortization of deferred financing costs increased $2.0 million, or 18.0%, to $13.1 million due to debt restructuring and refinancing activities, primarily related to the new Bank of America Fund XII Term Loan.

Other expenses decreased $5.2 million, or 88.1%, to $0.7 million primarily due to:

§ $2.8 million decrease due to impairment and disposals of marketable securities in 2003; and

§ $2.6 million decrease due to reduction of the reserve for the COPI bankruptcy pursuant to the settlement terms in 2004; partially offset by

§ $1.0 million increase due to the impairment of a marketable security in 2004.

Impairment charges related to real estate assets decreased $4.5 million, or 52.3%, to $4.1 million due to:

§ a decrease of $6.5 million due to the impairment associated with the settlement of a real estate note obligation in 2003 with an unconsolidated investment that primarily held real estate investments and marketable securities;

§ a decrease of $1.2 million due to the impairment of the North Dallas Athletic Club in 2003; partially offset by

§ an increase of $4.1 million due to the impairment related to the demolition of the old clubhouse at the Sonoma Club in the third quarter 2004 in order to construct a new clubhouse.

Income Tax Expense/Benefit

The $40.0 million decrease in the income tax expense to a $13.1 million income tax benefit for the year ended December 31, 2004, as compared to the income tax expense of $26.9 million for the year ended December 31, 2003, is primarily due to the $34.7 million tax expense related to the gain on the sale of our interests in the Woodlands entities, and a $5.4 million tax benefit associated with lower net income recorded in 2004 compared to 2003 for the Resort/Hotel and Resort Residential Development Properties operations.

Discontinued Operations

Income from discontinued operations from assets sold and held for sale increased $6.5 million, to income of $7.8 million, primarily due to:

an increase of $13.9 million, net of minority interest, due to the impairment of the 1800 West Loop South Office Property in 2003;

an increase of $4.1 million, net of minority interest, due to the $7.1 million impairment of three properties in 2003 compared to the $3.0 million impairment of three properties in 2004; and

an increase of $4.1 million, net of minority interest, due to impairments recorded in 2003 on the behavioral healthcare properties; partially offset by

a decrease of $9.2 million, net of minority interest, due to a $10.3 million aggregate gain on the sale of two Office Properties in 2003 compared to a $1.1 million aggregate gain on the sale of nine properties in 2004; and

a decrease of $6.4 million, net of minority interest, due to the reduction of net income associated with properties held for sale in 2004 compared to 2003.

Table of Contents

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash flow from operations, our credit facility, and proceeds from asset sales and joint ventures. Our short-term liquidity requirements through December 31, 2006, consist primarily of our normal operating expenses, principal and interest payments on our debt, distributions to our shareholders and capital expenditures. Our long-term liquidity requirements are substantially similar to our short-term liquidity requirements, other than the level of debt obligations maturing after December 31, 2006.

Short-Term Liquidity

We believe that cash flow from operations will be sufficient to cover our normal operating expenses, interest payments on our debt, distributions on our preferred shares, non-revenue enhancing capital expenditures and revenue enhancing capital expenditures (including property improvements, tenant improvements and leasing commissions) in 2006 and 2007. The cash flow from our Resort Residential Development Segment is cyclical in nature and primarily realized in the last quarter of each year. We expect to meet temporary shortfalls in operating cash flow caused by this cyclicality through working capital draws under our credit facility. As of December 31, 2005, we had up to $123.7 million of borrowing capacity available under our credit facility. However, if our Board of Trustees continues to declare distributions on our common shares at current levels, our cash flow from operations, after payments discussed above, is not expected to fully cover such distributions on our common shares in 2006 and 2007. We intend to use proceeds from asset sales and joint ventures, additional leverage on assets, and borrowings under our credit facility to cover this shortfall.

