

TRANSCONTINENTAL REALTY INVESTORS INC

Form 10-Q

November 14, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

or

**.. 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 001-09240

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Nevada**  
(State or Other Jurisdiction of

**95-6565852**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

**1800 Valley View Lane, Suite 300**

**Dallas, Texas 75234**

(Address of principal executive offices)

(Zip Code)

**(469) 522-4200**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

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

Common Stock, \$.01 par value  
(Class)

8,113,669  
(Outstanding at October 31, 2008)

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**FORM 10-Q**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TRANSCONTINENTAL REALTY INVESTORS INC****CONSOLIDATED BALANCE SHEETS****(unaudited)**

	September 30, 2008	December 31, 2007
	(dollars in thousands)	
<b>Assets</b>		
Real Estate held for investment	\$ 1,507,114	\$ 1,327,913
Less-accumulated depreciation	(108,428)	(97,368)
	1,398,686	1,230,545
Real estate held for sale	3,285	69,561
Real estate subject to sales contracts	63,030	64,320
Notes and interest receivable performing (including \$11,674 in 2008 and \$4,339 in 2007 from affiliates and related parties)	48,499	34,677
Allowance for losses	(1,978)	(1,978)
	46,521	32,699
Cash and cash equivalents	3,114	11,239
Marketable equity securities, at market value	1,405	13,157
Investment in equity investees	26,396	27,569
Other Assets (including \$252 in 2008 and \$151 in 2007 from affiliates and related parties)	87,614	72,099
	\$ 1,630,051	\$ 1,521,189
<b>Liabilities and Shareholders Equity</b>		
Liabilities:		
Notes and interest payable (including \$9,018 in 2008 and \$8,270 in 2007 from affiliates and related parties)	\$ 1,077,734	\$ 1,007,226
Liabilities related to assets held for sale	4,884	107,847
Liabilities related to assets subject to sales contract	60,848	62,513
Other Liabilities (including \$87,150 in 2008 and \$2,807 in 2007 from affiliates and related parties)	140,330	56,501
	1,283,796	1,234,087
Commitments and contingencies		
Minority Interest	2,522	1,621
Shareholders equity:		
Common Stock, \$.01 par value; authorized, 10,000,000 shares; issued and outstanding 8,113,669 and 8,078,966 shares at 2008 and 2007.	81	81
Preferred Stock		
Series C: \$.01 par value; authorized 10,000,000 shares; issued and outstanding 30,000 shares at 2008 and 2007 respectively (liquidation preference \$100 per share).		
Series D: \$.01 par value; authorized, issued and outstanding 100,000 shares at 2008 and 2007 (liquidation preference \$100 per share)	1	1

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Paid-in capital	283,244	274,733
Treasury stock		(577)
Accumulated distributions in excess of accumulated earnings	59,202	12,771
Other Comprehensive Income (loss)	1,205	(1,528)
	343,733	285,481
	\$ 1,630,051	\$ 1,521,189

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****TRANSCONTINENTAL REALTY INVESTORS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(dollars in thousands)</b>		<b>(dollars in thousands)</b>	
<b>Revenue:</b>				
Rental and other property revenues (including \$205 and \$96 for the three months ended, \$574 and \$798 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	\$ 36,641	\$ 30,793	\$ 105,127	\$ 93,632
<b>Expenses:</b>				
Property operating expenses (including \$1,843 and \$1,822 for the three months ended, \$5,306 and \$5,294 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	23,619	19,437	66,100	54,523
Depreciation and amortization	5,039	5,573	17,020	15,917
General and administrative (including \$1,368 and \$824 for the three months ended, \$3,297 and \$2,412 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	2,208	2,201	6,886	7,406
Advisory fee to affiliate	2,894	2,773	8,857	7,869
Total operating expenses	33,760	29,984	98,863	85,715
Operating income	2,881	809	6,264	7,917
<b>Other income (expense):</b>				
Interest income (including \$401 and \$55 for the three months ended, \$633 and \$743 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	688	526	1,990	1,917
Other income	2,410	251	3,206	1,069
Mortgage and loan interest expense (including \$1,188 and \$183 for the three months ended, \$1,610 and \$546 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	(16,621)	(17,476)	(51,639)	(48,591)
Provision for allowance on notes receivables and impairment		(2,683)	(7,000)	(2,683)
Total other income (expense)	(13,523)	(19,382)	(53,443)	(48,288)
Loss before gain on land sales, minority interest and equity in earnings (loss) of investee	(10,642)	(18,573)	(47,179)	(40,371)
Gain on land sales	696	5,754	4,551	6,875
Net income fee to affiliate				704
Minority interest		19		22
Equity in income (loss) of investees	(1,863)		2,681	
Loss from continuing operations before income tax expense	(11,809)	(12,800)	(39,947)	(32,770)
Income tax benefit	1,807	2,931	30,232	3,135
Net loss from continuing operations	(10,002)	(9,869)	(9,715)	(29,635)
Income from discontinued operations before income taxes	5,162	8,374	86,378	8,958
Income tax expense	(1,807)	(2,931)	(30,232)	(3,135)
Net income from discontinuing operations	3,355	5,443	56,146	5,823

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Net income (loss)	(6,647)	(4,426)	46,431	(23,812)
Preferred dividend requirement	(239)	(228)	(718)	(684)
Net income (loss) applicable to common shares	\$ (6,886)	\$ (4,654)	\$ 45,713	\$ (24,496)

**Earnings per share**

**Basic earning per share:**

Net income (loss) from continued operations	(1.27)	(1.27)	(1.29)	(3.83)
Discontinued operations	0.42	0.69	6.95	0.74
Net income (loss) applicable to common shares	\$ (0.85)	\$ (0.58)	\$ 5.66	\$ (3.09)

**Diluted earnings per share:**

Net income (loss) from continued operations	\$ (1.27)	\$ (1.27)	\$ (1.29)	\$ (3.83)
Discontinued operations	0.42	0.69	6.95	0.74
Net income (loss) applicable to common shares	\$ (0.85)	\$ (0.58)	\$ 5.66	\$ (3.09)

**Weighted average common shares used in computing earnings per share:**

Basic	8,083,882	7,942,089	8,077,663	7,910,111
Diluted	8,083,882	7,942,089	8,077,663	7,910,111

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****TRANSCONTINENTAL REALTY INVESTORS, INC.****CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

For the Nine Months Ended September 30, 2008

(dollars in thousands)

(unaudited)

	SHARES OF COMMON STOCK		SHARES OF PREFERRED STOCK		PAID-IN CAPITAL	SHARES OF TREASURY STOCK		ACCUMULATED (DEFICIT) RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL CAPITAL
	SHARES	AMOUNT	SHARES	AMOUNT		SHARES	AMOUNT			
<b>Balance, December 31, 2007</b>	8,113,669	\$ 81	130,000	\$ 1	\$ 274,733	34,703	\$ (577)	\$ 12,771	\$ (1,528)	\$ 285,481
Unrealized gain on foreign currency translation									9,685	9,685
Unrealized gain on marketable securities									(6,952)	(6,952)
Net income								46,431		46,431
Series C preferred stock dividends					(159)					(159)
Series D preferred stock dividends (7% per year)					(559)					(559)
Acquisition of minority interest					9,229					9,229
Repurchase/sale of treasury shares, net						(34,703)	577			577
<b>Balance, September 30, 2008</b>	8,113,669	\$ 81	130,000	\$ 1	\$ 283,244		\$	\$ 59,202	\$ 1,205	\$ 343,733

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****TRANSCONTINENTAL REALTY INVESTORS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(dollars in thousands)</b>	
<b>Cash Flows from Operating Activities:</b>		
Reconciliation of net income (loss) to net cash used by operating activities		
Net income (loss) applicable to common shares	\$ 45,713	\$ (24,496)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,310	18,993
Amortization of deferred borrowing costs	3,995	3,572
Gain on sale of land	(4,551)	(6,875)
Gain on sale of income producing properties	(100,218)	(12,175)
Provision of impairment		2,683
Equity in earnings of investees	(5,579)	
Loss on foreign currency translation		37
Allowance for impairment reserve	7,000	
(Gain) loss allocated to minority interest		(22)
(Increase) decrease in assets:		
Prepaid expense	(352)	(2,436)
Interest receivable	(714)	(215)
Escrows	(12,072)	(8,720)
Rents receivables	(3,539)	(795)
Other assets	(209)	6,598
Earnest money	10	4,597
Increase (decrease) in liabilities:		
Accrued interest payable	(1,034)	
Intercompany change	83,197	
Other liabilities	633	12,306
Net cash provided by (used in) operating activities	29,590	(6,948)
<b>Cash Flows from Investing Activities:</b>		
Change in notes receivable	(11,608)	13,582
Proceeds from sale of land	14,558	58,145
Acquisition of land held for development	(49,987)	(24,940)
Acquisition of income producing properties	(62,455)	(112,180)
Construction and development of new properties	(103,949)	(165,871)
Proceeds from sale of real estate	155,009	40,203
Improvement of land held for development	(1,444)	(352)
Improvement of income producing properties	(7,829)	(8,834)
Investment in marketable securities	11,752	(731)
Acquisition of minority interest	901	2,884
Investment in unconsolidated real estate entities	8,173	(6,095)
Net cash used in investing activities	(46,879)	(204,189)
<b>Cash Flows from Financing Activities:</b>		
Payments on notes payable	(17,244)	(104,030)
Change in due from affiliates	(1,440)	10,724
Proceeds from notes payable	178,097	385,365

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Repurchase of common stock	577	(470)
Payment on notes from sold income producing properties	(153,558)	(65,497)
Deferred borrowing costs	2,732	(12,558)
Net cash provided by financing activities	9,164	213,534
Net increase (decrease) in cash and cash equivalents	(8,125)	2,397
Cash and cash equivalents, beginning of year	11,239	4,803
Cash and cash equivalents, end of year	\$ 3,114	\$ 7,200

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****TRANSCONTINENTAL REALTY INVESTORS, INC.****SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION****(unaudited)**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(dollars in thousands)</b>	
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 57,835	\$ 57,864
<b>Schedule of noncash investing and financing activities:</b>		
Unrealized foreign currency translation gain	\$ 9,685	\$ 4,427
Unrealized loss on marketable securities	\$ (6,952)	\$ (1,596)
Notes receivable allowance	\$ (1,500)	\$
Notes receivable for treasury stock	\$	\$ 3,353
Land exchanged with non-affiliated party	\$	\$ (900)

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION**

Transcontinental Realty Investors, Inc. ( TCI , We , The Company , Our or Us ) is a Nevada corporation and invests in real estate through direct ownership, leases and partnerships.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange under the symbol TCI . American Realty Investors, Inc. owns approximately 83.0% of the Company s common stock (NYSE: ARL). Prime Income Asset Management, LLC ( Prime ) is the Company s external advisor. Regis Realty I, LLC, an affiliate of Prime, manages the Company s commercial properties. Regis Hotel I, LLC, another Prime affiliate, manages the Company s hotel investments. TCI engages four third-party companies to lease and manage its apartment properties. TCI is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL. TCI does not qualify as a Real Estate Investment Trust ( REIT ) for federal income tax purposes primarily due to ARL s majority ownership of the Company.

**Properties**

The Company owned or had interests in a total property portfolio of 80 and 89 properties as of September 30, 2008 and December 31, 2007, respectively. The commercial properties aggregate approximately 5.1 million and 4.8 million net rentable square feet as of September 30, 2008 and December 31, 2007, respectively.

At September 30, 2008, the properties consisted of:

29 commercial buildings, which consists of 20 office buildings, five commercial warehouses, and four retail centers;

51 apartment communities; inclusive of development properties in the lease up phase, excluding apartments being developed;

7,425 acres of developed and undeveloped land.

The Company is involved in the construction of nine apartment development projects as of September 30, 2008. In addition, the Company invests in several tracts of land and is at several stages of predevelopment on many of these properties. The Company partners with various third-party developers to construct residential projects. The third-party developer typically takes a general partner interest in the development partnership while the Company takes a limited partner (and majority) interest. The Company is required to fund the equity contributions. The third-party developer is responsible for obtaining financing, hiring a general contractor and for the overall management and delivery of the project, and is compensated with a fee equal to a certain percentage of the construction costs.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the financial statements for these periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statement and notes thereto contained in the Company s Annual Report on Form 10-K for its fiscal year ended December 31, 2007.

**Newly issued accounting standards**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. ( SFAS No. 157 ). SFAS No. 157 defines fair value and establishes a framework for measuring fair value, which includes a hierarchy based on the quality of inputs used to measure fair value. SFAS No. 157 also expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 requires the categorization of financial assets and liabilities, based on the inputs to the valuation technique, into a three-level fair value

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hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs. SFAS No. 157 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. The levels of the SFAS No. 157 fair value hierarchy are described as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.

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Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

SFAS No. 157 became effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB deferred the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also removed certain leasing transactions from the scope of SFAS No. 157. On January 1, 2008, the Company adopted SFAS No. 157. The Company currently does not have any non-financial assets or non-financial liabilities that are required to be measured under SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. ( SFAS No. 159 ). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 became effective for fiscal years beginning after November 15, 2007. On January 1, 2008, the Company adopted SFAS No. 159 and has currently not elected to measure any financial instruments or other items (not currently required to be measured at fair value) at fair value.

In December 2007, the FASB issued SFAS No. 141 (revised in 2007) ( SFAS No. 141R ), *Business Combinations*. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combinations. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing accounting principles until January 1, 2009. The Company expects SFAS No. 141R will affect the Company's consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquisitions, if any, the Company consummates after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, and will impact the recording of minority interest. The Company is currently evaluating the effects the adoption of SFAS No. 160 will have on its financial position and results of operations.

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For the nine month period ended September 30, 2008, we sold 23 income producing properties for an aggregate sales price of \$155.0 million. We received \$55.4 million in cash after paying off \$89.1 million in existing debt and we recorded a gain on sale of \$100.0 million before minority interest. We purchased six buildings at an aggregate cost of \$62.4 million. The buildings were financed with \$17.4 million cash and \$42.6 million in new debt, plus accrued closing costs. We sold 128.8 acres of land located in Texas for an aggregate sales price of \$14.6 million. We received \$4.2 million in cash and provided \$2.2 million in seller financing after paying off existing mortgages of \$6.1 million. We recorded a \$4.6 million gain on land sales before minority interest. We purchased 1,128.9 acres of land located in Texas for an aggregate purchase price of \$50.0 million. The land purchases were financed with \$15.2 million in cash and \$33.4 million in new debt.

	Cost Beginning of Year	Acquisition	Capital Improvements	Development Costs	Completed Developments	Property Sales	Reclassifications Impairment and Charges	Other Adjustments*	Cost 9/30/2008	Accumulated Depreciation 9/30/2008
Apartments	\$ 394,848	\$ 20,875	\$ 2,659	\$	\$ 61,384	\$	\$	\$ 101,594	\$ 581,360	\$ 42,908
Apartments under construction	153,144			68,681	(61,384)			(57,437)	103,004	
Other developments in progress	99,513	16,425		35,268				61,344	212,550	
Commercial properties	302,386	41,580	5,170					55,085	404,221	65,333
Hotels	35,358							(35,358)		
Land held for development	245,296	33,562	1,444			(14,558)		(59,765)	205,979	187
Real estate held for investment	\$ 1,230,545	\$ 112,442	\$ 9,273	\$ 103,949	\$	\$ (14,558)	\$	\$ 65,463	\$ 1,507,114	\$ 108,428
Real estate held for sale	\$ 69,561	\$	\$	\$	\$	\$ (155,009)	\$	\$ 89,771	\$ 4,323	\$ 1,038
Real estate subject to sales contract	\$ 64,320	\$	\$	\$	\$	\$	\$	\$ 8,713	\$ 73,033	\$ 10,003

\* Change is due to reclassification of grouping for discontinued operations or construction.