In addition, through December 31, 2006, we expect to make capital expenditures that are not in the ordinary course of operations of our business of approximately $220.5 million, primarily relating to new developments of investment property. We anticipate funding these short-term liquidity requirements primarily through construction loans and borrowings under our credit facility or additional debt facilities. As of December 31, 2005, we also had maturing debt obligations of $257.1 million through December 31, 2006, made up primarily of the maturity of the LaSalle Note II which is funded by defeasance securities and the Mass Mutual Note which we intend to refinance with a new fixed rate loan. In addition, $56.6 million of these maturing debt obligations relate to the Resort Residential Development Segment and will be repaid with the sales of the corresponding land or units or will be refinanced. The remaining maturities consist primarily of normal principal amortization and will be met with cash flow from operations.

Long-Term Liquidity

Our long-term liquidity requirements as of December 31, 2005, consist primarily of $2.0 billion of debt maturing after December 31, 2006. We also have $62.5 million of expected long-term capital expenditures relating to capital investments that are not in the ordinary course of operations of our business. We anticipate meeting these obligations primarily through refinancing maturing debt with long-term secured and unsecured debt, construction loans and through other debt and equity financing alternatives, as well as cash proceeds from asset sales and joint ventures.

Cash Flows

Our cash flow from operations is primarily attributable to the operations of our Office, Resort Residential Development and Resort/Hotel Properties. The level of our cash flow depends on multiple factors, including rental rates and occupancy rates at our Office Properties, sales of lots and units at our Resort Residential Development Properties and room rates and occupancy rates at our Resort/Hotel Properties. Our net cash provided by operating activities is also affected by the level of our operating and other expenses, as well as Resort Residential capital expenditures for existing projects.

During the year ended December 31, 2005, our cash flow from operations was insufficient to fully cover the distributions on our common shares. We funded this shortfall primarily with a combination of proceeds from asset sales and joint ventures, proceeds from investment land sales and borrowings under our credit facility.

Cash and cash equivalents were $86.2 million and $92.3 million at December 31, 2005 and 2004, respectively. This 6.6% decrease is attributable to $145.7 million used in investing and financing activities, partially offset by $139.6 million provided by operating activities.

(in millions)	For the year ended December 31, 2005
Cash provided by Operating Activities	$ 139.6
Cash used in Investing Activities	(198.3)
Cash provided by Financing Activities	52.6
Decrease in Cash and Cash Equivalents	$ (6.1)
Cash and Cash Equivalents, Beginning of Period	92.3
Cash and Cash Equivalents, End of Period	$ 86.2

Operating Activities

Our cash provided by operating activities of $139.6 million is attributable to Property operations.

Investing Activities

Our cash used in investing activities of $198.3 million is primarily attributable to:

- $192.2 million for the acquisition of investment properties, primarily due to the acquisition of the Exchange Building and One Buckhead Plaza Office Properties;
- $116.8 million increase in notes receivables, primarily due to mezzanine loans, partially offset by the early repayment of loans secured by a Resort Residential Development management business;
- $115.7 million purchase of U.S. Treasury and government sponsored agency securities in connection with the defeasance of LaSalle Note I;
- $84.0 million for development of properties, due to the development of the JPI Multi-family Investments luxury apartments, Paseo del Mar, Ritz-Carlton Residences and Hotel and 3883 Hughes Parkway;
- $65.5 million for non-revenue enhancing tenant improvement and leasing costs for Office Properties;
- $32.9 million for development of amenities at the Resort Residential Development Properties;
- $24.8 million of property improvements for Office and Resort/Hotel Properties; and
- $17.1 million additional investment in unconsolidated Office Properties, primarily related to our investment in the 2211 Michelson Office Development, Redtail Capital Partners, L.P. and Fresh Choice, LLC; and
- $4.5 million increase in restricted cash.

The cash used in investing activities is partially offset by:

- $236.7 million proceeds from property sales, primarily due the sale of Two Renaissance Square, Chancellor Park, Barton Oaks Plaza One and Albuquerque Plaza Office Properties and the sale of undeveloped land in Houston, Texas;

$144.2 million proceeds from joint ventures, primarily due to the Canyon Ranch transaction and the joint venture of Fulbright Tower and One Buckhead Plaza Office Properties;

$32.2 million proceeds from sale of investment in unconsolidated company related to the sale of our interests in Crescent 5 Houston Center, L.P.;

$23.3 million proceeds from defeasance investment maturities; and

$18.8 million return of investment in unconsolidated other companies, primarily due to the distribution received from our G2 investment in February 2005.