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A summary of some of the significant transactions are discussed below:

On January 15, 2008, we purchased 4.0 acres of land in Dallas, Texas known as Woodmont TCI XIV, LP for \$6.4 million. We financed the transaction with \$1.9 million cash, a new mortgage of \$4.1 million with a commercial lender and accrued \$400,000 in commissions payable. The mortgage is secured by the property and accrues interest at Prime plus 0.75%.

On January 25, 2008, we sold 14 apartment complexes in a single transaction for an aggregate sales price of \$89.9 million and recorded a gain on sale of \$65.5 million. We received cash of \$25.8 million after paying off existing mortgages of \$56.6 million, and \$7.5 million in commissions and other closing costs.

The properties consisted of:

4400 Apartments, a 92 unit complex in Midland, Texas

Arbor Pointe, a 194 unit complex in Odessa, Texas

Ashton Way, a 178 unit complex in Midland, Texas

Autumn Chase, a 94 unit complex in Midland, Texas

Courtyard Apartments, a 133 unit complex in Midland, Texas

Coventry Point, a 120 unit complex in Midland, Texas

Fairway, a 152 unit complex in Longview, Texas

Fountains at Waterford, a 172 unit complex in Midland, Texas

Hunters Glen, a 260 unit complex in Midland, Texas

Southgate, a 180 unit complex in Odessa, Texas

Sunchase, a 300 unit complex in Odessa, Texas

Thornwood, a 109 unit complex in Midland, Texas

Westwood, a 79 unit complex in Odessa, Texas



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Woodview, a 232 unit complex in Odessa, Texas

On January 31, 2008, we sold the Lexington office building, a 75,000 square foot commercial building located in Colorado Springs, Colorado for \$5.4 million. We received cash of \$1.6 million after paying off the existing mortgage of \$3.5 million and \$300,000 in closing costs. We recorded a \$700,000 gain on sale.

On February 6, 2008, we sold the Fairway View Apartments, a 264 unit complex located in El Paso, Texas for \$10.3 million recording a gain on sale of \$6.0 million. We received \$4.8 million in cash after paying off the existing mortgage of \$5.3 million and closing costs.

On February 14, 2008, we sold three hotels located in Chicago, Illinois in a single transaction for \$30.0 million recording a gain on sale of \$18.4 million. We received cash of \$9.8 million after paying off existing mortgages of \$18.5 million and closing costs. The properties consisted of:

City Suites Hotel, a 45 room hotel;

Majestic Hotel, a 55 room hotel; and

Willows Hotel, a 52 room hotel.

On March 28, 2008, we sold all of our shares in S.P. Zoo (a Polish Corporation) for \$11.8 million. The sale of the shares represented our 66.67% interest in the Radisson-SAS Hotel Akademia, a 161 room hotel located in Wroclaw, Poland. We received cash of \$11.8 million upon sale of our shares and recorded a gain on sale of \$7.7 million.

On April 2, 2008, we acquired the Bridgewood Ranch apartments, a 106-unit complex located in Kaufman, Texas for \$7.6 million. We financed the purchase with a new mortgage (secured by the property) of \$5.1 million, cash of \$1.3 million, and \$1.2 million in liabilities. The mortgage accrues interest at the higher rate of 6.75% or Prime plus 0.25% and matures in March 31, 2019.

On April 16, 2008, we acquired the Quail Hollow apartments, a 200 unit complex located in Holland, Ohio for \$14.1 million. We financed the purchase with a new mortgage (secured by the property) of \$11.5 million, cash of \$77,000, and \$2.6 million in liabilities. The mortgage accrues interest at 7.00% and matures in October 2011.

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On June 10, 2008, we sold 20.6 acres of undeveloped land located in Irving, Texas for \$7.2 million, recording a \$1.9 million gain on sale. We received \$2.0 million in cash and provided \$2.2 million in seller financing, after paying down \$2.9 million in existing debt, and incurring \$100,000 in closing costs.

On June 26, 2008, we purchased the Stanford Centre, a 274,684 square foot commercial building located in Dallas, Texas including 3.1 acres of land, for \$38.8 million. We financed the transaction with \$11.5 million in cash and a \$26.1 million mortgage from a commercial bank. In addition, we incurred \$1.2 million in accruals and credits at closing. The note accrues interest at LIBOR plus 3.75% and matures on July 1, 2011.

On July 23, 2008, we purchased 24.1 acres of land known as Las Colinas land located in Irving, Texas for \$6.7 million. We financed the transaction with \$2.2 million in cash and a \$4.5 million mortgage secured by the property. The note accrues interest at Prime plus 4.00% and matures on July 23, 2010.

On July 23, 2008, we purchased 246.0 acres of land known as Windmill Farms Harlan land located in Kaufman County, Texas for \$6.8 million. We financed the transaction with \$1.3 million cash and seller financing of \$5.5 million. The note accrues interest at 2.00% for the first year, 4.00% for the second year and 6.00% for the third year and each year thereafter and matures on July 23, 2013.

On August 12, 2008, we purchased 833.4 acres of land in Forney, Texas known as Travis Ranch land for \$18.7 million. We financed the transaction with \$2.2 million cash, a \$5.8 million loan with a commercial lender and a \$7.5 million loan provided by the seller. In addition, we accrued \$3.2 million in commissions and closing costs. The commercial note and seller financing both accrue interest at 5.00% and are due upon demand.

**NOTE 3. NOTES AND INTEREST RECEIVABLE**

<b>Borrower</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Amount</b>	<b>Security</b>
<b>Performing loans:</b>				
400 St. Paul	Oct-2008	9.25%	\$ 3,612	Office Building, Dallas, TX
Atlantic Hotels, LLC	Aug-2009	8.50%	2,000	Atlantic Sands Hotel, Virginia Beach, VA
Basic Capital Management <sup>(1)</sup>	Oct-2011	7.00%	1,252	Industrial building, Arlington, TX
Basic Capital Management <sup>(1)</sup>	Oct-2011	7.00%	1,523	Retail building, Cary, NC
CTMGT Travis Ranch, LLC	Aug-2014	6.00%	7,598	Unsecured
CTMGT Travis Ranch, LLC	Demand	5.00%	7,542	Unsecured
Dallas Fund XVII LP	Oct-2009	9.00%	5,296	Assignment of partnership interests
Garden Centura LP	N/A	7.00%	4,901	Excess cash flow from partnership
Miscellaneous related party notes <sup>(1)</sup>	Various	Various	2,266	Various security interests
Ocean Beach Partners <sup>(1)</sup>	Dec-2009	7.00%	3,279	Folsom Land (36 acres in Farmers Branch, TX)
Pioneer Austin Development	Oct-2008	10.00%	2,407	33 acres undeveloped land, Austin, TX
Syntek Acquisition Corp <sup>(1)</sup>	Aug-2010	Prime + 1.00%	3,354	Unsecured
Thornwood Wrap Note, ICC Surfwood	Jul-2009	7.50%	1,638	Unsecured
Accrued interest			1,831	
Allowance for estimated losses			(1,978)	
<b>Total</b>			<b>\$ 46,521</b>	

<sup>(1)</sup> Related Party

**Table of Contents****NOTE 4. INVESTMENT IN EQUITY INVESTEES**

We have equity investments in various entities. We account for these investees based on our ownership and controlling interest. ARL is our parent company and owns approximately 83% of our common shares. ARL consolidates our financial statements. The table below lists our equity holdings. Investments less than \$500,000 are aggregated in the other account, (amounts in thousands except for percentages).

Investee	Percentage of TCI's Ownership at September 30, 2008	Carrying Value of Investment at September 30, 2008
IOT	24.92%	\$ 12,757
ARL	2.53%	5,372
Garden Centura, L.P.	5.00%	2,024
Other		13,243
Allowance		(7,000)
		\$ 26,396

Set forth below is summarized results of operations of the equity method investments for the first nine months of 2008 and 2007.

	2008	2007
Revenues	\$ 46,140	\$ 66,698
Property operating expenses	(37,272)	(49,747)
Depreciation	(4,678)	(5,986)
Interest expense	(19,801)	(28,857)
Involuntary conversion	7,434	
Income tax benefit	9,166	
Gain (loss) before gains on sale of real estate and discontinued operations	989	(17,892)
Gain on sale of real estate	1,459	3,504
Income (loss) from discontinued operations	26,378	(24)
Net income (loss)	\$ 28,826	\$ (14,412)

On September 9, 2008, we transferred 470,000 shares of ARL stock, representing 5.00% of our ownership in ARL, to Syntek Acquisition Corporation, an affiliated entity, for \$9.2 million.

**NOTE 5. MARKETABLE EQUITY SECURITIES**

TCI owns approximately 9.24% of the common stock of Realty Korea CR-REIT Co., Ltd. No. 1( CR REIT ). In April 2008, in accordance with the corporate restructuring REIT regulation in Korea, the CR REIT common stock was delisted from the Korean Stock Exchange (KOSPI) and is in the process of liquidation. We have received \$4.8 million in dividend payouts for the partial liquidation of the CR REIT.

**NOTE 6. RELATED PARTY TRANSACTIONS**

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to affiliates as of September 30, 2008.

Balance, December 31, 2007	\$ (2,564)
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Cash transfers	59,209
Cash repayments	(108,534)
Fees and commissions payable to affiliate	(29,477)
Payables through Prime	(1,831)
Balance, September 30, 2008	\$ (83,197)

During the ordinary course of business, we have related party transactions that include, but are not limited to rent income, interest income, interest expense, general and administrative costs, commissions, management fees, and property expenses. In addition, we have assets and liabilities that include related party amounts. The affiliated amounts included in assets and liabilities, and the affiliated revenues and expense received/paid are shown on the face of the financial statements

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On September 5, 2008, we sold 40,902 shares of our treasury stock to Syntek Acquisition Corporation, an affiliated entity for \$673,000. The proceeds were used to pay down the affiliated receivables.

**Table of Contents****NOTE 7. NOTES PAYABLE**

	Balance Beginning of Year	Additional Borrowings			Repayments			Reclassifications and Other Adjustments*	Balance 9/30/2008
		Acquisitions	Developments	Refinancings	Amortization	Property Sales	Refinancings		
Apartments	\$ 338,033	\$ 16,536	\$	\$	\$ (4,096)	\$	\$ (2,882)	\$ 28,176	\$ 375,767
Apartments under construction	130,699		54,348						185,047
Other developments in progress	135,755	13,366	16,112		(1,886)		(4,777)	(39,807)	118,763
Commercial properties	231,804	26,075		4,000	(2,667)			(3,836)	255,376
Hotels	42,917							(42,917)	
Land held for development	119,294	40,402		7,258	(6,216)	(30,086)		(3,824)	126,828
Corporate and other	4,425				(207)	(3,902)		9,967	10,283
Accrued interest	4,299							1,371	5,670
Real estate held for investment	\$ 1,007,226	\$ 96,379	\$ 70,460	\$ 11,258	\$ (15,072)	\$ (33,988)	\$ (7,659)	\$ (50,870)	\$ 1,077,734
Real estate held for sale	\$ 107,847	\$	\$	\$	\$ (249)	\$ (111,911)	\$	\$ 9,197	\$ 4,884
Real estate subject to sales contract	\$ 62,513	\$	\$	\$	\$ (1,923)	\$	\$	\$ 258	\$ 60,848

\* Change is due to reclassification of grouping for discontinued operations or construction.

With respect to the additional notes payable due to the acquisition of properties, a summary of some of the more significant transactions are discussed below:

**Apartments**

In connection with the purchase of Woodmont TCI XIV, LP land in Dallas, Texas on January 15, 2008, we financed the acquisition with a new mortgage loan of \$4.1 million collateralized by the land property purchased. The note accrues interest at Prime plus 0.75%. The note is payable in monthly installments of interest only with the balance and all unpaid and accrued interest due at maturity on July 25, 2009.

In connection with the purchase of Bridgewood apartments in Kaufman, Texas on April 2, 2008, we financed the acquisition with a new mortgage loan of \$5.1 million collateralized by the apartment complex purchased. The note accrues interest at Prime plus 0.25%. The note is payable in monthly installments of interest and principal through maturity on January 1, 2019, at which time all accrued unpaid interest and principal are due.

In connection with the purchase of Quail Hollow apartments in Holland, Ohio on April 16, 2008, we financed the acquisition with a new mortgage loan of \$11.5 million collateralized by the apartment complex purchased. The note accrues interest at 7.00%. The note is payable in monthly installments of interest and principal through maturity on October 1, 2011, at which time all accrued unpaid interest and principal are due.

**Commercial Properties**

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In connection with the purchase of Stanford Centre office building in Dallas, Texas on June 27, 2008, we financed the acquisition with a new mortgage loan of \$26.1 million, collateralized by the office building purchased. The note accrues interest at LIBOR plus 3.75%. The note is payable in monthly installments of interest only with the balance due along with all unpaid and accrued interest due at maturity on July 1, 2011.

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Land

In connection with the purchase of Las Colinas land located in Irving, Texas on July 23, 2008, we financed the acquisition with a new mortgage loan of \$4.5 million collateralized by the land property purchased. The note accrues interest at Prime plus 4.00%. The note is payable in monthly installments of interest only with the balance and all unpaid and accrued interest due at maturity on July 23, 2010.

In connection with the purchase of Windmill Farms Harlan land located in Kaufman County, Texas on July 23, 2008, we financed the acquisition with seller financing of \$5.5 million. The note accrues interest at 2.00% for the first year, 4.00% for the second year and 6.00% for the third year and each year thereafter. The note is payable in monthly installments of interest only with the balance and all unpaid and accrued interest due at maturity on July 23, 2013.

In connection with the purchase of Travis Ranch land in Forney, Texas on August 12, 2008, we financed the acquisition with a new mortgage loan of \$5.8 million and seller financing of \$7.5 million. The commercial note and seller financing both accrue interest at 5.00%. The balance and all unpaid and accrued interest are due upon demand.



**Table of Contents****NOTE 8. OPERATING SEGMENTS**

Our segments are based on management's method of internal reporting which classifies its operations by property type. The segments are commercial, apartments, hotels and land. Significant differences between and among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. The Company evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

Presented below is the Company's reportable segments' operating income for the three months ended September 30, 2008 and 2007, including segment assets and expenditures:

<b>For three months ended 9/30/08</b>	<b>Commercial Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	<b>Total</b>
Operating revenue	\$ 15,013	\$ 21,493	\$	\$ 153	\$ (18)	\$ 36,641
Operating expenses	8,577	13,633		867	542	23,619
Depreciation and amortization	1,802	3,236		1		5,039
Mortgage and loan interest	4,273	9,030		2,173	1,145	16,621
Interest income					688	688
Gain on land sales				696		696
Segment operating income (loss)	\$ 361	\$ (4,406)	\$	\$ (2,192)	\$ (1,017)	\$ (7,254)

Capital expenditures	3,899	86				3,985
Assets	338,891	652,603		407,195		1,398,689

**Property Sales**

Sales price	\$ 3,586	\$	\$	\$ 2,087	\$	\$ 5,673
Cost of sale	3,342			1,391		4,733
Deferred current gain						
Recognized prior deferred gain						
Gain on sale	\$ 244	\$	\$	\$ 696	\$	\$ 940