Financing Activities

Our cash provided by financing activities of $52.6 million is primarily attributable to:

- $758.3 million proceeds from borrowings under our credit facility;
- $387.2 million proceeds from other borrowings, primarily due to the GACC Note secured by Funding One assets, the Column Financial Note secured by Peakview Tower and the JP Morgan Chase III Note secured by Datran Center;
- $257.4 million proceeds from borrowings for construction costs for infrastructure developments at the Resort Residential Development Properties;
- $77.3 million proceeds from the issuance of junior subordinated notes;
- $22.0 million proceeds from the exercise of share and unit options; and
- $7.8 million proceeds from capital contributions from our joint venture partners.

The cash provided by financing activities is partially offset by:

- $666.8 million payments under our credit facility;
- $347.0 million payments under other borrowings, primarily due to the pay off of the Bank of America Funding XII Term Loan, the pay off of the Fleet Term Loan, the pay off of the Texas Capital Bank Loan and the pay off of the Metropolitan Life Note V;
- $198.5 million Resort Residential Development Property note payments;
- $178.9 million distributions to common shareholders and unitholders;
- $32.0 million distributions to preferred shareholders;
- $18.5 million capital distributions to joint venture partners; and
- $15.7 million debt financing costs, primarily due to the new credit facility, the GACC Note and the JP Morgan Chase III Note.

Table of Contents

Liquidity Requirements

Contractual Obligations

The table below presents, as of December 31, 2005, our future scheduled payments due under these contractual obligations.

		Payments Due by Period			
(in millions)	Total	Less than 1 yr	1-3 years	3-5 years	More than 5 yrs
Long-term debt[1]					
Principal payments	$ 2,259.5	$ 257.1	$ 912.1	$ 749.3	$ 341.0
Interest payments	600.1	148.8	216.5	78.6	156.2
Share of unconsolidated debt	646.9	78.7	98.8	103.2	366.2
Operating lease obligations (ground leases)	148.9	1.9	3.8	3.9	139.3
Purchase obligations:					
Office Properties[2]	55.0	55.0			
Significant capital expenditure obligations [3]	283.0	220.5	62.5		
Letters of credit	13.8	13.8			
Redtail Capital Partners, L.P. [4]	22.7	22.7			
Total contractual obligations [5]	$ 4,029.9	$ 798.5	$ 1,293.7	$ 935.0	$ 1,002.7

(1) Amounts include scheduled principal and interest payments for consolidated debt. We estimate variable rate debt interest payments using the interest rate as of December 31, 2005.

(2) In December 2005, we entered into a contract to purchase Financial Plaza, a 16-story, 309,983 square-foot Class A Office Property located in the Mesa/Superstition submarket of Phoenix, Arizona. On January 23, 2006, we completed the purchase.

(3) For further detail of significant capital expenditure obligations, see table under Significant Capital Expenditures in this Item 7.

(4) In May 2005, we entered into an agreement with Capstead Mortgage Corporation pursuant to which we formed a joint venture to invest up to $100.0 million in equity. The joint venture will invest in select mezzanine loans on commercial real estate over a two-year period. Capstead is committed to 75% of the equity capital and we are committed to 25%. Total contributions from Crescent were $2.3 million in 2005.

(5) As part of our ongoing operations, we execute operating lease agreements which generally provide tenants with leasehold improvement allowances. Committed leasehold improvement allowances for leases executed over the past three years have averaged approximately $80.4 million per year. Tenant leasehold improvement amounts are not included in the above table.

We also pay preferred distributions to our Series A and Series B Preferred shareholders. The distributions per Series A Preferred share was $1.6875 per preferred share annualized, or $24.0 million for the year ended December 31, 2005. The distributions per Series B Preferred share was $2.3750 per preferred share annualized, or $8.1 million for the year ended December 31, 2005.