<b>For three months ended 9/30/07</b>	<b>Commercial Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	<b>Total</b>
Operating revenue	\$ 13,190	\$ 17,656	\$	\$ 93	\$ (146)	\$ 30,793
Operating expenses	8,350	9,934		466	687	19,437
Depreciation and amortization	2,654	2,917		2		5,573
Mortgage and loan interest	4,589	7,677		3,253	1,957	17,476
Interest income					526	526
Gain on land sales				5,754		5,754
Segment operating income (loss)	\$ (2,403)	\$ (2,872)	\$	\$ 2,126	\$ (2,264)	\$ (5,413)

Capital expenditures	6,179	20				6,199
Assets	300,412	595,604		345,501	(17,386)	1,224,131

**Property Sales**

Sales price	\$ 9,350	\$ 3,680	\$	\$ 12,822	\$	\$ 25,852
Cost of sale	5,926	2,641		7,068		15,635
Deferred current gain						
Recognized prior deferred gain	4,061					4,061
Gain on sale	\$ 7,485	\$ 1,039	\$	\$ 5,754	\$	\$ 14,278



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The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations:

<b>For three months ended</b>	<b>9/30/2008</b>	<b>9/30/2007</b>
Segment operating loss	\$ (7,254)	\$ (5,413)
Other non-segment items of income/(expense)		
General and administrative	(2,208)	(2,201)
Advisory fees	(2,894)	(2,773)
Impairment		(2,683)
Other income (expense)	2,410	251
Equity in earnings of investees	(1,863)	
Minority interest		19
Deferred tax	1,807	2,931
Loss from continuing operations	\$ (10,002)	\$ (9,869)

**SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS**

	<b>9/30/2008</b>	<b>9/30/2007</b>
Segment assets	\$ 1,398,689	\$ 1,224,131
Investments in real estate partnerships	27,801	49,230
Other assets	137,246	109,626
Assets held for sale	66,315	100,487
Total assets	\$ 1,630,051	\$ 1,483,474

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Presented below is the Company's reportable segments' operating income for the nine months ended September 30, 2008 and 2007, including segment assets and expenditures:

<b>For nine months ended 9/30/08</b>	<b>Commercial Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	<b>Total</b>
Operating revenue	\$ 42,660	\$ 61,038	\$	\$ 1,413	\$ 16	\$ 105,127
Operating expenses	25,128	37,647		3,016	309	66,100
Depreciation and amortization	7,091	9,926		3		17,020
Mortgage and loan interest	12,822	27,088		8,306	3,423	51,639
Interest income					1,990	1,990
Gain on land sales				4,551		4,551
<b>Segment operating loss</b>	<b>\$ (2,381)</b>	<b>\$ (13,623)</b>	<b>\$</b>	<b>\$ (5,361)</b>	<b>\$ (1,726)</b>	<b>\$ (23,091)</b>
Capital expenditures	3,899	86				3,985
Assets	338,891	652,603		407,195		1,398,689
<b>Property Sales</b>						
Sales price	\$ 39,383	\$ 103,877	\$ 11,749	\$ 14,558	\$	\$ 169,567
Cost of sale	20,291	30,477	4,023	9,857		64,648
Deferred current gain				150		150
Recognized prior deferred gain						
<b>Gain on sale</b>	<b>\$ 19,092</b>	<b>\$ 73,400</b>	<b>\$ 7,726</b>	<b>\$ 4,551</b>	<b>\$</b>	<b>\$ 104,769</b>

<b>For nine months ended 9/30/07</b>	<b>Commercial Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	<b>Total</b>
Operating revenue	\$ 41,771	\$ 51,683	\$	\$ 302	\$ (124)	\$ 93,632
Operating expenses	23,804	27,845		2,688	186	54,523
Depreciation and amortization	7,708	8,197		12		15,917
Mortgage and loan interest	12,575	22,821		10,024	3,171	48,591
Interest income					1,917	1,917
Gain on land sales				6,875		6,875
<b>Segment operating loss</b>	<b>\$ (2,316)</b>	<b>\$ (7,180)</b>	<b>\$</b>	<b>\$ (5,547)</b>	<b>\$ (1,564)</b>	<b>\$ (16,607)</b>
Capital expenditures	6,179	20				6,199
Assets	300,412	595,604		345,501	(17,386)	1,224,131
<b>Property Sales</b>						
Sales price	\$ 9,350	\$ 27,741	\$	\$ 17,353	\$	\$ 54,444
Cost of sale	5,923	23,054		10,478		39,455
Deferred current gain						
Recognized prior deferred gain	4,061					4,061
<b>Gain on sale</b>	<b>\$ 7,488</b>	<b>\$ 4,687</b>	<b>\$</b>	<b>\$ 6,875</b>	<b>\$</b>	<b>\$ 19,050</b>

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The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations:

<b>For nine months ended</b>	<b>9/30/2008</b>	<b>9/30/2007</b>
Segment operating loss	\$ (23,091)	\$ (16,607)
Other non-segment items of income/(expense)		
General and administrative	(6,886)	(7,406)
Advisory fees	(8,857)	(7,869)
Litigation		
Bad debt and allowance	(7,000)	
Net income fee		704
Impairment		(2,683)
Other income (expense)	3,206	1,069
Equity in earnings of investees	2,681	
Minority interest		22
Deferred tax	30,232	3,135
<b>Loss from continuing operations</b>	<b>\$ (9,715)</b>	<b>\$ (29,635)</b>

**SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS**

	<b>9/30/2008</b>	<b>9/30/2007</b>
Segment assets	\$ 1,398,689	\$ 1,224,131
Investments in real estate partnerships	27,801	49,230
Other assets	137,246	109,626
Assets held for sale	66,315	100,487
<b>Total assets</b>	<b>\$ 1,630,051</b>	<b>\$ 1,483,474</b>

**NOTE 9. DISCONTINUED OPERATIONS**

The Company applies the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

Income from discontinued operations relates to 32 income producing properties consisting of 23 apartments, five commercial properties, and four hotels. During 2008, we sold or disposed of 18 apartments, three commercial buildings, and four hotels.

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenue</b>				
Rental	\$ 1,401	\$ 9,640	\$ 5,514	\$ 27,490
Property operations	(247)	6,176	2,372	18,304
	1,648	3,464	3,142	9,186
<b>Expenses</b>				
Interest	(106)	(2,798)	(5,568)	(9,277)
General and administrative	(17)	(45)	(616)	(50)

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Depreciation	(22)	(771)	(290)	(3,076)
	(145)	(3,614)	(6,474)	(12,403)
Net income (loss) from discontinued operations before gains on sale of real estate	1,503	(150)	(3,332)	(3,217)
Gain on sale of discontinued operations	244	8,524	100,218	12,175
Equity in investee	2,898		2,898	
Net income fee to affiliate	517		(4,069)	
Net sales fee to affiliate			(9,337)	
Income from discontinued operations	5,162	8,374	86,378	8,958
Tax expense	(1,807)	(2,931)	(30,232)	(3,135)
Income from discontinued operations	\$ 3,355	\$ 5,443	\$ 56,146	\$ 5,823

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The Company's application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2008 as income from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

In September of 2008, three of our apartment complexes were damaged in the wake of Hurricane Ike. The Island Bay, Marina Landing, and Baywalk apartments consisting of 906 units located in Galveston, Texas all received significant damage. Some of residences at Galveston complexes were asked to vacate and the operations of these units were temporarily ceased. Due to wide spread damage caused by Hurricane Ike and the limited ability to access the area, the extent of the damage to our apartment complexes has not yet been fully assessed. Management's preliminary assessment places the damages to the four complexes in aggregate to be in excess of \$5.0 million. We anticipate that our insurance coverage will be sufficient to cover the damages. Although we believe that we may need to write down the carrying value of some of these assets due to the damages incurred, we do not feel that we have sufficient information to make an informed and reasonable estimate as to the extent of any probable write downs. Thus, no impairment has been made to the financial statements as of the quarter ended September 30, 2008 for damages incurred by Hurricane Ike. Management intends to continue the operations at these complexes once the repairs have been completed, and the operations relating to these apartments will remain in the continuing operations section of our financial statements.

**Partnership Obligations.** TCI is the limited partner in partnerships that are currently constructing residential properties. As permitted in the respective partnership agreements, TCI intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buy out the nonaffiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

**Guarantees.** We are a joint guarantor, with Income Opportunity Realty Investors, Inc., an affiliated entity, on a loan with an outstanding balance of \$37.3 million as of September 30, 2008. We have \$8.7 million of this amount included in the notes and interest payable section on our balance sheet. As a joint guarantor of the loan, we have joint and several liability of the obligations and liabilities of the loan in its entirety, which include but are not limited to payment of all unpaid and accrued interest and principal for the entire outstanding loan balance.

**Liquidity.** Management believes that TCI will generate excess cash from property operations; such excess, however, will not be sufficient to discharge all of TCI's obligations as they become due. Management intends to sell income producing assets, refinance real estate, and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

**Litigation.** TCI is involved in various other lawsuits arising in the ordinary course of business. Management is of the opinion that the outcome of these lawsuits will have no material impact on TCI's financial condition, results of operations or liquidity.

**NOTE 11. SUBSEQUENT EVENTS**

On October 15, 2008, we sold the Mountain Plaza apartments, a 188 unit complex, located in El Paso, Texas for \$7.9 million. We received \$1.1 million in cash, after providing seller financing of \$1.9 million. The buyer assumed the existing mortgage of \$4.9 million secured by the property.

**NOTE 12. EARNINGS PER SHARE**

Earnings per share (EPS) have been computed pursuant to the provisions of SFAS No. 128 *Earnings Per Share*. The computation of basic EPS is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding. We have issued and outstanding 40,000 shares of stock options. These are considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. We have 30,000 shares of Series C Cumulative Convertible Preferred Stock issued and outstanding. The stock has a liquidation preference of \$100.00 per share. After September 30, 2006, the stock may be converted into Common Stock at 90% of the daily average closing price of the Common Stock for the prior five trading days. The effects of the Series C Cumulative Convertible Preferred Stock are included in the dilutive earnings per share if applying the if-converted method is dilutive. As of September 30, 2008, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

This Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar expressions which refer to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;

demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;

the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;

risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;

failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;



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potential liability for uninsured losses and environmental contamination;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-Q, including those described under the caption Risk Factors.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Item 1A Risk Factors in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2007 (the Form 10-K).

Other sections of this report may also include suggested factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time-to-time and it is not possible for management to predict all such matters: nor can we assess the impact of all such matter on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking

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statements. Given these uncertainties, investors should not place undue reliance on forward-looking statements as prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise as we file them with the SEC.

### **Overview**

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings, and other commercial properties. Our portfolio of land held for development consists of land tracks primarily located in central Texas. In addition, we have land tracks in Louisiana, Arkansas, Florida, and Mississippi. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We generate revenues from rents and lease income on apartments and commercial properties. We receive mineral royalties on certain land holdings. In addition, we receive interest income from affiliated receivables and certain mortgages that we have financed or obtained. In addition, we generate cash flows through the sale of our assets. We are an active buyer and seller of income producing properties and land. During 2008, we acquired over \$112.4 million and sold over \$169.6 million of land and income-producing properties.

We expect the impact of the current state of the economy, including rising unemployment, constrained capital and the dramatic deleveraging of the financial system, to have a significant impact on the fundamentals of our business, including but not limited to: overall market occupancy, leasing rates, leasing renewals, purchases and dispositions of assets. The continuing loss of market liquidity is affecting all classes of debt securities, and has translated into a decline of funding availability and increased borrowing costs. Historically, we have been well positioned to reduce our exposure to down turns in the economy. Although historical results cannot be relied upon to project future results, we anticipate the diversity within our asset portfolio, the continued development of our apartment projects, and continued efforts to obtain non-traditional financing will allow us to proactively manage our assets.

As of September 30, 2008, the Company owned approximately 10,260 units in 51 residential apartment communities and 29 commercial properties of approximately 5.1 million rentable square feet. In addition, we own over 7,425 acres of land held for development and nine projects under construction.

We finance our acquisitions primarily through proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We financed our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. The Company will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of its wholly owned properties. When the Company sells assets, it may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. The Company generates operating revenues primarily by leasing apartment units to residents; leasing office, retail and industrial space to commercial tenants; and renting hotel rooms to guests.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

### **Real Estate**

Upon acquisitions of real estate, TCI assesses the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above-market and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with Statement of Financial Accounting Standards, SFAS No. 141, *Business Combinations*, and allocates the purchase

price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

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We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired above-market and below-market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, property taxes, insurance, and other project costs incurred during the period of development.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If we determine that impairment has occurred, the affected assets must be reduced to their face value.

SFAS No. 144 requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34 *Capitalization of Interest Cost*, and SFAS No. 67 *Accounting for Costs and the Initial Rental Operations of Real Estate Properties*. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

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### **Impairment**

Management reviews the carrying values of our properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings to the extent that the investment in the note exceeds management's estimate of the fair value of the collateral securing such note. The mortgage note receivable review includes an evaluation of the collateral property securing each note. The property review generally includes: (1) selective property inspections, (2) a review of the property's current rents compared to market rents, (3) a review of the property's expenses, (4) a review of maintenance requirements, (5) a review of the property's cash flow, (6) discussions with the manager of the property, and (7) a review of properties in the surrounding area.

### **Investments in Unconsolidated Real Estate Ventures**

Except for ownership interests in variable interest entities, TCI accounts for our investments in unconsolidated real estate ventures under the equity method of accounting because the Company exercises significant influence over, but does not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the Company's balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, TCI's net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, TCI's recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, the Company consolidates those in which we are the primary beneficiary.

### **Recognition of Rental Income**

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with SFAS No. 141, we recognize rental revenue of acquired in-place above-market and below-market leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

Reimbursements of operating costs, as allowed under most of our commercial tenant leases, consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, and are recognized as revenue in the period in which the recoverable expenses are incurred. We record these reimbursements on a gross basis, since we generally are the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less.

Revenues for hotel properties for room sales and guest services are recognized as rooms are occupied and services are rendered.

An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

### **Revenue Recognition on the Sale of Real Estate**

Sales of real estate are recognized when and to the extent permitted by Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate*. ( SFAS No. 66 ), as amended by SFAS No. 144. Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using the deposit, installment, cost recovery or financing method, whichever is appropriate. When TCI provides seller financing, gain is not recognized at the time of sale unless the buyer's initial investment and continuing investment are deemed to be adequate as determined by SFAS No. 66 guidelines.

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### **Non-performing Notes Receivable**

TCI considers a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments. Any new note receivable that results from a modification or extension of a note considered non-performing will also be considered non-performing, without regard to the borrower's adherence to payment terms.

### **Interest Recognition on Notes Receivable**

Interest income is not recognized on notes receivable that have been delinquent for 60 days or more. In addition, accrued but unpaid interest income is only recognized to the extent that the net realizable value of the underlying collateral exceeds the carrying value of the receivable.

### **Related Party Transactions**

The Company has historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in the best interest of our company.

### **Allowance for Estimated Losses**

A valuation allowance is provided for estimated losses on notes receivable considered to be impaired. Impairment is considered to exist when it is probable that all amounts due under the terms of the note will not be collected. Valuation allowances are provided for estimated losses on notes receivable to the extent that the investment in the note exceeds management's estimate of fair value of the collateral securing such note.

### **Fair Value of Financial Instruments**

The following assumptions were used in estimating the fair value of TCI's notes receivable, marketable equity securities and notes payable. For performing notes receivable, the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For non-performing notes receivable, the estimated fair value of TCI's interest in the collateral property was used. For marketable equity securities, fair value was based on the year-end closing market price of each security. For notes payable, the fair value was estimated using current rates for mortgages with similar terms and maturities.