Debt Financing Summary

The following table shows summary information about our debt, including our pro rata share of unconsolidated debt, as of December 31, 2005. Listed below are the aggregate required principal payments by year as of

December 31, 2005, excluding any extension options. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	Secured Debt	Defeased Debt	Unsecured Debt	Consolidated Debt	Share of Unconsolidated Debt	Total
2006	$ 99,922	$ 157,131	$	$ 257,053	$ 78,712	$ 335,765
2007	252,719	100,279	250,000	602,998	50,475	653,473
2008	74,817	289	234,000(1)	309,106	48,323	357,429
2009	271,544	320	375,000	646,864	80,302	727,166
2010	96,125	6,337		102,462	22,996	125,458
Thereafter	263,669		77,321	340,990	366,184	707,174
	$ 1,058,796	$ 264,356	$ 936,321	$ 2,259,473	$ 646,992	$ 2,906,465

(1) Borrowings under the credit facility.

Table of Contents

Significant Capital Expenditures

As of December 31, 2005, we had unfunded capital expenditures of approximately $283.0 million relating to capital investments that are not in the ordinary course of operations of our business segments. The table below specifies our requirements for capital expenditures, the amounts funded as of December 31, 2005, and amounts remaining to be funded (future funding classified between short-term and long-term capital requirements):

(in millions) Project	Total Project Cost[1]	Amount Funded as of December 31, 2005	Amount Remaining To Fund	Capital Expenditures Short-Term (Next 12 Months)[2]	Capital Expenditures Long-Term (12+ Months)[2]
Consolidated:					
Office Segment					
3883 Hughes Center [3]	$ 73.9	$ 10.7	$ 63.2	$ 57.4	$ 5.8
Paseo del Mar [4]	65.3	37.6	27.7	27.7	
Resort Residential Development Segment					
Tahoe Mountain Club[5]	94.4	72.0	22.4	22.4	
JPI Multi-family Investments Luxury Apartments[6]	54.3	37.8	16.5	16.5	
Resort/Hotel Segment					
Canyon Ranch Tucson Land Construction Loan[7]	2.4	1.5	0.9	0.9	
Other					
The Ritz-Carlton Phase I[8]	202.7	50.4	152.3	95.6	56.7
Total	$ 493.0	$ 210.0	$ 283.0	$ 220.5	$ 62.5

(1) All amounts are approximate.

(2) Reflects our estimate of the breakdown between short-term and long-term capital expenditures.

(3) We have committed to a first phase office development of 239,000 square feet on land that we own within the Hughes Center complex. We broke ground in the third quarter of 2005 and expect to complete the building in the first quarter of 2007. We closed a $52.3 million construction loan in the third quarter of 2005.

(4) On September 21, 2005, we entered into a joint venture agreement with JMI Realty. The joint venture has committed to develop a 233,000 square-foot, three building office complex in the Del Mar Heights submarket of San Diego, California. On September 21, 2005, we secured a $53.1 million construction loan from Guaranty Bank for the construction of this project. The loan is fully guaranteed by an affiliate of our partner. Amounts in the table represent our portion (80%) of total project costs. The development, which is currently underway, is scheduled for delivery in the third quarter of 2006.

(5)

As of December 31, 2005, we had invested $72.0 million in Tahoe Mountain Club, which includes the acquisition of land and development of golf courses and club amenities. Table includes the development planned for 2006 only. We anticipate collecting membership deposits which will be utilized to fund a portion of the development costs and will fund the remaining through construction loans.

(6) In October 2004, we entered into an agreement with JPI Multi-family Investments, L.P. to develop a multi-family apartment project in Dedham, Massachusetts. We have also entered into a construction loan with a maximum borrowing of $41.0 million, which our partner guarantees, to fund construction.

(7) We have a $2.4 million construction loan with the purchaser of the land, which is secured by eight developed lots and a $0.4 million letter of credit.

(8) We entered into agreements with Ritz-Carlton Hotel Company, L.L.C. to develop the first Ritz-Carlton hotel and condominium project in Dallas, Texas. The development plans include a Ritz-Carlton with approximately 217 hotel rooms and 70 residences. Construction on the development began in the second quarter of 2005 and anticipated for delivery in the fourth quarter of 2007. On July 26, 2005, we secured a $175.0 million construction line of credit from Key Bank for the construction of this project.

Table of Contents

Off-Balance Sheet Arrangements Guarantee Commitments

Our guarantees in place as of December 31, 2005 are listed in the table below. For the guarantees on indebtedness, no triggering events or conditions are anticipated to occur that would require payment under the guarantees and management believes the assets associated with the loans that are guaranteed are sufficient to cover the maximum potential amount of future payments and therefore, would not require us to provide additional collateral to support the guarantees.

(in thousands) **Debtor**	**Guaranteed Amount Outstanding at December 31, 2005**	**Maximum Guaranteed Amount at December 31, 2005**
CRDI Eagle Ranch Metropolitan District Letter of Credit[1]	$ 7,845	$ 7,845
Main Street Partners, L.P. Letter of Credit[2] [3]	4,250	4,250
Fresh Choice, LLC[4]	1,000	1,000
Total Guarantees	$ 13,095	$ 13,095

[1] We provide a $7.9 million letter of credit to support the payment of interest and principal of the Eagle Ranch Metropolitan District Revenue Development Bonds.

[2] See Note 10, Investments in Unconsolidated Companies, for a description of the terms of this debt.

[3] We and our joint venture partner each obtained separate letters of credit to guarantee the repayment of up to $4.3 million each of the Main Street Partners, L.P. loan.

[4] We provide a guarantee of up to $1.0 million to GE Capital Franchise Financing Corporation as part of Fresh Choice s bankruptcy reorganization.

Other Commitments

In July 2005, we purchased comprehensive insurance that covers us, contractors and other parties involved in the construction of the Ritz-Carlton hotel and condominium project in Dallas, Texas. Our insurance carrier, which will pay the associated claims as they occur under this program and will be reimbursed by us within our deductibles, requires us to provide a $1.7 million letter of credit supporting payment of claims. We believe there is a remote likelihood that payment will be required under the letter of credit.

In connection with the Canyon Ranch transaction, we have agreed to indemnify the founders regarding the tax treatment of the transaction, not to exceed $2.5 million, and certain other matters. We believe there is a remote likelihood that payment will ever be required related to these indemnities.

In connection with the Fresh Choice, LLC approved bankruptcy plan, we and Cedarlane entered into a loan agreement for up to $3.0 million, of which our portion is $1.2 million. At December 31, 2005, $2.0 million, of which our portion is $0.8 million, had been funded under this agreement.

Debt and Equity Financing

Debt Financing

The significant terms of our primary debt financing arrangements existing as of December 31, 2005, are shown below:

Description (1)	Secured Asset	Maximum Borrowings	Balance Outstanding at December 31, 2005	Interest Rate at December 31, 2005	Maturity Date
		(dollars in thousands)			
Secured Fixed Rate Debt:					
AEGON Partnership Note	Greenway Plaza	$ 248,678	$ 248,678	7.53%	July 2009
Prudential Note	707 17th Street/Denver Marriott	70,000	70,000	5.22	June 2010
JP Morgan Chase III	Datran Center	65,000	65,000	4.88	October 2015
Morgan Stanley I	Alhambra	50,000	50,000	5.06	October 2011
Bank of America Note	Colonnade	37,922	37,922	5.53	May 2013
Metropolitan Life Note VII	Dupont Center	35,500	35,500	4.31	May 2011
Mass Mutual Note (2)	3800 Hughes	34,177	34,177	7.75	August 2006
Column Financial	Peakview Tower	33,000	33,000	5.59	April 2015
Northwestern Life Note	301 Congress	26,000	26,000	4.94	November 2008
Allstate Note (2)	3993 Hughes	24,781	24,781	6.65	September 2010
JP Morgan Chase II	3773 Hughes	24,755	24,755	4.98	September 2011
Metropolitan Life Note VI (2)	3960 Hughes				