### **Liquidity and Capital Resources**

Our principal sources of cash have historically been and will continue to be:

property operations;

proceeds from land and income-producing property sales;

collection of mortgage notes receivable;

collection of receivables from affiliated companies;

refinancing of existing mortgage notes payable; and

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additional borrowing, including mortgage notes payable and lines of credit.

Our principal liquidity needs over the next twelve months include:

funding of normal recurring expenses and obligations;

funding current development costs not covered by construction loans;

meeting debt service requirements including loan maturities;

funding capital expenditures; and

funding acquisition costs for land and income-producing properties not covered by acquisition financing.

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks willingness or lack of willingness to originate loans affects both our ability to both buy and sell property, and refinance existing debt. We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans.

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Management anticipates that our available cash from property operations may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowing secured by real estate to meet its liquidity requirements. Historically, management has been successful at extending a portion of the Company's current maturity obligations. Management also anticipates funding ongoing real estate development projects and the acquisition of new real estate from cash generated by sales of land and income-producing properties, debt refinancings or extensions and additional borrowings.

### **Cash flow summary**

The following summary discussion of our cash flows is based on the statements of cash flows as presented in Item 1 and is not meant to be an all-inclusive discussion of the changes in our cash flow.

Cash and cash equivalents were \$3.1 million and \$7.2 million as of September 30, 2008 and 2007, respectively. Cash provided by operating activities was \$29.6 million, cash used in investing activities was \$(46.9) million, and cash provided by financing activities was \$9.2 million as of September 30, 2008. As compared to the same period ended September 2007 cash from operating activities increased \$36.5 million, cash used in investing activities decreased \$157.3 million, and cash used in financing activities decreased \$204.4 as discussed below.

Cash provided by operating activities increased \$36.5 million from the prior period. Our primary source of cash from operating activities is from rental and lease income on properties. Our primary use of cash for operations is from daily operating costs, general and administrative, interest expense, and land holding costs. The increase in cash from the prior period is attributable to cash receipts from our affiliated receivables.

Cash used in investing activities has decreased by \$157.3 million as compared to the prior period. The decrease is due to several factors. One of the main factors is our cash from property sales. Our sale of properties has increased as compared to the prior period. We have sold 17 apartment complexes, three commercial buildings and four hotels within the nine months ending September 30, 2008. Although these sales have exceeded sales in prior periods, we do not foresee continued significant sales in the fourth quarter. Another major factor is that we have purchased fewer income producing properties. The cash from the initial sales of income producing properties allowed us to continue to acquire land and income producing properties. However, due to the current state of the banking industry, we have been more selective and have purchased fewer income producing properties in comparison to the prior period. The other major factor is the decrease in construction draws on projects currently under construction. We have fewer apartments under construction. We currently have nine apartment complexes under construction as compared to 14 apartment complexes in the prior period.

Cash provided by financing has decreased by \$204.4 million as compared to the prior period. The majority of cash comes from two sources, mortgage loans used to purchase properties and proceeds from the sale of properties. With the current state of the banking industry, we have found it difficult to acquire loans to purchase new assets, and refinance existing properties. We have used proceeds from our existing sales to finance new acquisitions. Although the sale of properties exceeded our purchase of properties, the cash used to pay off the debt on the property sold has offset our continued debt obligations as compared to the prior period.

### **Commitments and Contingencies**

TCI has contractual obligations and commitments primarily concerning payment of mortgages.

### **Results of Operations**

The following discussion is based on our Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007 as included in Part 1, Item 1 Financial Statements of this report. We had or owned interests in a total property portfolio of 80 and 93 properties as of September 30, 2008 and 2007, respectively.

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, hotels, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, newly acquired properties, and developed properties. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The newly acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties are properties that are in the process of construction. As we complete each phase of the project, we lease up that phase and include those operations in our income. Once a developed property becomes leased up and is held the entire period for both periods under comparison it is reclassified to the same property portfolio. Income producing properties that we have sold get reclassified to discontinuing operations.





**Table of Contents****Results of operations for the three months ended September 30, 2008 as compared to the same period ended 2007**

For the three months ended September 30, 2008, TCI reported a net loss applicable to common shares of \$(6.9) million or \$(0.85) per diluted earnings per share, as compared to a net loss applicable to common shares of \$(4.7) million or \$(0.58) per diluted earnings per share.

**Revenues**

Rental and other property revenues increased by \$5.8 million due to increased revenues from within the apartment and commercial property portfolios. The apartment portfolio accounted for \$3.8 million of the increase. We had \$2.2 million in revenues from properties acquired in 2008 that we did not own in 2007. In addition, we had an increase of \$1.6 million from our properties in the lease up phase. We continue to lease apartments as we complete each phase of development. Within our commercial portfolio, we had \$1.7 million in revenues from properties acquired in 2008 that we did not own in 2007. The remaining \$0.3 million increase is due to various increases within the apartment, commercial and land portfolios.

**Expenses**

Property operating expense increased by \$4.2 million due to increased expenses within the apartment property portfolio. Our overall operating expenses within the same apartment portfolio increase by \$1.5 million. Apartments that we owned in 2008 but not in 2007 accounted for \$1.4 million and newly develop properties in the lease up phase accounted for \$1.3 million of additional expenses.

**Other Income Expense**

Mortgage and loan interest expense decreased by \$0.9 million. This is due to a decrease in our commercial portfolio of \$0.4 million, a decrease in our land portfolio of \$1.1 million, and \$0.8 million decrease in corporate interest expense. This was offset by a \$1.4 million increase in interest expense within our apartment portfolio. This increase is mainly due to apartments being reclassified into this portfolio. Once a phase of development is completed, interest which was previously capitalized as a cost of construction is now expensed. We had nine apartments in 2008 that had no interest expensed in 2007 due to the interest being capitalized while the asset was being constructed.

Other income increased by \$2.2 million. The majority of the increase is due to receiving the dividend distribution from our Korean investment, which was not applicable in the prior period.

The impairment charges in prior year were due to the write down of a vacant commercial property and an under-performing apartment complex, both located in Memphis, Tennessee.

Gain on land sales has decreased by \$5.1 million. In the third quarter of 2008, we sold 7.4 acres of land as compared to 22.0 acres of land in the previous period ended 2007.

Equity income (loss) in investee represents our portion of the losses associated with investments in which we use the equity method of accounting.

Income from discontinued operations relates to 32 income producing properties consisting of 23 apartments, five commercial properties, and four hotels. During the third quarter ended September 30, 2008, we sold one commercial building.

	<b>For the Three Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Rental	\$ 1,401	\$ 9,640
Property operations	(247)	6,176
	1,648	3,464
<b>Expenses</b>		

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Interest	(106)	(2,798)
General and administrative	(17)	(45)
Depreciation	(22)	(771)
	(145)	(3,614)
Net loss from discontinued operations before gains on sale of real estate	1,503	(150)
Gain on sale of discontinued operations	244	8,524
Equity in investee	2,898	
Net income fee to affiliate	517	
Income from discontinued operations	5,162	8,374
Tax benefit	(1,807)	(2,931)
Income from discontinued operations	\$ 3,355	\$ 5,443

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### ***Results of operations for the nine months ended September 30, 2008 as compared to the same period ended 2007***

For the nine months ended September 30, 2008, TCI reported a net income applicable to common shares of \$45.7 million or \$5.66 per diluted earnings per share, as compared to a net loss applicable to common shares of \$(24.5) million or \$(3.09) per diluted earnings per share.

#### **Revenues**

Rent and other property revenues increased by \$11.5 million, which consisted of an increase in the apartment portfolio of \$9.4 million, an increase in the commercial portfolio of \$0.9 million, an increase in the land and other portfolios of \$1.2 million. Within our same apartment portfolio, we saw a slight increase in occupancies, which increased our revenues by \$0.7 million. Our acquired apartments, complexes that we did not own in 2007, accounted for an increase in revenues of \$3.7 million. In addition, we had an increase of \$5.0 million from our properties in the lease up phase. We continue to lease up apartments as we complete each phase of development. Within our commercial portfolio, the same property portfolio increased \$0.5 million due to increased occupancies. Newly acquired commercial properties increased revenues by \$0.7 million. The increases in the commercial portfolio were offset by a \$0.3 million decrease in revenues from our New Orleans property that is still being refurbished from the hurricane damage. Within our land portfolio, revenues have increased mainly due to receiving mineral royalties on the properties in the current year.

#### **Expenses**

Property operating expenses have increased by \$11.6 million consisting of an increase in the apartment portfolio of \$9.8 million, increase in the commercial portfolio of \$1.3 million, increase in the land portfolio of \$0.3 million and an increase in other portfolio of \$0.2 million. Within our apartments, the same apartment portfolio expenses have increased by \$3.5 million. This is due to general overall increase in operating costs across the board. Our newly acquired properties increased, properties that we did not own in 2007, accounted for \$3.4 million increase, and our developed properties that are in the lease up phase accounted for the remaining increase within the apartment portfolio. Within our land and other portfolio, the increase was due to an overall increase in hold costs, including taxes on properties. We continue to see the taxing authorities raise the estimated value of our properties, and the associated taxes.

Depreciation and amortization expense has increased by \$1.1 million, consisting of an increase of \$1.7 million in our apartment portfolio, which was offset by a decrease in our commercial portfolio of \$0.6 million. Within the apartments portfolio, the same apartment portfolio increased by \$0.7 million due to the depreciation of capital additions, while newly acquired properties increased this amount by \$0.6 million, and developed properties increased the expense by \$0.4 million. Within the commercial portfolio, the decrease is mainly due to the New Orleans property in which depreciation has stopped while the property is being rebuilt.

#### **Other Income Expense**

Other income increased by \$2.1 million. The increase is due to receiving the dividend distribution from our Korean investment, which was not applicable in the prior period.

Provision for allowance on notes receivables and impairment increased by \$4.3 million for the nine months ended September 30, 2008 as compared to the same period ended 2007. The increase is due to posting an allowance against various investments within our portfolio. Prior year impairment was due to the write down of a vacant commercial property and an under-performing apartment complex, both located in Memphis, Tennessee.

Mortgage and loan interest expense increased by \$3.0 million consisting of an increase in the apartment portfolio of \$4.3 million, and the commercial portfolio of \$0.2 million, which was offset by a decrease in our land portfolio of \$1.2 million and a decrease in other of \$0.3 million. Within the apartment portfolio, the increase is primarily due to the interest expense from new acquisitions of \$2.0 million and the developed properties of \$2.0 million, and the same property portfolio increased the expense by another \$0.8 million. Within the commercial portfolio, the same property portfolio increased by \$0.4 million and new acquisitions increased by \$0.3 million. This was offset by a \$0.5 million decrease from our commercial building in New Orleans that we are still refurbishing due to the hurricane damage. While this project is being refurbished, the interest is being capitalized. The decrease in interest expense of \$2.0 million on our land is due to selling the land. When we sell a portion of the land tract, we also retire the debt associated with the acreage sold, thus reducing our interest expense.

Gain on land sales has decreased by \$2.3 million. In the current year, we sold 87.5 acres of land for an average gain on sale of \$52,000 per acre, as compared to 119 acres sold during the same period ended 2007 for an average gain on sale of \$58,000 per acre.

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Equity income (loss) in investee represents our portion of the income associated with investments in which we use the equity method of accounting.

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Income from discontinued operations relates to 32 income producing properties consisting of 23 apartments, five commercial properties, and four hotels. During 2008, we sold 18 apartments, three commercial buildings, and four hotels. The income from discontinued operations for the nine months ended September 30, 2008 is shown below net of minority interest expense.

	<b>For the Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Rental	\$ 5,514	\$ 27,490
Property operations	2,372	18,304
	3,142	9,186
<b>Expenses</b>		
Interest	(5,568)	(9,277)
General and administrative	(616)	(50)
Depreciation	(290)	(3,076)
	(6,474)	(12,403)
Net loss from discontinued operations before gains on sale of real estate	(3,332)	(3,217)
Gain on sale of discontinued operations	100,218	12,175
Equity in investee	2,898	
Net income fee to affiliate	(4,069)	
Net sales fee to affiliate	(9,337)	
Income from discontinued operations	86,378	8,958
Tax benefit	(30,232)	(3,135)
Income from discontinued operations	\$ 56,146	\$ 5,823

**Tax Matter**

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. TCI had a loss for federal income tax purposes in the first nine months of 2008 and a loss, after the use of net operating loss carryforwards, in the first nine months of 2007; therefore, it recorded no provision for income taxes.

At September 30, 2008, TCI had a net deferred tax asset of \$38 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that TCI will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

**Inflation**

The effects of inflation on TCI's operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments, the cost of new financings and the cost of variable interest rate debt will be affected.

**Environmental Matters**

Under various federal, state and local environmental laws, ordinances and regulations, the Company may be potentially liable for removal or remediation costs, as well as certain other potential costs, relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In

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addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on TCI's business, assets or results of operations.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

At September 30, 2008, TCI's exposure to a change in interest rates on its debt is as follows (dollars in thousands except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase in Base Rates
Notes payable:			
Variable rate	\$ 304,131	6.73%	
<b>Total decrease in TCI's annual net income</b>			<b>\$ 3,041</b>
Per share			\$ 0.38

**ITEM 4T. CONTROLS AND PROCEDURES**

- (a) As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Chief Financial Officer per the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Company's Principal Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.
- (b) There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2008, that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the period of time covered by this report, no equity securities of Transcontinental Realty Investors, Inc.'s stock were repurchased. The following table sets forth a summary by month for the quarter of repurchases made and the specified numbers of shares that may be repurchased under the stock repurchase program as specified below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program <sup>(a)</sup>
Balance as of June 30, 2008			1,284,512	122,788
July 31, 2008		\$	1,284,512	122,788
August 31, 2008		\$	1,284,512	122,788
September 30, 2008		\$	1,284,512	122,788

Total



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- (a) On June 23, 2000, the TCI Board of Directors approved a share repurchase program for up to 1,409,000 shares of our common stock. This repurchase program has no termination date.
- On September 5, 2008, we sold 40,902 shares of our treasury stock to Syntek Acquisition Corporation, an affiliated entity for \$673,000. The proceeds were used to pay down the affiliated receivables.

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**ITEM 6. EXHIBITS**

The following exhibits are filed with this report or incorporated by reference as indicated;

<b>Exhibit Number</b>	<b>Description</b>
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Certificate of Designation of Transcontinental Realty Investors, Inc., setting for the Voting Powers, Designations, References, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.5	Certificate of Designation of Transcontinental Realty Investors, Inc., Setting for the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
3.6	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc. Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
3.7	By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.8	Certificate of Designation of Transcontinental Realty Investors, Inc. setting forth the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrant's Current Report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).
10.0	Advisory Agreement dated as of October 1, 2003, between Transcontinental Realty Investors, Inc. and Prime Income Asset Management, LLC (incorporated by reference to Exhibit 10.0 to the registrant's current report on Form 8-K for event occurring October 1, 2003).
31.1*	Certification of President and Chief Operating Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Chief Accounting Officer and Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

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**SIGNATURE PAGE**

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: November 14, 2008

By: /s/ Daniel J. Moos  
Daniel J. Moos  
President and Chief Operating Officer

(Principal Executive Officer)

Date: November 14, 2008

By: /s/ Gene S. Bertcher  
Gene S. Bertcher  
Executive Vice President and Chief Accounting Officer

(Principal Financial Officer)

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q**

**For the Period Ended September 30, 2008**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
31.1*	Certification Chief Operating Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Chief Accounting Officer and Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith