CRESCENT REAL ESTATE EQUITIES CO
Form 10-K
March 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K
(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004.
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 1-13038

CRESCENT REAL ESTATE EQUITIES COMPANY

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip code)

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

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

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

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

YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES X NO

As of June 30, 2004, the aggregate market value of the 92,476,149 common shares held by non-affiliates of the registrant was approximately $1.5 billion.

Number of Common Shares outstanding as of March 2, 2005:	99,820,354
Number of Series A Preferred Shares outstanding as of March 2, 2005:	14,200,000
Number of Series B Preferred Shares outstanding as of March 2, 2005:	3,400,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be filed with the Securities and Exchange Commission for Registrant's 2005 Annual Meeting of Shareholders to be held in May 2005 are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

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

GENERAL

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

At December 31, 2004, our assets and operations consisted of four investment segments:

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

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

- THE OFFICE SEGMENT consisted of 78 office properties, which we refer to as the Office Properties, located in 29 metropolitan submarkets in eight states, with an aggregate of approximately 31.6 million net rentable square feet. Fifty-seven of the Office Properties are wholly-owned and twenty-one are owned through joint ventures, two of which are consolidated and nineteen of which are unconsolidated.

- THE RESORT/HOTEL SEGMENT consisted of five luxury and destination fitness resorts and spas with a total of 1,036 rooms/guest nights and three upscale business-class hotel properties with a total of 1,376 rooms, which we refer to as the Resort/Hotel Properties. Seven of the Resort/Hotel Properties are wholly-owned and one is owned through a joint venture that is consolidated.

- THE RESIDENTIAL DEVELOPMENT SEGMENT consisted of our ownership of common stock representing interests of 98% to 100% in four residential development corporations. These Residential Development Corporations, through partnership arrangements, owned in whole or in part 23 upscale residential development properties, which we refer to as the Residential Development Properties.

- THE TEMPERATURE-CONTROLLED LOGISTICS SEGMENT consisted of our 31.7% interest in AmeriCold Realty Trust, or AmeriCold, a REIT. As of December 31, 2004, AmeriCold operated 103 facilities, of which 87 were wholly-owned, one was partially-owned and fifteen were managed for outside owners. The 88 owned facilities, which we refer to as the Temperature-Controlled Logistics Properties, had an aggregate of approximately 443.7 million cubic feet (17.6 million square feet) of warehouse space. AmeriCold also owned two quarries and the related land.

See Note 3, "Segment Reporting," included in Item 8, "Financial Statements and Supplementary Data," for a table showing selected financial information for each of these investment segments for the three years ended December 31, 2004, 2003 and 2002, and total assets, consolidated property level financing, consolidated other liabilities and minority interests for each of these investment segments at December 31, 2004 and 2003.

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

See Note 9, "Investments in Unconsolidated Companies," included in Item 8, "Financial Statements and Supplementary Data," for a table that lists our ownership in significant unconsolidated joint ventures and investments as of December 31, 2004.

BUSINESS OBJECTIVES AND STRATEGIES

BUSINESS OBJECTIVES

Our primary business objective is to be the recognized leader in real estate investment management of premier commercial office assets and to allocate capital to high-yielding resort and residential real estate. We strive to provide an attractive return on equity to our shareholders, through our focus on increasing earnings, cash flow growth and predictability, and continually strengthening our balance sheet. We also strive to attract and retain the best talent available, to align their interests with the interests of our shareholders and to empower management through the development and implementation of a cohesive set of operating, investing and financing strategies.

OPERATING STRATEGIES

We seek to enhance our operating performance by distinguishing ourselves as the recognized leader in real estate investment management of premier commercial office assets.

Our operating strategies include:

- using our operating platform to provide superior asset management services to institutional partners in our joint venture office

assets;

- operating the Office Properties as long-term investments;
- providing exceptional customer service;
- increasing occupancies, rental rates and same-store net operating income while continuing to limit tenant concessions to market levels;
- capitalizing on economies of scale through dominant market position; and
- emphasizing brand recognition of our Class A Office Properties and luxury and destination fitness resorts and spas.

INVESTING STRATEGIES

We focus on investment opportunities primarily within the Office Segment in markets considered "demand-driven," or metropolitan areas expected to enjoy significant long-term employment and office demand growth. These investment opportunities are evaluated in light of our long-term investment strategy of investing in assets within markets with at least above national average economic expansion rates combined with significant office development supply constraints. We also focus on allocating capital in businesses which have experienced operators, particularly in premier residential development and resort real estate. Investment opportunities are expected to provide growth in earnings and cash flow after applying management skills, renovation and expansion capital and strategic vision.

Our investment strategies include:

- capitalizing on strategic acquisition opportunities, including acquisitions with joint venture capital resources, primarily within our investment segments;
- continually evaluating existing portfolio for potential joint-venture opportunities with institutional partners;
- continually reviewing opportunities to maximize returns on assets through strategic dispositions of assets based on current and prospective market valuations;

- allocating capital to residential development partners for opportunities that increase return on equity and add diversification to our portfolio;
- investing in real estate-related securities and mezzanine debt to maximize returns on excess capital; and
- evaluating future repurchases of our common shares, considering stock price, cost of capital, alternative investment options and growth implications.

FINANCING STRATEGIES

We employ a disciplined set of financing strategies to fund our operating and investing activities.

Our financing strategies include:

- funding operating expenses and capital expenditures, debt service payments and distributions to shareholders and unitholders primarily through our cash flow from operations as well as return of capital from the Residential Development Segment;

- taking advantage of market opportunities to refinance existing debt to reduce interest costs, maintaining a conservative debt maturity schedule and expanding our lending group;

- minimizing our exposure to market changes in interest rates through fixed rate debt and interest rate swaps to limit floating rate debt; and

- utilizing a combination of debt, equity, joint venture capital and strategic asset disposition alternatives to finance acquisition and development opportunities.

AVAILABLE INFORMATION

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

EMPLOYEES

As of March 2, 2005, we had approximately 747 employees. None of these employees are covered by collective bargaining agreements. We consider our employee relations to be good.

TAX STATUS

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

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

ENVIRONMENTAL MATTERS

We and our Properties are subject to a variety of federal, state and local

environmental, health and safety laws, including:

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

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

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

INDUSTRY SEGMENTS

OFFICE SEGMENT

OWNERSHIP STRUCTURE

As of December 31, 2004, we owned or had an interest in 78 Office Properties located in 29 metropolitan submarkets in eight states, with an aggregate of approximately 31.6 million net rentable square feet. As lessor, we have retained substantially all of the risks and benefits of ownership of the Office Properties and account for the leases of our 59 consolidated Office Properties as operating leases. Fifty-seven of the Office Properties are wholly-owned and twenty-one are owned through joint ventures, two of which are consolidated and nineteen of which are unconsolidated. Additionally, we provide management and leasing oversight services for all of our Office Properties.

RECENT DEVELOPMENTS

JOINT VENTURES

During the year ended December 31, 2004, we contributed Office Properties (Houston Center, Post Oak Central, The Crescent, Fountain Place and Trammell Crow Center) to limited partnerships in which we have a 23.85% interest. Subsequent to December 31, 2004, we contributed 1301 McKinney Street and an adjacent parking garage to a limited partnership in which we have a 23.85% interest.

PURCHASES

During the year ended December 31, 2004, we purchased the following office properties:

- Peakview Tower in Denver, Colorado;
- 1301 McKinney Street in Houston, Texas;
- One Live Oak in Atlanta, Georgia;
- The Alhambra in Miami, Florida;
- Dupont Centre in Irvine, California;
- Six Office Properties and seven retail parcels within Hughes Center in Las Vegas, Nevada.

Subsequent to December 31, 2004, we purchased the Exchange Building in Seattle, Washington.

SALES

During the year ended December 31, 2004, we sold the following office properties:

- 12404 Park Central in Dallas, Texas;
- 5050 Quorum in Dallas, Texas;
- Addison Tower in Dallas, Texas;
- Ptarmigan Place in Denver, Colorado;
- Liberty Plaza in Dallas, Texas;
- 1800 West Loop South in Houston, Texas.

Subsequent to December 31, 2004, we sold Albuquerque Plaza in Albuquerque, New Mexico.

MARKET INFORMATION

The Office Property portfolio reflects our research-driven strategy of investing in first-class assets within markets that have significant potential for long-term rental growth. Within our selected submarkets, we have focused on premier locations that management believes are able to attract and retain the

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

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

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PROJECTED POPULATION GROWTH AND EMPLOYMENT GROWTH FOR ALL COMPANY MARKETS

METROPOLITAN STATISTICAL AREA	POPULATION GROWTH 2005-2007	EMPLOYMENT GROWTH 2005-2007
Atlanta, GA	7.5	7.4
Austin, TX	9.1	9.8
Colorado Springs, CO	5.2	4.9
Dallas, TX	6.4	6.7
Denver, CO	4.1	5.1
Fort Worth, TX	6.5	6.6
Houston, TX	5.1	5.8
Las Vegas, NV	11.6	8.2
Miami, FL	3.0	4.5
Orange County, CA	4.1	6.0
Phoenix, AZ	7.9	8.6
San Diego, CA	5.6	6.5
Seattle, WA	4.3	7.8
United States	2.8	4.3

Source: Economy.com, Inc. Data represents total percentage change for years 2005, 2006 and 2007.

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

UNEMPLOYMENT RATES FOR COMPANY MARKETS

MARKET	AS OF DECEMBER 31, 2004	2003
United States	5.4%	6.0%
Texas	5.4	6.0
Dallas	5.5	6.1
Houston	5.5	6.1
Austin	4.0	4.8
Denver	5.1	6.0
Miami	5.4	6.2
Las Vegas	3.5	4.5

Source: U.S. Bureau of Labor Statistics and Texas Workforce Commission

The market performance of all of our office markets improved in 2004. Occupancy rose and economic net absorption (the measure of office demand) turned positive in almost all the markets. The statistics for the Houston market did not reflect improvement based on annual performance, but in the second half of 2004, Houston did experience positive net absorption and occupancy improvement. The Texas and Denver markets are still soft but have shown signs of recovery. The Miami market remains healthy, and the Las Vegas market is one of the best office markets in the country.

OFFICE MARKET ABSORPTION AND OCCUPANCY FOR COMPANY MARKETS(1)

	ECONOMIC NET ABSORPTION ALL CLASSES (IN SQUARE FEET)		ECONOMIC NET ABSORPTION CLASS A (IN SQUARE FEET)		ECONOMIC OCCUPANCY ALL CLASSES		ECONOMIC OC CLASS
MARKET	2004	2003	2004	2003	2004	2003	2004
Dallas	1,075,000	(4,161,000)	917,000	(830,000)	75.2%	74.7%	79.3%
Houston	75,000	(1,972,000)	(345,000)	(1,010,000)	82.8%	83.0%	84.2%
Austin	961,000	(1,532,000)	991,000	(363,000)	82.3%	80.4%	82.1%
Denver	13,000	(1,884,000)	493,000	(19,000)	81.7%	82.2%	82.3%
Miami	1,318,000	252,000	1,036,000	291,000	89.0%	87.1%	85.0%
Las Vegas	1,892,000	928,000	615,000	154,000	88.8%	87.4%	91.1%

Sources: CoStar Group (Dallas, Houston, Austin, Denver); Jones Lang LaSalle (Miami); Grubb & Ellis Las Vegas (Las Vegas).

(1) Economic net absorption and economic occupancy exclude sublet space.

One of the reasons for the improved occupancy in 2004 is that most markets have relatively low levels of construction activity. Therefore, all positive net absorption translates directly into higher occupancy rates. The only market that

has significant construction (relative to its size) is Las Vegas, and its occupancy levels demonstrate that this space, which is almost all Class B, is being readily absorbed.

OFFICE MARKET CONSTRUCTION ACTIVITY FOR COMPANY MARKETS

(in square feet)	OFFICE SPACE COMPLETIONS ALL CLASSES		OFFICE SPACE COMPLETIONS CLASS A		OFFICE SPACE UNDER CONSTRUCTION
MARKET	2004	2003	2004	2003	2004
Dallas	350,000	561,000	181,000	498,000	408,000
Houston	453,000	1,974,000	166,000	1,633,000	641,000
Austin	192,000	791,000	74,000	671,000	37,000
Denver	691,000	842,000	186,000	521,000	635,000
Miami	1,092,000	748,000	931,000	642,000	227,000
Las Vegas	1,296,000	1,018,000	210,000	139,000	1,488,000

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

COMPETITION

Our Office Properties, primarily Class A properties located within the southwest, individually compete against a wide range of property owners and developers, including property management companies and other REITs, that offer space in similar classes of office properties (specifically Class A and Class B properties). A number of these owners and developers may own more than one property. The number and type of competing properties in a particular market or submarket could have a material effect on our ability to lease space and maintain or increase occupancy or rents in our existing Office Properties. We believe, however, that the quality services and individualized attention that we offer our tenants, together with our active preventive maintenance program and superior building locations within markets, enhance our ability to attract and retain tenants for our Office Properties. In addition, as of December 31, 2004, on a weighted average basis, we owned approximately 14.7% of the Class A office space in the 29 submarkets in which we owned Class A office properties, and 23.1% of the Class B office space in the one submarket in which we owned Class B office properties. Management believes that ownership of a significant percentage of office space in a particular market reduces property operating expenses, enhances our ability to attract and retain tenants and potentially results in increases in our net income.

DIVERSIFIED TENANT BASE

Our top five tenants accounted for approximately 13% of our total Office Segment revenues as of December 31, 2004. The loss of one or more of our major tenants would have a temporary adverse effect on our financial condition and results of operations until we are able to re-lease the space previously leased to these tenants. Based on rental revenues from office leases in effect as of December 31, 2004, no single tenant accounted for more than 6% of our total Office Segment revenues for 2004.

RESORT/HOTEL SEGMENT

OWNERSHIP STRUCTURE

As of December 31, 2004, we owned or had an interest in eight Resort/Hotel Properties. We hold one of the Resort/Hotel Properties, the Fairmont Sonoma Mission Inn & Spa, through a joint venture arrangement, pursuant to which we own an 80.1% interest in the limited liability company that owns the property. The remaining Resort/Hotel Properties are wholly-owned.

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

RECENT DEVELOPMENTS

CANYON RANCH

On January 18, 2005, we formed two new entities, which we collectively refer to as Canyon Ranch, with the founders of Canyon Ranch. As a result, all Canyon Ranch assets are held 48% by us and 52% by its founders. The assets contributed or sold to Canyon Ranch by the equity owners comprise the following:

- Canyon Ranch Tucson and Canyon Ranch Lenox Destination Resorts;
- Canyon Ranch SpaClub at the Venetian Resort in Las Vegas;
- Canyon Ranch SpaClub on the Queen Mary 2 ocean liner;
- Canyon Ranch Living Community in Miami, Florida;
- Canyon Ranch SpaClub at the Gaylord Palms Resort in Kissimee, Florida;
- All Canyon Ranch trade names and trademarks;
- Resort management contracts.

As part of the transaction, Canyon Ranch completed a private placement of $110 million of Mandatorily Redeemable Convertible Preferred Membership units and completed a $95 million mortgage financing. As a result of these transactions, we received approximately $91.9 million which was used to pay down or defease debt related to our previous investment in the properties and to pay down our credit facility.

HYATT REGENCY HOTEL

On October 19, 2004, we completed the sale of the Hyatt Regency Hotel in Albuquerque, New Mexico.

MARKET INFORMATION

Lodging demand is highly dependent upon the global economy and volume of business travel as well as leisure travel. The hospitality market began to soften in early 2001 as the national economy went into recession. In 2001 and 2002, the industry experienced declines in occupancy, room rates, and revenue per available room (RevPAR is a combination of occupancy and room rates and is the chief measure of hotel market performance). Leisure travel recovered slightly in 2003, but business travel remained weak. As a result, market conditions were flat in 2003. In 2004, not only did leisure travel rise, but business travel increased for the first time since 2000. The result for the entire industry was a 2.2 percentage point increase in occupancy to 61.3%, a

4.0% increase in average daily room rates (ADR), and a 7.8% increase in RevPAR. In 2004, for the luxury section of the industry, the most comparable to our portfolio, hotel occupancy rose 3.4 percentage points to 68%, ADR increased 5.2%, and RevPAR increased 10.8%.

COMPETITION

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

RESIDENTIAL DEVELOPMENT SEGMENT

OWNERSHIP STRUCTURE

As of December 31, 2004, we owned common stock representing interests of 98% to 100% in four Residential Development Corporations, which in turn, through joint ventures or partnership arrangements, owned in whole or in part 23 Residential Development Properties. The Residential Development Corporations are responsible for the continued development and the day-to-day operations of the Residential Development Properties.

RECENT DEVELOPMENTS

On September 14, 2004, we completed the sale of Breckenridge Commercial Retail Center in Breckenridge, Colorado.

On October 21, 2004, we entered into a partnership agreement with affiliates of JPI Multi-Family Investments, L.P. to develop a multi-family luxury apartment project in Dedham, Massachusetts. We funded $13.3 million, or 100% of the equity, and received a limited partnership interest which earns a preferred return and a profit split above the preferred return hurdle.

COMPETITION AND MARKET INFORMATION

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

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

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

Residential development demand is highly dependent upon the national economy, mortgage interest rates and home sales. As the economy showed signs of improvement in 2004, we generally saw improved activity, absorption, and pricing in all regions of our residential investments.

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TEMPERATURE-CONTROLLED LOGISTICS SEGMENT

OWNERSHIP STRUCTURE

As of December 31, 2004, the Temperature-Controlled Logistics Segment consisted of our 31.7% interest in AmeriCold Realty Trust, or AmeriCold, a REIT. AmeriCold operates 103 facilities, of which 87 are wholly-owned, one is partially-owned and fifteen are managed for outside owners. The 88 owned facilities, which we refer to as the Temperature-Controlled Logistics Properties, have an aggregate of approximately 443.7 million cubic feet (17.6 million square feet) of warehouse space. AmeriCold also owns two quarries and the related land.

RECENT DEVELOPMENTS

On November 18, 2004, Vornado Crescent Portland Partnership, or VCPP, the partnership through which we owned our 40% interest in AmeriCold, sold a 20.7% interest in AmeriCold to The Yucaipa Companies for $145.0 million, resulting in a gain of approximately $12.3 million, net of transaction costs, to us. In addition, Yucaipa will assist in the management of AmeriCold and may earn a promote of up to 20% of the increase in value through December 31, 2007. The promote is payable out of the remaining outstanding common shares in AmeriCold, including the common shares held by us, and limited to 10% of these remaining common shares.

Immediately following this transaction, VCPP dissolved and, after the payment of all of its liabilities, distributed its remaining assets to its partners. The assets distributed to us consisted of common shares, representing an approximately 31.7% interest in AmeriCold, cash of approximately $34.3 million and a note receivable of approximately $8.0 million.

On November 4, 2004, AmeriCold purchased 100% of the ownership interests in its tenant, AmeriCold Logistics, for approximately $47.7 million. The purchase was funded by a contribution from AmeriCold's owner, VCPP, which funded its contribution through a loan from our partner, Vornado Realty, L.P. On November 4, 2004, AmeriCold also purchased 100% of the ownership interests in Vornado Crescent and KC Quarry, L.L.C., or VCQ, for approximately $24.9 million. AmeriCold used a cash contribution from its owner, of which our portion was approximately $9.9 million, to fund the purchase. As a result of our 56% ownership interest in VCQ, we received proceeds from the sale of VCQ of approximately $13.2 million.

On February 5, 2004, AmeriCold completed a $254.4 million mortgage financing with Morgan Stanley Mortgage Capital Inc., which resulted in a cash distribution to us of $90.0 million.

BUSINESS AND INDUSTRY INFORMATION

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

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

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

	PERCENTAGE OF 2004 REVENUE
H.J. Heinz Company	16.0%
ConAgra Foods, Inc.	11.3
Altria Group Inc. (Kraft Foods)	6.7
Sara Lee Corp.	5.0
Tyson Foods, Inc.	4.0
General Mills, Inc.	3.9
Schwan Corp.	3.4
McCain Foods, Inc.	3.2
Jack in the Box	1.6
J.R. Simplot Company	1.6
Other	43.3
TOTAL	100%

On November 18, 2004, Tony Schnug became Chief Executive Officer of AmeriCold. Mr. Schnug is a partner of The Yucaipa Companies and was responsible for conducting due diligence of potential acquisitions and oversees management of portfolio companies on strategy and operational issues. Previously, Mr. Schnug was an executive officer of Yucaipa portfolio companies including Fred

Meyer, Ralphs and Food 4 Less with responsibilities covering logistics, manufacturing and construction.

COMPETITION

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

ITEM 2. PROPERTIES

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

OFFICE PROPERTIES

As of December 31, 2004, we owned or had an interest in 78 Office Properties, located in 29 metropolitan submarkets in eight states, with an aggregate of approximately 31.6 million net rentable square feet. Our Office Properties are located primarily in the Dallas and Houston, Texas, metropolitan areas. As of December 31, 2004, our Office Properties in Dallas and Houston represented an aggregate of approximately 69% of our office portfolio based on total net rentable square feet (30% for Dallas and 39% for Houston).

OFFICE PROPERTY TABLE(1)

The following table shows, as of December 31, 2004, certain information about our Office Properties. In the table, "CBD" means central business district.

STATE, CITY, PROPERTY	NO. OF PROPERTIES	SUBMARKET	YEAR COMPLETED	NET RENTABLE AREA (SQ.FT.)	ECONO OCCUP PERCEN
TEXAS					
DALLAS					
Bank One Center	1	CBD	1987	1,530,957	79.
The Crescent	2	Uptown/Turtle Creek	1985	1,299,522	91.
Fountain Place	1	CBD	1986	1,200,266	94.
Trammell Crow Center	1	CBD	1984	1,128,331	93.
Stemmons Place	1	Stemmons Freeway	1983	634,381	82.
Spectrum Center	1	Quorum/Bent Tree	1983	598,250	73.
Waterside Commons	1	Las Colinas	1986	458,906	71.
125 E. John Carpenter Freeway	1	Las Colinas	1982	446,031	82.
The Aberdeen	1	Quorum/Bent Tree	1986	320,629	100.
MacArthur Center I & II	1	Las Colinas	1982/1986	298,161	89.
Stanford Corporate Centre	1	Quorum/Bent Tree	1985	274,684	95.
Palisades Central II	1	Richardson	1985	237,731	95.

3333 Lee Parkway	1	Uptown/Turtle Creek	1983	233,543	75.
The Addison	1	Quorum/Bent Tree	1981	215,016	98.
Palisades Central I	1	Richardson	1980	180,503	70.
Greenway II	1	Richardson	1985	154,329	100.
Greenway I & IA	2	Richardson	1983	146,704	49.
Subtotal/Weighted Average	19			9,357,944	86.
FORT WORTH					
Carter Burgess Plaza	1	CBD	1982	954,895	96.
HOUSTON					
Greenway Plaza	10	Greenway Plaza	1969-1982	4,348,052	88.
Houston Center	4	CBD	1974-1983	2,955,146	90.
Post Oak Central	3	West Loop/Galleria	1974-1981	1,279,759	92.
Five Houston Center	1	CBD	2002	580,875	94.
Five Post Oak Park	1	West Loop/Galleria	1986	567,396	85.
Four Westlake Park	1	Katy Freeway West	1992	561,065	99.
BriarLake Plaza	1	Westchase	2000	502,410	96.
Three Westlake Park	1	Katy Freeway West	1983	414,792	94.
Subtotal/Weighted Average	22			11,209,495	90.
AUSTIN					
816 Congress (4)	1	CBD	1984	433,024	73.
301 Congress Avenue	1	CBD	1986	418,338	73.
Bank One Tower	1	CBD	1974	389,503	95.
Austin Centre	1	CBD	1986	343,664	75.
The Avallon	3	Northwest	1993/1997	318,217	78.
Barton Oaks Plaza One	1	Southwest	1986	98,955	59.
Subtotal/Weighted Average	8			2,001,701	78.

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STATE, CITY, PROPERTY	NO. OF PROPERTIES	SUBMARKET	YEAR COMPLETED	NET RENTABLE AREA (SQ.FT.)	ECON OCCU PERCE
COLORADO					
DENVER					
Johns Manville Plaza	1	CBD	1978	675,400	93.
707 17th Street	1	CBD	1982	550,805	87.
Regency Plaza	1	Denver Technology Center	1985	309,862	82.
55 Madison	1	Cherry Creek	1982	137,176	86.
The Citadel	1	Cherry Creek	1987	130,652	95.
44 Cook	1	Cherry Creek	1984	124,174	90.
Subtotal/Weighted Average	6			1,928,069	89.

COLORADO SPRINGS					
Briargate Office and					
Research Center	1	Colorado Springs	1988	260,046	68.
FLORIDA					
MIAMI					
Miami Center	1	CBD	1983	782,211	93.
Datran Center	2	South Dade/Kendall	1986/1988	476,412	93.
The BAC - Colonnade					
Building	1	Coral Gables	1989	216,115	92.
The Alhambra	2	Coral Gables	1961/1987	317,566	86.
Subtotal/Weighted Average	6			1,792,304	92.
ARIZONA					
PHOENIX					
Two Renaissance Square	1	Downtown/CBD	1990	476,373	84.
CALIFORNIA					
SAN DIEGO					
Chancellor Park	1	University Town Centre	1988	195,733	82.
IRVINE					
Dupont Centre	1	John Wayne Airport	1986	250,782	89.
NEVADA					
LAS VEGAS					
Hughes Center (5)	8	Central East	1986 - 1999	1,110,890	97.
PORTFOLIO EXCLUDING					
PROPERTIES HELD FOR SALE AND					
PROPERTIES NOT STABILIZED	74			29,538,232	88.
PROPERTIES HELD FOR SALE					
NEW MEXICO					
ALBUQUERQUE					
Albuquerque Plaza (7)	1	CBD	1990	366,236	84.
PROPERTIES NOT STABILIZED					
TEXAS					
HOUSTON					
1301 McKinney St.(8)	1	CBD	1982	1,247,061	48.
COLORADO					
DENVER					
Peakview Tower (8)	1	Greenwood Village	2001	264,149	75.
GEORGIA					
ATLANTA					
One Live Oak (8)	1	Buckhead	1981	201,488	68.

TOTAL PORTFOLIO	78	31,617,166

(1) Office Property Table data is presented without adjustments to give effect to our actual ownership percentage in joint ventured properties.

(2) Calculated in accordance with GAAP based on base rent payable as of December 31, 2004, giving effect to free rent and scheduled rent increases and including adjustments for expenses payable by or reimbursable from customers.

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(3) Leases have been executed at certain Office Properties but had not commenced as of December 31, 2004. If such leases had commenced as of December 31, 2004, the percent leased for Office Properties excluding held for sale properties would have been 89.8%. Properties whose percent leased exceeds economic occupancy by 5 percentage points or more are as follows: Greenway I & IA - 58.4% and 816 Congress - 78.6%.

(4) 816 Congress was formerly known as Frost Bank Plaza.

(5) Hughes Center consists of seven wholly-owned office properties and one joint ventured office property in which we own a 67% general partner interest.

(6) The weighted average full-service cash rental rate per square foot calculated based on base rent payable for Office Properties excluding held for sale properties as of December 31, 2004, without giving effect to free rent and scheduled rent increases that are taken into consideration under GAAP but including adjustment for expenses paid by or reimbursed from customers, is $21.89.

(7) We completed the disposition of Albuquerque Plaza in February 2005.

(8) Property statistics exclude 1301 McKinney Street (acquired December 21, 2004), Peakview Tower (acquired December 29, 2004) and One Live Oak (acquired December 15, 2004). These office properties will be included in portfolio statistics once stabilized. Stabilization is deemed to occur upon the earlier of (a) achieving 90% occupancy or (b) one year following the acquisition date.

The following table shows, as of December 31, 2004, the principal businesses conducted by the tenants at our Office Properties, based on information supplied to us from the tenants. Based on rental revenues from office leases in effect as of December 31, 2004, no single tenant accounted for more than 6% of our total Office Segment revenues for 2004.

Industry Sector	Percent of Leased Sq. Ft.
Professional Services (1)	32%
Financial Services (2)	21
Energy(3)	19
Technology	5

Telecommunications	4
Manufacturing	3
Food Service	3
Government	3
Retail	2
Medical	2
Other (4)	6
TOTAL LEASED	100%

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(1) Includes legal, accounting, engineering, architectural and advertising services.

(2) Includes banking, title and insurance and investment services.

(3) Includes oil and gas and utility companies.

(4) Includes construction, real estate and other industries.

AGGREGATE LEASE EXPIRATIONS OF OFFICE PROPERTIES

The following tables show schedules of lease expirations for leases in place as of December 31, 2004, for our total Office Properties and for Dallas, Houston and Austin, Texas; Denver, Colorado; Miami, Florida and Las Vegas, Nevada, individually, for each of the 10 years beginning 2005.

TOTAL OFFICE PROPERTIES(1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)	SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS)	PERCENTAGE OF SQUARE FOOTAGE EXPIRING	ANNUAL FULL-SERVICE RENT UNDER EXPIRING LEASES (3)	PERCE OF AN FULL- RE EXPI
2005	4,018,746 (4)	(1,259,578)	2,759,168 (4)(5)	10.7%	$ 60,347,813	1
2006	2,539,559	(301,283)	2,238,276 (6)	8.7	55,145,138	
2007	2,739,463	76,435	2,815,898	10.9	63,713,617	1
2008	1,934,875	33,603	1,968,478	7.6	44,547,182	
2009	2,487,870	48,117	2,535,987	9.8	57,735,181	
2010	2,095,934	420,497	2,516,431	9.7	58,775,551	1
2011	1,438,847	14,789	1,453,636	5.6	34,718,839	
2012	1,165,786	66,788	1,232,574	4.8	30,668,203	
2013	1,446,151	93,344	1,539,495	6.0	33,852,852	
2014	2,858,279	137,013	2,995,292	11.6	60,795,889	1
2015 and thereafter	3,147,209	670,275	3,817,484	14.6	83,670,579	1
Total	25,872,719	-	25,872,719 (7)	100.0%	$ 583,970,844	10

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(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties. Excludes held for sale properties.

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

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

(4) As of December 31, 2004, leases totaling 1,497,682 square feet (including renewals of 1,259,578 square feet and new leases of 238,104 square feet) have been signed and will commence during 2005. These signed leases represent approximately 37% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 859,269 square feet Q2: 853,232 square feet Q3: 568,988 square feet Q4: 477,679 square feet.

(6) Expirations by quarter are as follows: Q1: 540,479 square feet Q2: 488,865 square feet Q3: 505,485 square feet Q4: 703,447 square feet.

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

	SQUARE FEET
Occupied Square Footage, per 10 Year Expiration Report:	25,872,719
Non-revenue Generating Space:	275,504
Total Occupied Office Square Footage:	26,148,223
Total Vacant Square Footage:	3,390,009
Total Office Net Rentable Area:	29,538,232

DALLAS OFFICE PROPERTIES(1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)		SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS)		PERCENTAGE OF SQUARE FOOTAGE EXPIRING	ANNUAL FULL-SERVICE RENT UNDER EXPIRING LEASES (3)	PERCE OF AN FULL- RE EXPI
2005	1,607,787	(4)	(736,163)	871,624	(4)(5)	10.9%	$ 18,509,275	1
2006	563,269		(8,963)	554,306	(6)	6.9	13,839,468	
2007	822,112		112,771	934,883		11.7	21,449,731	1
2008	493,335		16,140	509,475		6.4	11,448,312	
2009	432,917		3,797	436,714		5.5	11,485,245	
2010	716,402		231,985	948,387		11.9	23,360,283	1

2011	431,838	11,664	443,502	5.5	10,431,664	
2012	288,698	4,485	293,183	3.7	5,942,177	
2013	252,305	130,066	382,371	4.8	8,513,851	
2014	743,673	-	743,673	9.3	16,069,375	
2015 and thereafter	1,640,574	234,218	1,874,792	23.4	37,738,399	2
Total	7,992,910	-	7,992,910	100.0%	$178,787,780	10

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(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties.

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

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

(4) As of December 31, 2004, leases totaling 854,034 square feet (including renewals of 736,163 square feet and new leases of 117,871 square feet) have been signed and will commence during 2005. These signed leases represent approximately 53% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 242,092 square feet Q2: 185,443 square feet Q3: 287,116 square feet Q4: 156,973 square feet.

(6) Expirations by quarter are as follows: Q1: 178,876 square feet Q2: 169,727 square feet Q3: 165,230 square feet Q4: 40,473 square feet.

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HOUSTON OFFICE PROPERTIES (1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)	SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS)	PERCENTAGE OF SQUARE FOOTAGE EXPIRING	ANNUAL FULL-SERVICE RENT UNDER EXPIRING LEASES (3)	PERCE OF AN FULL- RE EXPI
2005	946,093 (4)	(273,066)	673,027 (4)(5)	6.7%	$ 12,499,178	
2006	1,069,805	(228,259)	841,546 (6)	8.4	18,095,454	
2007	1,167,054	(26,188)	1,140,866	11.3	23,637,226	1
2008	920,793	(10,177)	910,616	9.0	18,323,643	
2009	1,005,511	4,836	1,010,347	10.0	19,471,578	
2010	856,119	171,959	1,028,078	10.2	21,960,170	1
2011	692,079	300	692,379	6.9	15,242,281	
2012	546,773	43,898	590,671	5.9	15,079,960	
2013	477,800	(960)	476,840	4.7	11,640,875	
2014	1,317,353	51,264	1,368,617	13.6	26,724,035	1
2015 and thereafter	1,064,938	266,393	1,331,331	13.3	31,927,702	1

Total	10,064,318	-	10,064,318	100.0%	$ 214,602,102	10

(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties.

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

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

(4) As of December 31, 2004, leases totaling 313,700 square feet (including renewals of 273,066 square feet and new leases of 40,634 square feet) have been signed and will commence during 2005. These signed leases represent approximately 33% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 307,477 square feet Q2: 159,088 square feet Q3: 62,527 square feet Q4: 143,935 square feet.

(6) Expirations by quarter are as follows: Q1: 89,986 square feet Q2: 135,073 square feet Q3: 135,965 square feet Q4: 480,522 square feet.

AUSTIN OFFICE PROPERTIES (1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)	SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS)	PERCENTAGE OF SQUARE FOOTAGE EXPIRING	ANNUAL FULL-SERVICE RENT UNDER EXPIRING LEASES (3)	PERCE OF AN FULL- RE EXPI
2005	543,129(4)	(46,104)	497,025(4)(5)	32.9%	$ 11,074,450	33
2006	182,458	(20,004)	162,454(6)	10.7	4,567,801	14
2007	87,781	-	87,781	5.8	2,124,806	6
2008	66,785	21,627	88,412	5.8	1,880,276	5
2009	141,810	-	141,810	9.4	2,960,701	9
2010	133,011	3,820	136,831	9.0	2,306,692	7
2011	19,302	-	19,302	1.3	325,185	1
2012	7,278	-	7,278	0.5	123,055	0
2013	11,604	-	11,604	0.8	259,977	0
2014	241,570	-	241,570	16.0	4,753,138	14
2015 and thereafter	78,069	40,661	118,730	7.8	2,267,539	6
Total	1,512,797	-	1,512,797	100.0%	$ 32,643,620	100

(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties.

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

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

(4) As of December 31, 2004, leases totaling 68,541 square feet (including renewals of 46,104 square feet and new leases of 22,437 square feet) have been signed and will commence during 2005. These signed leases represent approximately 13% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 89,222 square feet Q2: 358,196 square feet Q3: 17,033 square feet Q4: 32,574 square feet.

(6) Expirations by quarter are as follows: Q1: 92,831 square feet Q2: 36,126 square feet Q3: 14,368 square feet Q4: 19,129 square feet.

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DENVER OFFICE PROPERTIES (1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)	SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS)	PERCENTAGE OF SQUARE FOOTAGE EXPIRING	ANNUA SERVI UNDER LEA
2005	111,378 (4)	(3,147)	108,231 (4) (5)	6.3%	$ 2,
2006	101,052	(2,036)	99,016 (6)	5.8	2,
2007	137,380	-	137,380	8.0	2,
2008	101,899	(495)	101,404	5.9	2,
2009	314,655	(12,208)	302,447	17.6	6,
2010	129,283	-	129,283	7.5	2,
2011	48,310	-	48,310	2.8	
2012	89,005	17,886	106,891	6.2	2,
2013	160,009	(86,709)	73,300	4.3	1,
2014	344,885	86,709	431,594	25.2	8,
2015 and thereafter	176,578	-	176,578	10.4	3,
Total	1,714,434	-	1,714,434	100.0%	$ 35,

YEAR OF LEASE EXPIRATION	ANNUAL EXPIRING PER SQUARE FOOTAGE FULL-SERVICE RENT(3)	NUMBER OF CUSTOMERS WITH EXPIRING LEASES
2005	$ 22.45	22
2006	25.16	19
2007	21.58	24
2008	20.30	15
2009	21.27	23

2010	22.29	7
2011	18.85	5
2012	22.75	3
2013	19.47	5
2014	19.12	4
2015 and thereafter	17.13	6
Total	$ 20.59	133

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(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties.

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

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

(4) As of December 31, 2004, leases totaling 29,051 square feet (including renewals of 3,147 square feet and new leases of 25,904 square feet) have been signed and will commence during 2005. These signed leases represent approximately 26% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 84,072 square feet Q2: 5,911 square feet Q3: 13,956 square feet Q4: 4,292 square feet.

(6) Expirations by quarter are as follows: Q1: 30,371 square feet Q2: 22,869 square feet Q3: 45,776 square feet Q4: None.

MIAMI OFFICE PROPERTIES (1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)	SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS)	PERCENTAGE OF SQUARE FOOTAGE EXPIRING	AN SER UND L
2005	298,831 (4)	(87,397)	211,434 (4)(5)	12.8%	$
2006	173,875	10,037	183,912 (6)	11.1	
2007	185,374	(20,079)	165,295	10.0	
2008	122,471	13,659	136,130	8.3	
2009	309,264	12,391	321,655	19.5	
2010	197,177	11,433	208,610	12.6	
2011	82,608	-	82,608	5.0	
2012	142,887	-	142,887	8.7	
2013	47,684	-	47,684	2.9	
2014	36,952	-	36,952	2.2	
2015 and thereafter	52,402	59,956	112,358	6.9	
Total	1,649,525	-	1,649,525	100.0%	$

YEAR OF LEASE EXPIRATION	ANNUAL EXPIRING PER SQUARE FOOTAGE FULL-SERVICE RENT(3)	NUMBER OF CUSTOMERS WITH EXPIRING LEASES
2005	$ 28.37	56
2006	29.18	41
2007	27.53	38
2008	30.77	27
2009	28.21	37
2010	30.23	14
2011	35.12	4
2012	33.75	5
2013	31.46	4
2014	28.14	2
2015 and thereafter	30.44	6
Total	$ 29.81	234

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(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties.

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

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

(4) As of December 31, 2004, leases totaling 106,560 square feet (including renewals of 87,397 square feet and new leases of 19,163 square feet) have been signed and will commence during 2005. These signed leases represent approximately 36% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 56,415 square feet Q2: 44,147 square feet Q3: 70,616 square feet Q4: 40,256 square feet.

(6) Expirations by quarter are as follows: Q1: 35,503 square feet Q2: 25,099 square feet Q3: 28,701 square feet Q4: 94,609 square feet.

LAS VEGAS OFFICE PROPERTIES (1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)	SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS	PERCENTAGE OF SQUARE FOOTAGE EXPIRING	A FULL RE E LE

2005	263,527 (4)	(61,460)	202,067 (4)(5)	18.7%	$
2006	203,609	-	203,609 (6)	18.8	
2007	110,598	9,931	120,529	11.2	
2008	160,703	8,473	169,176	15.7	
2009	127,085	-	127,085	11.8	
2010	52,101	-	52,101	4.8	
2011	98,108	2,825	100,933	9.3	
2012	26,134	-	26,134	2.4	
2013	19,580	-	19,580	1.8	
2014	19,295	-	19,295	1.8	
2015 and thereafter	-	40,231	40,231	3.7	
Total	1,080,740	-	1,080,740	100.0%	$ 3

YEAR OF LEASE EXPIRATION	ANNUAL EXPIRING PER SQUARE FOOTAGE FULL-SERVICE RENT(3)	NUMBER OF CUSTOMERS WITH EXPIRING LEASES
2005	$ 29.51	25
2006	30.13	35
2007	29.59	25
2008	31.06	20
2009	32.02	16
2010	31.84	5
2011	35.08	4
2012	32.47	2
2013	33.17	2
2014	30.71	2
2015 and thereafter	31.58	1
Total	$ 31.04	137

(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties.

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

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

(4) As of December 31, 2004, leases totaling 64,389 square feet (including renewals of 61,460 feet and new leases of 2,929 square feet) have been signed and will commence during 2005. These signed leases represent approximately 24% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 22,478 square feet Q2: 12,948 square feet Q3: 103,265 square feet Q4: 63,376 square feet.

(6) Expirations by quarter are as follows: Q1: 40,699 square feet Q2: 47,134 square feet Q3: 47,062 square feet Q4: 68,714 square feet.

OTHER OFFICE PROPERTIES (1)

YEAR OF LEASE EXPIRATION	SQUARE FOOTAGE OF EXPIRING LEASES (BEFORE RENEWALS)	SIGNED RENEWALS OF EXPIRING LEASES (2)	SQUARE FOOTAGE OF EXPIRING LEASES (AFTER RENEWALS	PERCENTAGE OF SQUARE FOOTAGE EXPIRING	FUL RE E LE
2005	248,001 (4)	(52,241)	195,760 (4)(5)	10.5%	$
2006	245,491	(52,058)	193,433 (6)	10.4	
2007	229,164	-	229,164	12.3	
2008	68,889	(15,624)	53,265	2.9	
2009	156,628	39,301	195,929	10.6	
2010	11,841	1,300	13,141	0.7	
2011	66,602	-	66,602	3.6	
2012	65,011	519	65,530	3.5	
2013	477,169	50,947	528,116	28.4	
2014	154,551	(960)	153,591	8.3	
2015 and thereafter	134,648	28,816	163,464	8.8	
Total	1,857,995	-	1,857,995	100.0%	$ 3

YEAR OF LEASE EXPIRATION	ANNUAL EXPIRING PER SQUARE FOOTAGE FULL-SERVICE RENT(3)	NUMBER OF CUSTOMERS WITH EXPIRING LEASES
2005	$ 19.79	37
2006	24.04	30
2007	23.65	31
2008	26.16	11
2009	21.66	22
2010	23.05	4
2011	20.53	6
2012	21.67	2
2013	18.67	7
2014	21.90	7
2015 and thereafter	24.60	4
Total	$ 21.48	161

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(1) Lease expiration data is presented without giving effect to our actual ownership percentage in joint ventured properties. Includes Ft. Worth, Colorado Springs, Phoenix, San Diego and Irvine. Excludes held for sale properties.

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

of the renewed term.

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

(4) As of December 31, 2004, leases totaling 61,407 square feet (including renewals of 52,241 feet and new leases of 9,166 square feet) have been signed and will commence during 2005. These signed leases represent approximately 24% of gross square footage expiring during 2005.

(5) Expirations by quarter are as follows: Q1: 57,513 square feet Q2: 87,499 square feet Q3: 14,475 square feet Q4: 36,273 square feet.

(6) Expirations by quarter are as follows: Q1: 72,213 square feet Q2: 52,837 square feet Q3: 68,383 square feet Q4: None.

RESORT/HOTEL PROPERTIES(1)

The following table shows certain information for the years ended December 31, 2004 and 2003, with respect to our Resort/Hotel Properties. The information for the Resort/Hotel Properties is based on available rooms, except for Canyon Ranch-Tucson and Canyon Ranch-Lenox, which measure their performance based on available guest nights.

RESORT/HOTEL PROPERTY (2)	LOCATION	YEAR COMPLETED/ RENOVATED
OPERATING PROPERTIES		
UPSCALE BUSINESS CLASS HOTELS:		
Omni Austin Hotel(3)	Austin, TX	1986
Renaissance Houston Hotel	Houston, TX	1975/2000
TOTAL/WEIGHTED AVERAGE		
LUXURY RESORTS AND SPAS:		
Park Hyatt Beaver Creek Resort and Spa	Avon, CO	1989/2001
Fairmont Sonoma Mission Inn & Spa(4)	Sonoma, CA	1927/1987/1997/2004
Ventana Inn & Spa	Big Sur, CA	1975/1982/1988
TOTAL/WEIGHTED AVERAGE		
DESTINATION FITNESS RESORTS AND SPAS: (5)		
Canyon Ranch-Tucson	Tucson, AZ	1980
Canyon Ranch-Lenox	Lenox, MA	1989

TOTAL/WEIGHTED AVERAGE			-
			=
LUXURY AND DESTINATION FITNESS RESORTS COMBINED			
TOTAL/WEIGHTED AVERAGE FOR RESORT/HOTEL PROPERTIES EXCLUDING HELD FOR SALE PROPERTIES			1
			=
HELD FOR SALE PROPERTIES			
UPSCALE BUSINESS CLASS HOTELS:			
Denver Marriott City Center	Denver, CO	1982/1994	
			-
TOTAL/WEIGHTED AVERAGE FOR HELD FOR SALE RESORT/HOTEL PROPERTIES			
			=
GRAND TOTAL/WEIGHTED AVERAGE FOR RESORT/HOTEL PROPERTIES			2
			=

	FOR THE YEARS ENDED DECEMBER 31				
	AVERAGE OCCUPANCY RATE		AVERAGE DAILY RATE		REVE PE AVAIL ROOM/GUE
RESORT/HOTEL PROPERTY (2)	2004	2003	2004	2003	2004
OPERATING PROPERTIES					
UPSCALE BUSINESS CLASS HOTELS:					
Omni Austin Hotel(3)	73%	75%	$ 114	$ 113	$ 83
Renaissance Houston Hotel	61	62	103	108	63
TOTAL/WEIGHTED AVERAGE	67%	68%	$ 109	$ 111	$ 73
LUXURY RESORTS AND SPAS:					
Park Hyatt Beaver Creek Resort and Spa	60%	60%	$ 277	$ 278	$ 167
Fairmont Sonoma Mission Inn & Spa(4)	59	61	253	245	149
Ventana Inn & Spa	64	75	430	412	274
TOTAL/WEIGHTED AVERAGE	60%	62%	$ 285	$ 282	$ 171
DESTINATION FITNESS RESORTS AND SPAS: (5)					
Canyon Ranch-Tucson					
Canyon Ranch-Lenox					

TOTAL/WEIGHTED AVERAGE	79%	76%	$ 713	$ 661	$ 521
LUXURY AND DESTINATION FITNESS RESORTS COMBINED	69%	68%	$ 501	$ 469	$ 331
TOTAL/WEIGHTED AVERAGE FOR RESORT/HOTEL PROPERTIES EXCLUDING HELD FOR SALE PROPERTIES	68%	68%	$ 333	$ 314	$ 221
HELD FOR SALE PROPERTIES					
UPSCALE BUSINESS CLASS HOTELS:					
Denver Marriott City Center	72%	73%	$ 124	$ 128	$ 90
TOTAL/WEIGHTED AVERAGE FOR HELD FOR SALE RESORT/HOTEL PROPERTIES	72%	73%	$ 124	$ 128	$ 90
GRAND TOTAL/WEIGHTED AVERAGE FOR RESORT/HOTEL PROPERTIES	69%	70%	$ 277	$ 264	$ 188

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

(2) We have entered into agreements with Ritz-Carlton Hotel Company, L.L.C to develop the Ritz-Carlton hotel and residence project in Dallas, Texas upon reaching a specified level of pre-sales for the residences. The development plans include a Ritz-Carlton with approximately 216 hotel rooms and 70 residences. Construction on the development is anticipated to begin in the second quarter of 2005.

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

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

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

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

RESIDENTIAL DEVELOPMENT PROPERTIES

The following table shows certain information as of December 31, 2004, relating to the Residential Development Properties.

CORPORATION / PROJECT	LOCATION	OUR PREFERRED RETURN / OWNERSHIP(1)	PRODUCT TYPE (2)	PLANNED SALES LOTS/ UNITS/ ACRES	CLOSE LOTS/ UNITS ACRES
DESERT MOUNTAIN DEVELOPMENT CORP.					
Desert Mountain (4)	Scottsdale, AZ	93%	SF, TH(B)	2,483	2,360
CRESCENT RESORT DEVELOPMENT INC.					
TAHOE MOUNTAIN RESORTS					
Northstar - Iron Horse and Great Bear	Lake Tahoe, CA	13% / 57%(5)	CO(S)	100	0
Northstar - Remaining Phases	Lake Tahoe, CA	13% / 57%(5)	CO, TH, TS(S)	1,700	0
Old Greenwood-Lots	Lake Tahoe, CA	13% / 71%	SF(B)	100	96
Old Greenwood-Units	Lake Tahoe, CA	13% / 71%	TH, TS(S)	165	12.9
Gray's Crossing	Lake Tahoe, CA	13% / 71%	SF(B)	445	101
DENVER DEVELOPMENT					
Creekside I at Riverfront Park	Denver, CO	12% / 64%	CO(P)	40	39
Creekside II at Riverfront Park	Denver, CO	12% / 64%	CO(P)	40	0
Creekside Townhomes at Riverfront Park	Denver, CO	12% / 64%	TH(P)	23	0
Brownstones (Phase I)	Denver, CO	12% / 64%	TH(P)	16	0
Delgany	Denver, CO	12% / 64%	CO(P)	44	0
Riverfront Park	Denver, CO	12% / 64%	CO, TH(P)	215	0
Downtown Acreage	Denver, CO	12% / 64%	ACR	22.5	10.8
MOUNTAIN AND OTHER DEVELOPMENT					
Horizon Pass Lodge	Bachelor Gulch, CO	12% / 64%	CO(S)	30	25
Hummingbird	Bachelor Gulch, CO	12% / 64%	CO(S)	40	0
Eagle Ranch	Eagle, CO	12% / 60%	SF(P)	1,438	791
Main Street Station Vacation Club	Breckenridge, CO	12% / 30%(5)	TS(P)	42	28.3
Riverbend	Charlotte, NC	12% / 60%	SF(P)	650	393
Three Peaks	Sliverthorne, CO	12% / 30%(5)	SF(S)	292	217
Identified Future Projects	Colorado	12% / 64%	CO, TH(S)	173	0
HOUSTON AREA DEVELOPMENT CORP.					
Falcon Point	Houston, TX	98%	SF(P)	527	509
Spring Lakes	Houston, TX	98%	SF(P)	508	423
CRESCENT PLAZA RESIDENTIAL					
The Residences at the Ritz-Carlton	Dallas, TX	100%	CO(P)	70	0

CORPORATION / PROJECT	REMAINING LOTS/UNITS/ ACRES	PHYSICAL INVENTORY LOTS/UNITS/ ACRES	AVERAGE SALES CRPRICE ON CLOSED LOTS/UNITS/ ACRES(3)	PROPOSED AVERAGE SALES PRICE ON REMAINING LOTS/UNITS/ ACRES
DESERT MOUNTAIN DEVELOPMENT CORP.				
Desert Mountain (4)	123	36	$ 551	$ 1,150
CRESCENT RESORT DEVELOPMENT INC.				

TAHOE MOUNTAIN RESORTS				
Northstar - Iron Horse and Great Bear	100	0	N/A	1,410
Northstar - Remaining Phases	1,700	0	N/A	1,730
Old Greenwood-Lots	4	4	330	795
Old Greenwood-Units	152.1	4.3	1,870	1,884
Gray's Crossing	344	0	270	420
DENVER DEVELOPMENT				
Creekside I at Riverfront Park	1	1	330	390
Creekside II at Riverfront Park	40	0	N/A	370
Creekside Townhomes at Riverfront Park	23	0	N/A	750
Brownstones (Phase I)	16	0	N/A	1,740
Delgany	44	0	N/A	640
Riverfront Park	215	0	N/A	560
Downtown Acreage	11.7	11.7	1,980	3,660
MOUNTAIN AND OTHER DEVELOPMENT				
Horizon Pass Lodge	5	5	2,200	2,970
Hummingbird	40	0	N/A	2,380
Eagle Ranch	647	115	80	110
Main Street Station Vacation Club	13.7	13.7	1,200	1,070
Riverbend	257	63	30	40
Three Peaks	75	75	240	270
Identified Future Projects	173	0	N/A	1,790
HOUSTON AREA DEVELOPMENT CORP.				
Falcon Point	18	18	39	39
Spring Lakes	85	50	34	42
CRESCENT PLAZA RESIDENTIAL				
The Residences at the Ritz-Carlton	70	0	N/A	1,778

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

(2) SF (Single-Family Lots); CO (Condominium); TH (Townhome); TS (Timeshare Equivalent Units): and ACR (Acreage). Superscript items represent P (Primary residence); S (Secondary residence); and B (Both Primary and Secondary residence).

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

(4) Average Sales Price includes golf membership, which as of December 31, 2004 is $0.3 million.

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

TEMPERATURE-CONTROLLED LOGISTICS PROPERTIES

The following table shows the number and aggregate size of Temperature-Controlled Logistics Properties by state as of December 31, 2004:

STATE	NUMBER OF PROPERTIES(1)	TOTAL CUBIC FOOTAGE (IN MILLIONS)	TOTAL SQUARE FEET (IN MILLIONS)	STATE	NUMBER OF PROPERTIES(1)	TOTA FO (IN M
Alabama	4	10.7	0.4	Mississippi	1	
Arizona	1	2.9	0.1	Missouri	2	
Arkansas	6	33.1	1.0	Nebraska	2	
California	7	25.1	0.9	New York	1	
Colorado	1	2.8	0.1	North Carolina	3	
Florida	5	6.5	0.3	Ohio	1	
Georgia	8	49.5	1.7	Oklahoma	2	
Idaho	2	18.7	0.8	Oregon	6	
Illinois	2	11.6	0.4	Pennsylvania	2	
Indiana	1	9.1	0.3	South Carolina	1	
Iowa	2	12.5	0.5	South Dakota	1	
Kansas	2	5.0	0.2	Tennessee	3	
Kentucky	1	2.7	0.1	Texas	2	
Maine	1	1.8	0.2	Utah	1	
Massachusetts	5	10.5	0.5	Virginia	2	
Minnesota	1	3.0	0.1	Washington	6	
				Wisconsin	3	
				TOTAL	88	4

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(1) As of December 31, 2004, AmeriCold Realty Trust operated 103 facilities, of which 87 were wholly-owned facilities, one was partially-owned and fifteen were managed for outside owners.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of our fiscal year ended December 31, 2004.

PART II

ITEM 5.MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

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

PRICE		
HIGH	LOW	DISTRIBUTIONS

2003			
First Quarter	$ 17.00	$ 13.60	$ 0.375
Second Quarter	17.42	14.18	0.375
Third Quarter	17.30	14.22	0.375
Fourth Quarter	17.51	14.82	0.375
2004			
First Quarter	$ 18.75	$ 17.31	$ 0.375
Second Quarter	17.90	15.05	0.375
Third Quarter	16.58	15.37	0.375
Fourth Quarter	19.09	15.47	0.375

As of March 2, 2005, there were approximately 864 holders of record of our common shares.

DISTRIBUTION POLICY

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

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

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

Under the Code, REITs are subject to numerous organizational and operational requirements, including the requirement to distribute at least 90% of REIT taxable income each year.Pursuant to this requirement, we were required to distribute $88.0 million and $48.0 million for 2004 and 2003, respectively.Our actual distributions to common and preferred shareholders were $180.6 million and $174.6 million for 2004 and 2003, respectively.

Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a shareholder as ordinary dividend income.For tax years beginning after December 31, 2002, qualified dividends paid to shareholders are taxed at capital gains rates, as added by the Jobs and Growth Tax Relief Reconciliation Act of 2003.Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the shareholder's basis in such shareholder's shares, to the extent thereof, and thereafter as taxable

gain.Distributions that are treated as a reduction of the shareholder's basis in its shares will have the effect of deferring taxation until the sale of the shareholder's shares.No assurances can be given regarding what portion, if any, of distributions in 2005 or subsequent years will constitute a return of capital for federal income tax purposes.

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Following is the income tax status of distributions paid during the years ended December 31, 2004 and 2003 to common shareholders:

	2004	2003
Ordinary dividend	-%	2.0%
Qualified dividend eligible for 15% tax rate	-	7.1
Capital gain	23.2	1.2
Return of capital	57.4	88.7
Unrecaptured Section 1250 gain	19.4	1.0
	100.0%	100.0%

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

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

Following is the income tax status of distributions paid during the years ended December 31, 2004 and 2003 to preferred shareholders:

	CLASS A PREFERRED		CLASS B PREFERRED	
	2004	2003	2004	2003
Ordinary dividend	-%	17.9%	-%	17.9%
Qualified dividend eligible for 15% tax rate	-	62.4	-	62.4
Capital gain	54.4	10.9	54.4	10.9
Unrecaptured Section 1250 Gain	45.6	8.8	45.6	8.8
	100.0%	100.0%	100.0%	100.0%

UNREGISTERED SALES OF EQUITY SECURITIES

During the three months ended December 31, 2004, we issued an aggregate of 65,000 common shares to holders of Operating Partnership units in exchange for 32,500 units. Of the 65,000 shares, 15,000 were issued on October 20, 2004, 20,000 were issued on December 2, 2004 and 30,000 were issued on December 3,

2004. The issuances of common shares were exempt from registration as private placements under Section 4(2) of the Securities Act of 1933, as amended, or the Securities Act. We registered the resale of such common shares under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

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

CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED HISTORICAL FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	FOR YEARS ENDED DECEM	
	2004(1)	2003(1)
OPERATING DATA:		
Total Property revenue	$ 978,761	$ 871,716
Income from Property Operations	$ 316,771	$ 303,940
Income (loss) from continuing operations before minority interests and income taxes	$ 189,278	$ 61,942
Basic earnings (loss) per common share:		
Income (loss) available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ 1.35	$ 0.03
Net income (loss) available to common shareholders-basic	$ 1.43	$ -
Diluted earnings (loss) per common share:		
Income (loss) available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ 1.34	$ 0.03
Net income (loss) available to common shareholders - diluted	$ 1.42	$ -
BALANCE SHEET DATA (AT PERIOD END):		
Total assets	$ 4,037,764	$ 4,314,463
Total debt	$ 2,152,255	$ 2,558,699
Total shareholders' equity	$ 1,300,250	$ 1,221,804
OTHER DATA:		
Cash distribution declared per common share	$ 1.50	$ 1.50
Weighted average Common shares and units outstanding - basic	116,747,408	116,634,546
Weighted average Common shares and units outstanding - diluted	116,965,897	116,676,242
Cash flow provided by (used in):		
Operating activities	$ 95,684	$ 127,951
Investing activities	629,253	(36,484)
Financing activities	(710,698)	(91,859)
Adjusted funds from operations available to common shareholders - diluted (2)	$ 143,176	$ 212,556

Impairment charges related to real estate assets	(8,332)	(37,794)
Extinguishment of debt expense related to real estate asset sales	(39,121)	-
Funds from operations available to common shareholders - diluted - NAREIT definition	$ 95,723	$ 174,762

	FOR YEARS ENDED DECEMBER 31,	
	2001	2000
OPERATING DATA:		
Total Property revenue	$ 590,264	$ 662,863
Income from Property Operations	$ 348,884	$ 419,441
Income (loss) from continuing operations before minority interests and income taxes	$ (10,605)	$ 294,584
Basic earnings (loss) per common share:		
Income (loss) available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ (0.39)	$ 1.99
Net income (loss) available to common shareholders-basic	$ (0.17)	$ 2.05
Diluted earnings (loss) per common share:		
Income (loss) available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ (0.38)	$ 1.96
Net income (loss) available to common shareholders - diluted	$ (0.17)	$ 2.02
BALANCE SHEET DATA (AT PERIOD END):		
Total assets	$ 4,142,149	$ 4,543,318
Total debt	$ 2,214,094	$ 2,271,895
Total shareholders' equity	$ 1,405,940	$ 1,731,327
OTHER DATA:		
Cash distribution declared per common share	$ 1.85	$ 2.20
Weighted average Common shares and units outstanding - basic	121,017,605	127,535,069
Weighted average Common shares and units outstanding - diluted	122,544,421	128,731,883
Cash flow provided by (used in):		
Operating activities	$ 210,055	$ 273,735
Investing activities	212,752	430,286
Financing activities	(425,488)	(737,981)
Adjusted funds from operations available to common shareholders - diluted (2)	$ 177,117	$ 326,897
Impairment charges related to real estate assets	(21,705)	(9,349)
Extinguishment of debt expense related to real estate asset sales	-	-
Funds from operations available to common shareholders - diluted - NAREIT definition	$ 155,412	$ 317,548

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(1) For the years ended December 31, 2004, 2003 and 2002, in accordance with SFAS No. 144, the results of operations of assets sold or held for sale have been reclassified to discontinued operations.

(2) Funds from operations, or FFO, is a supplemental non-GAAP financial measurement used in the real estate industry to measure and compare the operating performance of real estate companies, although those companies may calculate funds from operations in different ways. The National

Association of Real Estate Investment Trusts (NAREIT) defines funds from operations as Net Income (Loss) determined in accordance with generally accepted accounting principles (GAAP), excluding gains (or losses) from sales of depreciable operating property, excluding extraordinary items (determined by GAAP), plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. We calculate FFO available to common shareholders - diluted - NAREIT definition in the same manner, except the Net Income (Loss) is replaced by Net Income (Loss) Available to Common Shareholders and we include the effect of Operating Partnership unitholder minority interests. We calculate Adjusted Funds From Operations Available to Common Shareholders - diluted (FFO) by excluding the effect of impairment charges related to real estate assets and by excluding the effect of extinguishment of debt related to real estate asset sales. For a more detailed definition and description of FFO and a reconciliation to net income determined in accordance with GAAP, see "Funds from Operations" included in Item 7, "Management's Discussion and Analysis of Financial Condition ad Results of Operations."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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FORWARD-LOOKING STATEMENTS

You should read this section in conjunction with the selected

financial data and the consolidated financial statements and the accompanying notes in Item 6, "Selected Financial Data," and Item 8,"Financial Statements and Supplemental Data," of this report.Capitalized terms used but not otherwise defined in this section have the meanings given to them in Items 1-6 of this report.

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.These statements are generally characterized by terms such as "believe," "expect," "anticipate" and "may."

Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, our actual results could differ materially from those described in the forward-looking statements.

The following factors might cause such a difference:

- Our ability, at our office properties, to timely lease unoccupied square footage and timely re-lease occupied square footage upon expiration on favorable terms, which continue to be adversely affected by existing real estate conditions (including decreased rental rates and the vacancy levels in particular markets, decreased rental rates and competition from other properties) and may also be adversely affected by general economic downturns;

- The continuation of relatively high vacancy rates and reduced rental rates in our office portfolio as a result of conditions within our principal markets;

- Our ability to reinvest available funds at anticipated returns and consummate anticipated office acquisitions on favorable terms and within anticipated time frames;

- Adverse changes in the financial condition of existing tenants, in particular El Paso Energy and its affiliates which provide 5.8% of our annualized office revenues;

- Further deterioration in our resort/business-class hotel markets or in the economy generally;

- Further deterioration in the market or in the economy generally and increases in construction cost associated with development of residential land or luxury residences, including single-family homes, townhomes and condominiums;

- Financing risks, such as our ability to generate revenue sufficient to service and repay existing or additional debt, increases in debt service associated with increased debt and with variable-rate debt, our ability to meet financial and other covenants and our ability to consummate financings and refinancings on favorable terms and within any applicable time frames;

- Our ability to dispose of investment land, and other non-core assets, on favorable terms and within anticipated time frames;

- The concentration of a significant percentage of our assets in Texas;

- The existence of complex regulations relating to our status as a REIT, the effect of future changes in REIT requirements as a result

of new legislation and the adverse consequences of the failure to qualify as a REIT; and

- Other risks detailed from time to time in our filings with the SEC.

Given these uncertainties, readers are cautioned not to place undue reliance on such statements.We are not obligated to update these forward-looking statements to reflect any future events or circumstances.

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OVERVIEW

We are a REIT with assets and operations divided into four investment segments: Office, Resort/Hotel, Residential Development and Temperature-Controlled Logistics.Our primary business is our Office Segment, which consisted of 78 Office Properties and represented 60% of total assets as of December 31, 2004.

Capital flows in the real estate industry have changed significantly over the last few years.Institutions as well as other investors, principally U.S. pension funds, have increased their allocation to real estate and it appears that this will continue for the foreseeable future.This inflow of capital has created a uniquely attractive environment for the sale of assets as well as joint ventures.Likewise, the acquisition environment is highly competitive, making it more difficult to provide attractive returns on equity that are comparable to those achieved in acquisitions made during the 1990's.

We have adapted our strategy to align ourselves with institutional partners, with the goal of transitioning towards being a real estate investment management company.Rather than competing with the substantial inflow of capital into the acquisition market, we are focusing on acquiring assets jointly with these institutional investors, moving existing assets into joint-venture arrangements with these investors, and capitalizing on our award-winning platform in office management and our leasing expertise to continue to provide these services, for a fee, for the properties in the ventures.Where possible, we will strive to negotiate performance based incentives that allow for additional equity to be earned if return targets are exceeded.

Consistent with this strategy, we continually evaluate our existing portfolio for potential joint venture opportunities.Recently, we completed significant joint venture transactions involving five of our landmark Properties valued at approximately $1.2 billion.As with previous ventures, we are now a minority partner but continue to provide leasing and management services to the ventures. In addition, in January 2005, we completed the recapitalization of our Canyon Ranch Resort/Hotel Properties.

Further, we sold $171.5 million of non-core assets in 2004 and expect to sell an additional $120.0 million in the near term, including land holdings that are currently not contributing to our earnings.Included in these sales are two business class hotels, one of which was sold in October 2004 at a gain and the remaining hotel, which we believe we can sell at an attractive gain, and at the same time further simplify our business model.As the expected sales are completed, we will redeploy proceeds to acquire real estate assets and pay down certain consolidated debt and other obligations.

OFFICE SEGMENT

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

	2004	2003
Economic Occupancy (1)	88.5% (3)	86.0% (3)
Leased Occupancy (2)	89.8% (3)	88.5% (3)
In-Place Weighted Average Full-Service Rental Rate	$ 22.63 (3)	$ 22.63
Tenant Improvement and Leasing Costs per Sq. Ft. per year	$ 3.13	$ 3.14
Average Lease Term	7.4 years	7.8 years
Same-Store NOI(4)(Decline)	(5.3)%(3)	(11.5)%
Same-Store Average Occupancy	86.0% (3)	84.3%

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

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

(3) Excludes held for sale properties.

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

2004 was a year of occupancy stabilization in our markets.In 2005, we expect continued improvement in the economy.This allows us to remain cautiously optimistic about occupancy gains in 2005.We expect that year-end 2005 occupancy for our portfolio will increase to over 90%.

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RESORT/HOTEL SEGMENT

The following table shows the performance factors used by management to assess the operating performance of our luxury and destination fitness resorts.

	FOR THE YEARS ENDED DECEMBER 31,				
	AVERAGE OCCUPANCY RATE		AVERAGE DAILY RATE		REV P AVAI ROOM/GU
	2004	2003	2004	2003	2004
Luxury and Destination Fitness Resorts	69%	68%	$501	$469	$331

The occupancy increase at our luxury and destination fitness resorts for the year ended December 31, 2004 as compared to 2003 is partially driven by increases at Canyon Ranch Tucson and Canyon Ranch Lenox, at which occupancy increased three percentage points (from 76% to 79%).Average daily rate increased 8% (from $661 to $713), and revenue per available room increased 10% (from $475

to $521) as a result of expanded medical service offerings. These increases are partially offset by decreases in occupancy at Sonoma Mission Inn (from 61% to 59%) as a result of the renovation of 97 rooms which were taken out of service in November 2003.Renovation was completed in the second quarter of 2004 at which time the 97 rooms were put back into service.In addition, occupancy decreased eleven percentage points (from 75% to 64%) at Ventana Inn as a result of the renovation of thirteen suites which were taken out of service in April 2004 and completed in September 2004.

We anticipate an 8% to 10% increase in revenue per available room in 2005 at the luxury and destination fitness resorts and a 3 to 5 percentage point increase in occupancy, driven by the continued recovery of the economy and travel industry and improvement from Sonoma Mission Inn and Ventana Inn, which were under construction in 2004.

RESIDENTIAL DEVELOPMENT SEGMENT

The following tables show the performance factors used by management to assess the operating performance of the Residential Development Segment.Information is provided for the Desert Mountain Residential Development Property and the CRDI Residential Development Properties, which represent our significant investments in this Segment as of December 31, 2004.

Desert Mountain

	FOR THE YEARS ENDED DECEMBER 31,	
(dollars in thousands)	2004	2003
Residential Lot Sales	68	60
Average Sales Price per Lot (1)	$756	$653

(1) Includes equity golf membership

Desert Mountain is in the latter stages of development and management anticipates minor additions to its decreasing available inventory.While a higher average lot sales price is projected in 2005, total sales are expected to be lower as a result of reduced inventory availability.

CRDI

	FOR THE YEARS ENDED DECEMBER 31,	
(dollars in thousands)	2004	2003
Residential Lot Sales	353	246
Residential Unit Sales		
Townhome Sales	12	4
Condominium Sales	41	82
Residential Equivalent Timeshare Units	14.6	4.2
Average Sales Price per Residential Lot	$ 152	$ 129
Average Sales Price per Residential Unit	$1,833	$ 939
Average Sales Price per Residential Equivalent Timeshare Unit	$1,825	$1,443

CRDI, which invests primarily in mountain resort residential real estate in Colorado and California and residential real estate in downtown Denver, Colorado, is highly dependent upon the national economy and customer demand. In 2005, management expects that unit sales will increase but the average sales price will decrease at CRDI, with approximately 53% presold as of February 7, 2005. In addition, lot sales are expected to increase in 2005.

RECENT DEVELOPMENTS

CANYON RANCH

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

In addition, the newly formed entities completed a private placement of Mandatorily Redeemable Convertible Preferred Membership Units for aggregate gross proceeds of approximately $110.0 million. Richard E. Rainwater, Chairman of our Board of Trust Managers, and certain of his family members purchased approximately $27.1 million of these units. The units are convertible into a 25% common equity interest in CR Spa, LLC and CR Operating, LLC and pay distributions at the rate of 8.5% per year in years one through seven, and 11% in years eight through ten. At the end of this period, the holders of the units are entitled to receive a premium in an amount sufficient to result in a cumulative return of 11% per year. The units are redeemable after seven years. Also on January 18, 2005, the new entities completed a $95.0 million financing with Bank of America. The loan has an interest-only term until maturity in February 2015, bears interest at 5.94% and is secured by the Canyon Ranch Tucson and Canyon Ranch Lenox Destination Resort Properties. As a result of these transactions, we received proceeds of approximately $91.9 million, which was used to pay down or defease debt related to our previous investment in the Properties and to pay down our credit facility.

JOINT VENTURES

On November 10, 2004, we contributed nine of our office properties to a limited partnership in which we initially had a 40% interest and a fund advised by JP Morgan Fleming Asset Management, or JPM, has a 60% interest. The office properties contributed to the partnership are The Crescent (two Office Properties) in Dallas, Texas and Houston Center (four Office Properties) and Post Oak Central (three Office Properties) both in Houston, Texas. The Office Properties were valued at $897.0 million. This transaction generated net proceeds of approximately $290.0 million after the pay off of the JP Morgan Mortgage Note, pay down of a portion of Fleet Fund I Term Loan and defeasance of a portion of LaSalle Note I. The joint venture was accounted for as a partial sale of the Office Properties, resulting in a net gain of approximately $194.1 million. On December 23, 2004, an affiliate of General Electric Pension

Fund, which we refer to as GE, purchased a 16.15% interest in the partnership from us, reducing our ownership interest to 23.85%. This transaction generated net proceeds of approximately $49.0 million and a net gain of $56.7 million. The net proceeds from both transactions were used to pay off the remaining portion of the Fleet Fund I Term Loan and pay down our credit facility. We incurred debt pre-payment penalties of approximately $35.0 million relating to the early extinguishment of the JP Morgan Mortgage Note and the partial defeasance of LaSalle Note I, which is reflected in the "Extinguishment of debt" line item in the Consolidated Statements of Operations.

On November 23, 2004, we contributed two of our office properties to a limited partnership in which we have a 23.85% interest and a fund advised by JPM has a 76.15% interest. The two office properties contributed to the partnership are Fountain Place and Trammell Crow Center, both in Dallas, Texas. The Office Properties were valued at $320.5 million. This transaction generated net proceeds of approximately $71.5 million after the pay off of the Lehman Capital Note. The joint venture was accounted for as a partial sale of the Office Properties, resulting in a net gain of approximately $14.9 million. The net proceeds from this transaction were used to pay down a portion of our credit facility.

On February 24, 2005, we contributed 1301 McKinney Street and an adjacent parking garage, subject to the Morgan Stanley Mortgage Capital Inc. Note, to a limited partnership in which we have a 23.85% interest, a fund advised by JPM has a 60% interest and GE has a 16.15% interest. The property was valued at $106.0 million and the transaction generated net proceeds to us of approximately $33.4 million which were used to pay down our credit facility.

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As a result of GE's purchase of an interest in the first partnership, GE serves along with us as general partner and we serve as the sole and managing general partner of the second and third partnerships. Each of the Office Properties contributed to the partnerships is owned by a separate limited partnership. Each of those property partnerships (excluding Trammell Crow Center) has entered into a separate leasing and management agreement with us, and, in the case of Trammell Crow Center, the property partnership also has entered into a management oversight agreement and a mortgage servicing agreement with us. We have no commitment to reinvest the cash proceeds back into the joint venture. None of the mortgage financing at the joint venture level is guaranteed by us. We account for our interest in these partnerships as unconsolidated equity investments.

TEMPERATURE-CONTROLLED LOGISTICS

As of December 31, 2004, the Temperature-Controlled Logistics Segment consisted of our 31.7% interest in AmeriCold.AmeriCold operates 103 facilities, of which 87 are wholly-owned, one is partially-owned and fifteen are managed for outside owners. We account for our interest in AmeriCold as an unconsolidated equity investment.

On November 18, 2004, Vornado Crescent Portland Partnership, the partnership through which we owned our 40% interest in AmeriCold, sold a 20.7% interest in AmeriCold to The Yucaipa Companies for $145.0 million, resulting in a gain of approximately $12.3 million, net of transaction costs, to us. In addition, Yucaipa will assist in the management of AmeriCold and may earn a promote of up to 20% of the increase in value through December 31, 2007. The promote is payable out of the remaining outstanding common shares in AmeriCold, including the common shares held by us, and limited to 10% of these remaining common shares.

Immediately following this transaction, Vornado Crescent Portland

Partnership, or VCPP, dissolved and, after the payment of all of its liabilities, distributed its remaining assets to its partners. The assets distributed to us consisted of common shares, representing an approximately 31.7% interest in AmeriCold, cash of approximately $34.3 million and a note receivable of approximately $8.0 million. In connection with the dissolution of the partnership, Vornado Realty L.P., or Vornado, agreed to terminate the preferential allocation payable to it under the partnership agreement. In consideration of this, we agreed to pay Vornado an annual management fee of $4.5 million, payable only out of dividends we receive from AmeriCold and proceeds from sales of the common shares of AmeriCold that we own. Unpaid annual management fees will accrue without interest. The amount of the annual management fee will be reduced in proportion to any sales by us of our interest in AmeriCold. We also agreed to pay Vornado, from the proceeds of any sales of the common shares of AmeriCold that we own, a termination fee equal to the product of $23.8 million and the percentage reduction in our ownership of AmeriCold, as of November 18, 2004, represented by the sale. Our obligation to pay the annual management fee and the termination fee will end on October 30, 2027, or, if earlier, the date on which we sell all of the common shares of AmeriCold that we own.

On November 4, 2004, AmeriCold purchased 100% of the ownership interests in its tenant, AmeriCold Logistics, for approximately $47.7 million. The purchase was funded by a contribution from AmeriCold's owner, VCPP, which funded its contribution through a loan from Vornado. Prior to the consummation of this transaction, AmeriCold Logistics leased the Temperature-Controlled Logistics Properties from AmeriCold under three triple-net master leases. Under the terms of the leases, AmeriCold Logistics was permitted to defer a portion of the rent payable to AmeriCold. As of November 4, 2004, AmeriCold's deferred rent balance from AmeriCold Logistics was $125.1 million, of which our portion was $50.0 million. For each of the years ended December 31, 2004, 2003, and 2002, we recognized rental income from AmeriCold Logistics when earned and collected and, accordingly, did not recognize any of the rent deferred during those years as equity in net income of AmeriCold. In connection with the purchase of AmeriCold Logistics by AmeriCold, the leases were terminated and all deferred rent was cancelled.

On November 4, 2004, AmeriCold also purchased 100% of the ownership interests in Vornado Crescent and KC Quarry, L.L.C., or VCQ, for approximately $24.9 million. AmeriCold used a cash contribution from its owner, of which our portion was approximately $9.9 million, to fund the purchase. As a result of our 56% ownership interest in VCQ, we received proceeds from the sale of VCQ of approximately $13.2 million.

On February 5, 2004, AmeriCold completed a $254.4 million mortgage financing with Morgan Stanley Mortgage Capital Inc., secured by 21 of its owned and seven of its leased temperature-controlled logistics properties. The loan matures in April 2009, bears interest at LIBOR plus 295 basis points (with a LIBOR floor of 1.5% with respect to $54.4 million of the loan) and requires principal payments of $5.0 million annually. The net proceeds to AmeriCold were approximately $225.0 million, after closing costs and the repayment of approximately $12.9 million in existing mortgages. On February 6, 2004, AmeriCold distributed cash of approximately $90.0 million to us.

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ASSET PURCHASES

During the year ended December 31, 2004 and through February 2005, we completed the following acquisitions:

(in millions)

DATE	PROPERTY	LOCATION
February 7, 2005	The Exchange Building - Class A Office Property	Seattle, Washingt
December 29, 2004	Peakview Tower - Class A Office Property	Denver, Colorado
December 21, 2004	1301 McKinney Street - Class A Office Property	Houston, Texas
December 15, 2004	One Live Oak - Class A Office Property	Atlanta, Georgia
August 6, 2004	The Alhambra - Two Class A Office Properties	Miami, Florida
March 31, 2004	Dupont Centre - Class A Office Property	Irvine, Californi
Jan - May 2004	Hughes Center - Six Class A Office Properties, Seven Retail Parcels, and 12.85 acres undeveloped land	Las Vegas, Nevada

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(1) The acquisition was funded by a draw on our credit facility.The property is wholly-owned.

(2) The acquisition was funded by a new $70.0 million loan from Morgan Stanley Mortgage Capital Inc., and a draw on our credit facility.

(3) The acquisition was funded by the assumption of a $45.0 million loan from Wachovia Securities and a draw on our credit facility. The properties are wholly-owned.

(4) The acquisition was funded by a draw on our credit facility.The property is wholly-owned.

(5) The acquisition of the Office Properties and retail parcels was funded by the assumption of $85.4 million in mortgage loans and a portion of proceeds from the 2003 sale of the Woodlands entities.One of the Office Properties is owned through a joint venture in which we have a 67% interest.The remaining Office Properties are wholly-owned.

(6) The acquisition of two tracts of undeveloped land was funded by a $7.5 million loan from the Rouse Company and proceeds from the 2003 sale of the Woodlands entities. The properties are wholly-owned.

OTHER REAL ESTATE INVESTMENTS

On November 9, 2004, we completed a $22.0 million mezzanine loan secured by ownership interests in an entity that owns an office property in Los Angeles, California.The loan bears interest at LIBOR plus 925 basis points (11.65% at December 31, 2004) with an interest-only term until maturity in November 2006, subject to the right of the borrower to extend the loan pursuant to four six-month extension options.

On February 7, 2005, we completed a $34.5 million mezzanine loan in which we immediately sold a 50% participating interest for $17.25 million.The loan is secured by ownership interests in an entity that owns an office property in New York, New York.The loan bears interest at LIBOR plus 775 basis points with an interest-only term until maturity in March 2007, subject to the right of the borrower to extend the loan pursuant to three one-year extension options.

ASSET SALES

The following table summarizes our significant asset sales during the year ended December 31, 2004 and into the first quarter of 2005:

(in millions) DATE	PROPERTY	LOCATION	NET PROCE
OFFICE			
February 7, 2005	Albuquerque Plaza Office Property	Albuquerque, New Mexico	$ 34.7
July 29, 2004	12404 Park Central Office Property	Dallas, Texas	9.3
July 2, 2004	5050 Quorum Office Property (4)	Dallas, Texas	8.9
June 29, 2004	Addison Tower Office Property	Dallas, Texas	8.8
June 17, 2004	Ptarmigan Place Office Property	Denver, Colorado	25.3
April 13, 2004	Liberty Plaza Office Property	Dallas, Texas	10.8
March 23, 2004	1800 West Loop South Office Property	Houston, Texas	28.2
RESORT/HOTEL			
October 19, 2004	Hyatt Regency Hotel	Albuquerque, New Mexico	32.2
RESIDENTIAL DEVELOPMENT			
September 14, 2004	Breckenridge Commercial Retail Center	Breckenridge, Colorado	1.5
UNDEVELOPED LAND			
December 23, 2004	5.7 acres undeveloped land	Houston, Texas	4.0
December 17, 2004	5.3 acres undeveloped land	Houston, Texas	22.3
November 12, 2004	72.7 acres undeveloped land	Monterey, California	1.0
August 16, 2004	2.5 acres undeveloped land	Houston, Texas	6.4
June 17, 2004	Ptarmigan Place - 3.0 acres of adjacent undeveloped land	Denver, Colorado	2.9

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(1) Amounts are net of minority interest.

(2) Proceeds were used to pay down a portion of our Bank of America Fund XII Term Loan.

(3) Of the $4.0 million impairments recorded, $2.9 million was recorded during the year ended December 31, 2003 and $1.1 million during the year ended December 31, 2004.

(4) We continue to provide management and leasing services for this property.

(5) Proceeds were used primarily to pay down our credit facility.

(6) Impairment was recognized during the year ended December 31, 2004.

(7) Impairment was recognized during the year ended December 31, 2003.

(8) Proceeds were used to pay down our Bank of America Fund XII Term Loan in the amount of $26.0 million and the remainder was used to pay down our credit facility.

(9) In addition to the $6.4 million net cash proceeds, we also received a note receivable of $5.6 million.The note provides for payments of principal of $0.5 million due December 2004, annual installments of $1.0 million due beginning August 2005 through August 2008, and $1.1 million due at maturity in August 2009 and does not bear interest.

RESULTS OF OPERATIONS

The following table shows the variance in dollars for certain of our operating data between the years ended December 31, 2004 and 2003 and the years ended December 31, 2003 and 2002.

(in millions)	TOTAL VARIANCE DOLLARS BETWEE THE YEARS ENDE DECEMBER 31, 2004 AND 2003
REVENUE:	
Office Property	$ 8.1
Resort/Hotel Property	9.5
Residential Development Property	89.4
TOTAL PROPERTY REVENUE	$107.0
EXPENSE:	
Office Property real estate taxes	$ (3.4)
Office Property operating expenses	10.4
Resort/Hotel Property expense	12.9
Residential Development Property expense	74.3
TOTAL PROPERTY EXPENSE	$ 94.2
INCOME FROM PROPERTY OPERATIONS	$ 12.8
OTHER INCOME (EXPENSE):	
Income from sale of investment in unconsolidated company, net	$(86.2)
Income from investment land sales, net	5.8
Gain on joint venture of properties, net	265.7
Loss on property sales, net	-
Interest and other income	10.2
Corporate general and administrative	(6.2)
Interest expense	(4.7)
Amortization of deferred financing costs	(2.0)
Extinguishment of debt	(42.6)
Depreciation and amortization	(19.4)
Impairment charges related to real estate assets	4.5
Other expenses	5.2
Equity in net income (loss) of unconsolidated companies:	
Office Properties	(4.9)
Resort/Hotel Properties	(6.0)
Residential Development Properties	(12.7)
Temperature-Controlled Logistics Properties	4.0
Other	3.8
TOTAL OTHER INCOME (EXPENSE)	$114.5
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES	$127.3
Minority interests	(30.8)
Income tax benefit (provision)	40.0
INCOME BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN	

ACCOUNTING PRINCIPLE	$136.5
Income from discontinued operations, net of minority interests	(2.1)
Impairment charges related to real estate assets from discontinued operations, net of minority interests	22.1
Gain on real estate from discontinued operations, net of minority interests	(9.2)
Cumulative effect of a change in accounting principle, net of minority interests	(0.4)
NET INCOME	$146.9
Series A Preferred Share distributions	(5.5)
Series B Preferred Share distributions	-
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$141.4

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COMPARISON OF THE YEAR ENDED DECEMBER 31, 2004 TO THE YEAR ENDED DECEMBER 31, 2003

PROPERTY REVENUES

Total property revenues increased $107.0 million, or 12.3%, to $978.7 million for the year ended December 31, 2004, as compared to $871.7 million for the year ended December 31, 2003. The primary components of the increase in total property revenues are discussed below.

- Office Property revenues increased $8.1 million, or 1.7%, to $484.0 million, primarily due to:

  - an increase of $48.7 million from the acquisitions of The Colonnade in August 2003, the Hughes Center Properties in December 2003 through May 2004, the Dupont Centre in March 2004 , The Alhambra in August 2004, and 1301 McKinney Street, One Live Oak and Peakview Tower in December 2004; and

  - an increase of $3.8 million resulting from third party management services and related direct expense reimbursements; partially offset by

  - a decrease of $21.6 million due to the joint venture of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004;

  - a decrease of $21.1 million from the 43 consolidated Office Properties (excluding 2003 and 2004 acquisitions, dispositions and properties held for sale) that we owned or had an interest in, primarily due to a decrease in full service weighted average rental rates, a 0.5 percentage point decline in average occupancy (from 83.2% to 82.7%), a decrease in recoveries due to expense reductions and base year rollover of significant customers, and a decline in net parking revenues;

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

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

- Resort/Hotel Property revenues increased $9.5 million, or 5.5%, to $183.5 million, primarily due to:

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

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

  - a decrease of $0.3 million at the business class hotel Properties related to a 4% decrease in revenue per available room (from $76 to $73) as a result of a 2% decrease in average daily rate (from $111 to $109) and a 1 percentage point decrease in occupancy (from 68% to 67%) partially offset by a $0.5 million increase in food and beverage revenue.

- Residential Development Property revenues increased $89.4 million, or 40.3%, to $311.2 million, primarily due to:

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

  - an increase of $13.4 million in DMDC revenues related to product mix and increased lots sales (from 60 to 68);

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

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

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

PROPERTY EXPENSES

Total property expenses increased $94.2 million, or 16.6%, to $662.0 million for the year ended December 31, 2004, as compared to $567.8 million for the year ended December 31, 2003. The primary components of the variances in property expenses are discussed below.

- Office Property expenses increased $7.0 million, or 3.1%, to $234.4 million, primarily due to:
  - an increase of $16.1 million from the acquisition of The Colonnade in August 2003, Hughes Center Properties in December 2003 through May 2004, the Dupont Centre in March 2004, the Alhambra in August 2004, 1301 McKinney Street, One Live Oak, and Peakview Tower in December 2004; and
  - an increase of $3.2 million related to the cost of providing third party management services to joint venture properties, which are recouped by increased third party fee income and direct expense reimbursements; partially offset by
  - a decrease of $10.9 million due to the joint venture of The Crescent, Trammell Crow Center, Fountain Place, Houston Center and Post Oak Central in November 2004; and
  - a decrease of $1.7 million from the 43 consolidated Office properties (excluding 2003 and 2004 acquisitions, dispositions and properties held for sale) that we owned or had an interest in, primarily due to:
    - $2.9 million decrease in property taxes and insurance; and
    - $0.4 million decrease in utilities; partially offset by
    - $0.9 million increase in building repairs and maintenance; and
    - $0.7 million increase in administrative expenses.

- Resort/Hotel Property expenses increased $12.9 million, or 9.0%, to $155.8 million, primarily due to:

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

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

  - an increase of $1.9 million in other expense categories, primarily related to an increase in Sarbanes-Oxley compliance costs and management fees at the luxury and destination fitness resort Properties as a result of higher revenues.

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

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

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

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

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

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

OTHER INCOME/EXPENSE

Total other income and expenses decreased $114.5 million, or 47.3%,

to $127.5 million for the year ended December 31, 2004, compared to $242.0 million for the year ended December 31, 2003. The primary components of the decrease in total other income and expenses are discussed below.

OTHER INCOME

Other income increased $179.7 million, or 135.5%, to $312.3 million for the year ended December 31, 2004, as compared to $132.6 million for the year ended December 31, 2003. The primary components of the increase in other income are discussed below.

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

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

- Income from investment land sales, net increased $5.8 million due to the gain of $18.9 million on sales of five parcels of undeveloped investment land in 2004 as compared to the gain of $13.1 million on sales of three parcels of undeveloped investment land in 2003.

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

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

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

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

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

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

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

    - a decrease of $13.8 million in Office Properties, Residential Development Properties and Other equity in net income primarily due to:

        - a decrease of $14.4 million in net income recorded in 2003 related to our interests in the Woodlands entities which were sold in December 2003; partially offset by

        - an increase of $1.2 million in income recorded on Main Street Partners, L.P.; and

        - an increase of $1.0 million in income recorded from the joint venture of The

Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central Office Properties.

- a decrease of $6.0 million in Resort/Hotel Properties equity in net income primarily due to net income recorded in 2003 for our interest in the Ritz-Carlton Hotel, which was sold in November 2003, and included a $1.1 million payment which we received from the operator of the property pursuant to the terms of the operating agreement because the property did not achieve a specified net operating income level; partially offset by

- an increase of $4.0 million in AmeriCold Realty Trust equity in net income primarily due to the $12.3 million gain, net of transaction costs, on the sale of a portion of our interests in AmeriCold to The Yucaipa Companies; partially offset by

  - a $3.6 million increase in interest expense primarily attributable to the $254.0 million mortgage financing with Morgan Stanley in February 2004;

  - a $1.9 million impairment recorded in connection with the business combination of the tenant and landlord entities; and

  - a $1.5 million decrease associated with a decrease in rental income.

OTHER EXPENSES

Other expenses increased $65.2 million, or 17.4%, to $439.8 million for the year ended December 2004, compared to $374.6 million for the year ended December 31, 2003. The primary components of the increase in other expenses are discussed below.

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

  - $17.5 million related to the securities purchased in excess of the debt balance to defease LaSalle Note I in connection with the joint venture of office properties;

  - $17.5 million prepayment penalty associated with the payoff of the JP Morgan Chase Mortgage Loan in connection with the joint venture of office properties;

  - $1.0 million mortgage prepayment fee associated with the payoff of the Lehman Brothers Holdings, Inc. Loan in connection with the joint venture of office properties;

  - $6.6 million write off of deferred financing costs, of which $3.1 million related to the joint venture or sale of real estate assets.

- Depreciation and amortization costs increased $19.4 million, or 13.5%, to $163.6 million primarily due to:

- $10.7 million increase in Office Property depreciation expense attributable to:
  - $16.1 million increase from the acquisitions of The Colonnade in August 2003, Hughes Center in December 2003 through May 2004, Dupont Centre in March 2004, and The Alhambra in August 2004;
  - $1.3 million increase due to building improvements; partially offset by
  - $3.8 million decrease due to accelerated depreciation for lease terminations in 2003; and
  - $2.2 million decrease due to the joint venture of The Crescent, Fountain Place, Trammell Crow Center, Houston Center and Post Oak Central in November 2004;
- $4.4 million increase in Resort/Hotel Property depreciation and amortization costs; and
- $4.1 million increase in Residential Development Property depreciation and amortization costs.

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

- Interest expense increased $4.7 million, or 2.7%, to $176.8 million primarily due to:
  - $4.2 million related to the Fountain Place Office Property transaction;
  - $2.9 million related to an increase of $175.0 million in the weighted average debt balance (from $2,498 million to $2,673 million) partially offset by a 0.3% decrease in the hedged weighted average interest rate (from 7.1% to 6.8%); partially offset by
  - $2.4 million decrease related to amortization of above average interest rate on obligations assumed in the acquisition of Hughes Center.

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

- Other expenses decreased $5.2 million, or 88.1%, to $0.7 million primarily due to:
  - $2.8 million decrease due to impairment and disposals of marketable securities in 2003; and
  - $2.6 million decrease due to reduction of the reserve for the COPI bankruptcy pursuant to the settlement terms

in 2004; partially offset by

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

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

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

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

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

INCOME TAX BENEFIT/ PROVISION

The $40.0 million decrease in the income tax expense to a $13.0 million income tax benefit for the year ended December 31, 2004, as compared to the income tax provision of $27.0 million for the year ended December 31, 2003, is primarily due to the $34.7 million tax expense related to the gain on the sale of our interests in the Woodlands entities, and a $5.4 million tax benefit associated with lower net income recorded in 2004 compared to 2003 for the Resort/Hotel and Residential Development Properties' operations.

DISCONTINUED OPERATIONS

Income from discontinued operations from assets sold and held for sale increased $10.8 million, to $8.3 million, primarily due to:

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

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

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

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

- a decrease of $2.1 million, net of minority interest, due to the reduction of net income associated with properties held for sale in 2004 compared to 2003.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2003, TO THE YEAR ENDED DECEMBER 31, 2002

The following comparison of the results of operations for the year ended December 31, 2003, and for the year ended December 31, 2002, reflects the consolidation of eight of the Resort/Hotel Properties and three of the Residential Development Properties commencing on February 14, 2002, as a result of the COPI transaction. Prior to February 14, 2002, the results of operations of the Resort/Hotel Properties were reflected in our consolidated financial statements as lease payments and as equity in net income for the Residential Development Properties. Because the results of operations of these Properties are consolidated for the full period in 2003, as compared to a partial period in 2002, our financial statements do not provide a direct comparison of the results of operations of the Resort/Hotel Properties or the Residential Development Properties for the full periods in 2003 and 2002.

PROPERTY REVENUES

Total property revenues decreased $61.3 million, or 6.6%, to $871.7 million for the year ended December 31, 2003, as compared to $933.0 million for the year ended December 31, 2002. The components of the decrease in total revenues are discussed below.

- Office Property revenues decreased $41.2 million, or 8.0%, to $475.9 million, primarily due to:

  - a decrease of $27.7 million from the 53 consolidated Office Properties (excluding 2002 and 2003 acquisitions and properties held for sale) that we owned or had an interest in, primarily due a 4.6 percentage point decline in occupancy (from 89.4% to 84.8%) resulting in decreases in both rental revenue and operating expense recoveries and decreases in net parking revenues;

  - a decrease of $23.6 million resulting from the contribution of two Office Properties to joint ventures in third quarter 2002;

  - a decrease of $5.0 million related to net insurance proceeds received in 2002 as a result of an insurance claim on one of our Office Properties that had been damaged as a result of a tornado;

  - a decrease of $1.1 million in development revenue from the construction of 5 Houston Center in 2002; partially offset by

  - an increase of $11.5 million from the acquisition of Johns Manville Plaza in August 2002 and The Colonnade in August 2003;

  - an increase of $3.7 million resulting from third party management services and related direct expense reimbursements; and

  - an increase of $1.3 million resulting from deferred rent recognition for a tenant in 2003.

- Resort/Hotel Property revenues increased $16.9 million, or 10.8%, to $174.1 million, primarily due to the consolidation of the operations of seven of the Resort/Hotel Properties for the full period in 2003

as compared to a partial period in 2002 as a result of the COPI transaction (prior to February 14, 2002, we recognized lease payments related to these Properties).

- Residential Development Property revenues decreased $37.0 million, or 14.3%, to $221.7 million, primarily due to a reduction in lot and unit sales at Desert Mountain and CRDI.

PROPERTY EXPENSES

Total property expenses decreased $24.4 million, or 4.1%, to $567.8 million for the year ended December 31, 2003, as compared to $592.2 million for the year ended December 31, 2002.The components of the decrease in expenses are discussed below.

- Office Property expenses decreased $3.2 million, or 1.4%, to $227.4 million, primarily due to:

    - a decrease of $10.9 million resulting from the contribution of two Office Properties to joint ventures in 2002;

    - a decrease of $1.6 million related to consulting fees incurred in 2002 on the 5 Houston Center Office Property development and a reduction in nonrecurring legal fees for the Office Segment; and

    - a decrease of $0.7 million in operating expenses from the 53 consolidated Office Properties (excluding 2002 and 2003 acquisitions and properties held for sale) that we owned or had an interest in, due to:

        - $4.8 million decrease in property taxes and other taxes and assessments;

        - $2.9 million decrease in bad debt expense;

        - $2.1 million decrease in building repairs and maintenance;

        - $1.2 million decrease in cleaning and security expenses; partially offset by

        - $10.5 million increase in utilities expense, primarily attributable to a utility contract for the Texas Office Properties entered into in February 2003 in which we paid a higher fixed contract price for actual electricity consumed; partially offset by

    - an increase of $4.3 million from the acquisition of Johns Manville Plaza in August 2002 and The Colonnade in August 2003; and

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

- Resort/Hotel Property expense increased $18.2 million, or 14.6%, to $142.9 million, primarily due to the consolidation of the operations

of seven of the Resort/Hotel Properties for a full period in 2003, as compared to a partial period in 2002, as a result of the COPI transaction on February 14, 2002.

- Residential Development Property expense decreased $39.4 million, or 16.6%, to $197.5 million, primarily due to a reduction in lot and unit sales and related costs at Desert Mountain and CRDI.

OTHER INCOME/EXPENSES

Total other income and expenses decreased $20.7 million, or 7.9%, to $242.0 million for the year ended December 31, 2003, as compared to $262.7 million for the year ended December 31, 2002.The primary components of the decrease in total other income and expenses are discussed below.

OTHER INCOME

Other income increased $24.2 million, or 22.3%, to $132.6 million for the year ended December 31, 2003, as compared to $108.4 million for the year ended December 31, 2002.The primary components of the increase in other income are discussed below.

- Income from sale of investment in unconsolidated company, net increased $86.2 million due to the income received from the sale of our interests in the Woodlands entities which were sold in December 2003;

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- Equity in net income of unconsolidated companies decreased $27.9 million, or 52.2%, to $25.5 million due to:

  - a decrease of $29.4 million in Residential Development Properties equity in net income, primarily due to the consolidation of the operations of Desert Mountain and CRDI for the full period in 2003, as compared to a partial period in 2002, as a result of the COPI transaction on February 14, 2002;

  - a decrease of $12.1 million in Office Properties equity in net income, primarily due to the gain in 2002 from the sale of The Woodlands Mall partnership interest in which we had a 52.5% economic interest; partially offset by

  - an increase of $5.9 million in Resort/Hotel Properties equity in net income, primarily due to a gain on the sale of the Ritz Carlton Hotel in November 2003, and a payment received in 2003 from the operator of the property pursuant to the terms of the operating agreement because the property did not achieve the specified net operating income level;

  - an increase of $5.1 million in Temperature-Controlled Logistics Properties equity in net income due to the loss on the sale of one facility in 2002 and the gain on the sale of one facility in 2003, a decrease in interest expense, an increase in rental income due to improved operations, an increase in other income related to interest earned on deferred rent balance and reduced general and administrative expenses; and

- an increase of $2.6 million in other unconsolidated companies primarily due to:

  - the consolidation of DBL Holdings, Inc., or DBL, on January 2, 2003, which incurred a $5.2 million impairment in 2002 for Class C-1 Notes issued by Juniper CBO 1000-1 Ltd., partially offset by earnings from G2 Opportunity Fund, L.P., or G2, in 2002;

  - $1.2 million of equity in earnings from G2 in 2003; partially offset by

  - equity losses of $2.4 million in 2003 resulting from operations at the Woodlands Conference Center and Country Club in 2003.

- Gain on joint venture of properties, net decreased $18.1 million, due primarily to a net gain of $17.7 million on the joint venture of three properties in 2002.

- Income from investment land sales, net decreased $9.6 million, or 42.5%, due to $22.6 million net income on the sale of three investments in undeveloped land, located in Texas and Arizona in 2002, compared to $13.0 million net income on the sale of three investments in undeveloped land located in Texas in 2003.

- Interest and other income decreased $6.4 million, or 45.1%, to $7.8 million, primarily due to the payoff of two notes receivable, a gain on the sale of marketable securities, partially offset by legal settlement fees, all in 2002.

OTHER EXPENSES

Other expenses increased $3.5 million, or 0.9%, to $374.6 million for the year ended December 31, 2003, as compared to $371.1 million the year ended December 31, 2002. The primary components of the increase in other expenses are discussed below.

- Depreciation expense increased $15.0 million, or 11.6%, to $144.2 million in 2003, primarily due to:

  - $13.1 million increase in Office Property depreciation, due to:

    - $15.1 million increase due to an increase in building improvements, lease commissions and other leasing costs;

    - an increase of $2.4 million from Johns Manville Office Property acquired in August 2002; partially offset by

    - a decrease of $4.4 million due to the contribution of two Office Properties to joint ventures in 2002; and

  - $2.1 million increase in Residential Development Property and Resort/Hotel Property.

- Corporate general and administrative expenses increased $6.9

million, or 26.7%, to $32.7 million, primarily due to increased payroll and benefits, shareholder services, Sarbanes-Oxley related costs, management information systems and insurance expenses.

- Interest expense decreased $6.9 million, or 3.9%, to $172.1 million, primarily due to a decrease of 0.69% in the hedged weighted average interest rate, partially offset by an increase of $73.4 million in the weighted average debt balance.

- Other expenses decreased $6.9 million, or 53.9%, primarily due to expenses incurred in 2002 of:

  - $3.8 million due to legal expenses associated with matters relating to the Office Segment;

  - $1.9 million due to expense related to stock option note term extensions; and

  - $1.8 million due to write-off of costs associated with acquisitions no longer being actively pursued.

- Impairment and other charges related to real estate assets decreased $4.6 million, or 34.8%, to $8.6 million due to:

  - a decrease of $9.6 million due to the impairment of the Canyon Ranch Las Vegas Spa in 2002;

  - a decrease of $2.6 million due to the impairment of the investment in Manalapan in 2002;

  - a decrease of $1.0 million due to the impairment on a parcel of undeveloped land located adjacent to the Washington Harbour Office Property; partially offset by

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

  - an increase of $1.2 million due to the impairment of the North Dallas Athletic Club in 2003; and

  - an increase of $0.9 million due to the impairment of an executive home in 2003 which we acquired in June 2002 as part of the executive's relocation agreement.

INCOME TAX BENEFIT/PROVISION

The $31.7 million increase in the income tax provision to $27.1 million for the year ended December 31, 2003, as compared to the income tax benefit of $4.6 million for the year ended December 31, 2002, is primarily due to the $34.7 million tax expense related to the gain on the sale of our interests in the Woodlands entities.

DISCONTINUED OPERATIONS

Income from discontinued operations from assets sold and held for sale decreased $36.2 million, or 107.1%, to a loss of $2.4 million for the year

ended December 31, 2003.The primary components of the decrease in income from discontinued operations are discussed below:

- a decrease of $13.9 million, net of minority interest, due to the impairment in 2003 of the 1800 West Loop South Office Property;
- a decrease of $15.2 million, net of minority interest, due to the reduction of net income associated with properties held for sale in 2003 compared to 2002; and
- a decrease of $6.8 million, net of minority interest, due to the impairment of two Office Properties and six behavioral healthcare properties in 2003 compared to three behavioral healthcare properties in 2002.

CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

Cumulative effect of a change in accounting principle increased $9.2 million due to the adoption of SFAS No. 142 on January 1, 2002.As a result of the initial application of this Statement, we recognized a goodwill impairment charge related to the Temperature-Controlled Logistics Properties of approximately $9.2 million. This charge was reported as a change in accounting principle for the year ended December 31, 2002.

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LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

Our primary sources of liquidity are cash flow from operations, our credit facility, net cash received from our Residential Development Segment and proceeds from asset sales and joint ventures. Our short-term liquidity requirements through December 31, 2005, consist primarily of our normal operating expenses, principal and interest payments on our debt, amounts due at maturity of our debt obligations, distributions to our shareholders and capital expenditures. Our long-term liquidity requirements consist primarily of debt obligations maturing after December 31, 2005, distributions to our shareholders and capital expenditures.

SHORT-TERM LIQUIDITY

We believe that cash flow from operations will be sufficient to cover our normal operating expenses, interest payments on our debt, distributions on our preferred shares, non-revenue enhancing capital expenditures and revenue enhancing capital expenditures (including property improvements, tenant improvements and leasing commissions) in 2005 and 2006. The cash flow from our Residential Development segment is cyclical in nature and primarily realized in the last quarter of each year. We expect to meet temporary shortfalls in operating cash flow caused by this cyclicality through working capital draws under our credit facility. However, our cash flow from operations is not expected to fully cover the distributions on our common shares in 2005 and 2006. We intend to use cash generated from 1) cash received in excess of required reinvestment in our Residential Development Segment, estimated at approximately $79.0 million and $66.0 million in 2005 and 2006, respectively; 2) business initiatives including investment land sales; 3) other income to cover this shortfall and 4) borrowings under our credit facility.

In addition, in 2005 we expect to make capital expenditures of approximately $80.9 million, primarily relating to new developments of investment property, that are not in the ordinary course of operations of our

business. We anticipate funding these short-term liquidity requirements primarily through construction loans and borrowings under our credit facility or additional debt facilities. As of December 31, 2004, we also had maturing debt obligations of $229.2 million through December 31, 2005, consisting primarily of our credit facility of $142.5 million and the maturity of a single asset loan of $36.8 million in December. We refinanced the credit facility in February 2005 with a new $300 million revolving credit facility which matures on December 31, 2006 and intend to refinance the Metropolitan Life Note V secured by the Datran Center with a new fixed rate facility. The remaining maturities consist primarily of normal principal amortization and will be met with cash flow from operations. Of the $229.2 million of debt maturing in 2005, $22.7 million relates to the Residential Development Segment and will be retired with the sales of the corresponding land or units or will be refinanced.

LONG-TERM LIQUIDITY

Our long-term liquidity requirements as of December 31, 2004, consist primarily of $1.9 billion of debt maturing after December 31, 2005. We also have $152.6 million of expected long-term capital expenditures relating to capital investments that are not in the ordinary course of operations of our business. We anticipate meeting these obligations primarily through refinancing maturing debt with long-term secured and unsecured debt and through other debt and equity financing alternatives as well as cash proceeds from asset sales and joint ventures and construction loans.

CASH FLOWS

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

For the year ended December 31, 2004, the Office Segment, Resort/Hotel Segment and Residential Development Segment accounted for 49%, 19% and 32%, respectively, of our total revenues. Our top five tenants accounted for approximately 13% of our total Office Segment rental revenues for the year ended December 31, 2004. The loss of one or more of our major tenants would have a temporary adverse effect on cash flow from operations until we were able to re-lease the space previously leased to these tenants. Based on rental revenues from office leases in effect as of December 31, 2004, no single tenant accounted for more than 6% of our total Office Segment rental revenues for 2004.

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During the year ended December 31, 2004, our cash flow from operations was insufficient to meet our short-term liquidity requirements, excluding capital expenditures not in the ordinary course of operations of our business and debt maturities. We funded this shortfall primarily with a combination of borrowings under our credit facility, cash received less required investment from our Residential Development Segment, and proceeds from asset sales and joint ventures.

DEBT AND EQUITY FINANCING ALTERNATIVES

Debt and equity financing alternatives currently available to us to satisfy our liquidity requirements include:

- Additional proceeds from our new credit facility under which we had up to $199.8 million of borrowing capacity available as of March 1,

2005, and which may be increased by $100.0 million subject to certain market conditions;

- Additional proceeds from the refinancing of existing secured and unsecured debt;
- Additional debt secured by existing underleveraged properties;
- Issuance of additional unsecured debt; and
- Equity offerings including preferred and/or convertible securities or joint ventures of existing properties.

The following factors could limit our ability to utilize these financing alternatives:

- A reduction in the operating results of the Properties supporting our credit facility to a level that would reduce the availability of funds under the credit facility;
- A reduction in the operating results of the Properties could limit our ability to refinance existing secured and unsecured debt, or extend maturity dates or could result in an uncured or unwaived event of default;
- We may be unable to obtain debt or equity financing on favorable terms, or at all, as a result of our financial condition or market conditions at the time we seek additional financing;
- Restrictions under our debt instruments or outstanding equity may prohibit us from incurring debt or issuing equity on terms available under then-prevailing market conditions or at all;
- We may be unable to service additional or replacement debt due to increases in interest rates or a decline in our operating performance; and
- We may be unable to increase our new credit facility by $100.0 million, as provided under the terms of the facility, due to adverse changes in market conditions.

FUNDS AVAILABLE FOR INVESTMENT

In addition, through the joint venture of $1.2 billion in assets, partial sale of our equity position in Temperature-Controlled Logistics, the consummated and expected sales of other non-core assets which include land sales, future sale of the Denver Marriott and Albuquerque Plaza, and the recapitalization of Canyon Ranch, all of which occurred in the fourth quarter 2004 or are expected to occur in the first or second quarter 2005, we expect to have approximately $525.0 million in liquidity for new investments, of which $481.6 million has been received to date. Of this amount, $184.4 million has been invested and $297.2 million has been used to pay down debt until reinvestment opportunities arise.

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CASH FLOWS

Cash and cash equivalents were $92.3 million and $78.1 million at December 31, 2004 and 2003, respectively. This 18.2% increase is attributable to $95.7 million provided by operating activities, partially offset by $81.5

million used in investing and financing activities.

(in millions)	FOR THE YEAR ENDED DECEMBER 31, 2004
Cash provided by Operating Activities	$ 95.7
Cash provided by Investing Activities	629.2
Cash used in Financing Activities	(710.7)
Increase in Cash and Cash Equivalents	$ 14.2
Cash and Cash Equivalents, Beginning of Period	78.1
Cash and Cash Equivalents, End of Period	$ 92.3

OPERATING ACTIVITIES

Our cash provided by operating activities of $95.7 million is attributable to Property operations.

INVESTING ACTIVITIES

Our cash provided by investing activities of $629.2 million is primarily attributable to:

- $1,028.9 million of proceeds from joint venture partners due to the joint venture of Office Properties in November 2004;
- $174.9 million of proceeds from the sale of six Office Properties and one Resort/Hotel Property;
- $125.1 million return of investment from AmeriCold Realty Trust Properties due primarily to the $90.0 million received as a result of additional financing at AmeriCold Realty Trust and proceeds received from the sale of an interest in AmeriCold Realty Trust to The Yucaipa Companies;
- $75.4 million decrease in restricted cash, due primarily to an $89.9 million decrease in escrow deposits for the purchase of the Hughes Center Office Properties in January and February 2004;
- $13.8 million of proceeds from defeasance investment maturities;
- $3.2 million of proceeds from the sale of VCQ;
- $3.0 million return of investment from unconsolidated Office Properties; and
- $1.3 million return of investment from unconsolidated Resort/Hotel Properties.

The cash provided by investing activities is partially offset by:

- $381.7 million for the acquisition of investment

properties, primarily due to the acquisition of twelve Office Properties;

- $206.5 million purchase of U.S. Treasuries and government sponsored agency securities in connection with the defeasance of LaSalle Note II and Nomura Funding VI;

- $92.9 million for revenue and non-revenue enhancing tenant improvement and leasing costs for Office Properties;

- $42.0 million for property improvements for rental properties, primarily attributable to non-recoverable building improvements for the Office Properties, renovations at Sonoma Mission Inn and Ventana Inn, and replacement of furniture, fixtures and equipment for the Resort/Hotel Properties;

- $35.4 million for development of amenities at the Residential Development Properties;

- $15.2 million increase in notes receivables, primarily due to a $22.0 million mezzanine loan secured by ownership interests in an office property in Los Angeles, California;

- $10.1 million of additional investment in unconsolidated Office Properties primarily due to a $9.6 million contribution to Main Street Partners L.P., which owns Bank One Center Office Property;

- $4.4 million additional investment in unconsolidated Other companies;

- $4.1 million for development of properties, primarily the Houston Center Shops redevelopment; and

- $2.4 million additional investment in unconsolidated Temperature-Controlled Logistics Properties;

- $2.2 million additional investment in unconsolidated Residential Development Properties.

FINANCING ACTIVITIES

Our cash used in financing activities of $710.7 million is primarily attributable to:

- $1,027.7 million payments under borrowings, due primarily to the pay off of the Deutsche Bank-CMBS Loan, the JP Morgan Mortgage Note, the Fleet Fund I Term Loan, the Lehman Capital Note and the pay down of the Bank of America Fund XII Term Loan and LaSalle Note I;

- $626.5 million payments under our credit facility;

- $175.6 million distributions to common shareholders and

unitholders;

- $118.5 million Residential Development Property note payments;
- $32.0 million distributions to preferred shareholders;
- $12.9 million debt financing costs primarily associated with the $275 million Bank of America Fund XII Term Loan, the Lehman Capital Note, and the Morgan Stanley Mortgage Capital Inc Note;
- $8.6 million capital distributions to joint venture partners; and
- $2.4 million amortization of debt premiums.

The cash used in financing activities is partially offset by:

- $577.1 million proceeds from other borrowings, primarily as a result of the Bank of America Fund XII Term Loan secured by the Fund XII Properties, the Lehman Capital Note secured by the Fountain Place Office Property, the Metropolitan Life Note VII secured by the Dupont Centre Office Property, the Morgan Stanley Mortgage Capital Inc. Note secured by the 1301 McKinney Street Office Property, and the Wachovia Securities Note secured by The Alhambra Office Properties;
- $530.0 million proceeds from borrowings under our credit facility;
- $111.7 million proceeds from borrowings for construction costs for infrastructure development at the Residential Development Properties;
- $71.0 million net proceeds from issuance of Series A Preferred Shares;
- $2.8 million capital contributions from joint venture partners; and
- $0.8 million proceeds from exercise of share options.

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LIQUIDITY REQUIREMENTS

CONTRACTUAL OBLIGATIONS

The table below presents, as of December 31, 2004, our future scheduled payments due under these contractual obligations.

	PAYMENTS DUE BY PERIOD				
(in millions)	TOTAL	2005	2006/2007	2008/2009	THEREAFTER
Long-term debt(1)	$2,729.4	$ 372.4	$ 1,030.2	$ 886.6	$ 440.2

Operating lease obligations (ground leases)	151.5	2.0	4.1	4.2	141.2
Purchase obligations:					
Mezzanine Debt (2)	34.5	34.5	-	-	-
Capital expenditure obligations (3)	233.5	80.9	152.6	-	-
Total contractual obligations (4)	$3,148.9	$ 489.8	$ 1,186.9	$ 890.8	$ 581.4

(1) Amounts include scheduled principal and interest payments for consolidated debt.

(2) On December 3, 2004, we entered into an agreement to loan $34.5 million in the form of a mezzanine loan secured by an ownership interest in an entity that owns an office property in New York, New York. On February 7, 2005, we closed on this commitment and immediately sold a 50% interest. The loan bears interest at LIBOR plus 775 basis points with an interest-only term until maturity in March of 2007, with the borrower having three one-year extension options.

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

(4) As part of our ongoing operations, we execute operating lease agreements which generally provide tenants with leasehold improvement allowances. Committed leasehold improvement allowances for leases executed over the past three years have averaged approximately $67 million per year. Tenant leasehold improvement amounts are not included in the above table.

DEBT FINANCING SUMMARY

The following tables show summary information about our debt, including our pro rata share of unconsolidated debt, as of December 31, 2004. Additional information about the significant terms of our debt financing arrangements and our unconsolidated debt is contained in Note 11, "Notes Payable and Borrowings under Credit Facility," and Note 9, "Investments in Unconsolidated Companies," of Item 8, "Financial Statements and Supplemental Data."

	AS OF DECEMBER 31, 2004		
(in thousands)	TOTAL COMPANY DEBT	SHARE OF UNCONSOLIDATED DEBT	TOTAL
Fixed Rate Debt	$ 1,552,514	$ 439,217	$1,991,731
Variable Rate Debt	599,741(1)	140,132	739,873
Total Debt	$ 2,152,255	$ 579,349	$2,731,604

(1) $411.3 million of this variable rate debt has been hedged.

Listed below are the aggregate required principal payments by year as of December 31, 2004. Scheduled principal installments and amounts due at

maturity are included.

(in thousands)	SECURED DEBT	UNSECURED DEBT	UNSECURED DEBT LINE OF CREDIT	TOTAL COMPANY DEBT	SHARE OF UNCONSOLIDATED DEBT	TOTAL(1)
2005	$ 86,670	$ -	$ 142,500	$ 229,170	$ 62,712	$ 291,882
2006	459,173	-	-	459,173	24,805	483,978
2007	104,252	250,000	-	354,252	47,126	401,378
2008	108,370	-	-	108,370	43,280	151,650
2009	274,230	375,000	-	649,230	79,643	728,873
Thereafter	352,060	-		352,060	321,783	673,843
	$1,384,755	$ 625,000	$ 142,500	$ 2,152,255	$ 579,349	$ 2,731,604

(1) Based on contractual maturity and does not include the refinance of the credit facility, extension options on Bank of America Fund XII Term Loan, Morgan Stanley Mortgage Capital Inc. Note II, Fleet National Bank Note or the expected early payment of LaSalle Note I.

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CAPITAL EXPENDITURES

As of December 31, 2004, we had unfunded capital expenditures of approximately $233.5 million relating to capital investments that are not in the ordinary course of operations of the Company's business segments. The table below specifies our requirements for capital expenditures and the amounts funded as of December 31, 2004, and amounts remaining to be funded (future funding classified between short-term and long-term capital requirements):

(in millions) PROJECT	TOTAL PROJECT COST (1)	AMOUNT FUNDED AS OF DECEMBER 31, 2004	AMOUNT REMAINING TO FUND	CAPITAL E SHORT-TERM (NEXT 12 MONTHS) (2
OFFICE SEGMENT				
Houston Center Shops Redevelopment (3)	$ 12.1	$ 12.1	$ -	$
RESIDENTIAL DEVELOPMENT SEGMENT				
Tahoe Mountain Club (4)	74.6	53.4	21.2	21.
JPI Multi-family Investments Luxury Apartments (5)	53.3	20.9	32.4	19.
RESORT/HOTEL SEGMENT				
Canyon Ranch - Tucson Land-Construction Loan (6)	2.4	1.2	1.2	1.
OTHER				
SunTx (7)	19.0	16.0	3.0	3.

The Ritz-Carlton (8)	195.8	20.1	175.7	36.
TOTAL	$ 357.2	$ 123.7	$ 233.5	$ 80.

(1) All amounts are approximate.

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

(3) Located within the Houston Center Office Property complex.

(4) As of December 31, 2004, we had invested $53.4 million in Tahoe Mountain Club, which includes the acquisition of land and development of a golf course and club amenities. We plan to invest an additional $21.2 million in 2005 for the development of dining and ski facilities on the mountain and an additional golf course. We anticipate collecting membership deposits which will be utilized to fund a portion of the development costs.

(5) In October 2004, we entered into an agreement with JPI Multi-Family Investments, L.P. to develop a multi-family apartment project in Dedham, Massachusetts.

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

(7) This commitment is related to our investment in a private equity fund and its general partner. The commitment is based on cash contributions and distributions and does not consider equity gains or losses.

(8) In April 2004, we entered into agreements with Ritz-Carlton Hotel Company, L.L.C. to develop the first Ritz-Carlton hotel and condominium project in Dallas, Texas with development to commence upon reaching an acceptable level of pre-sales for the residences. The development plans include a Ritz-Carlton with approximately 216 hotel rooms and 70 residences. Construction on the development is anticipated to begin in the second quarter of 2005.

OFF-BALANCE SHEET ARRANGEMENTS - GUARANTEE COMMITMENTS

Our guarantees in place as of December 31, 2004 are listed in the table below. For the guarantees on indebtedness, no triggering events or conditions are anticipated to occur that would require payment under the guarantees and management believes the assets associated with the loans that are guaranteed are sufficient to cover the maximum potential amount of future payments and therefore, would not require us to provide additional collateral to support the guarantees.

(in thousands)	GUARANTEED AMOUNT OUTSTANDING AT DECEMBER 31, 2004	MAXIMUM GUA AMOUNT DECEMBER 31
DEBTOR		
CRDI - Eagle Ranch Metropolitan District - Letter of Credit (1)	$ 7,572	$ 7,572
Main Street Partners, L.P. - Letter of Credit (2) (3)	4,250	4,250

Total Guarantees	$11,822	$11,822

(1) We provide a $7.6 million letter of credit to support the payment of interest and principal of the Eagle Ranch Metropolitan District Revenue Development Bonds.

(2) See Note 9, "Investments in Unconsolidated Companies" of Item 8, "Financial Statements and Supplemental Data," for a description of the terms of this debt.

(3) We and our joint venture partner each provide separate Letters of Credit to guarantee repayment of up to $4.3 million each of the Main Street Partners, L.P. loan.

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EQUITY AND DEBT FINANCING

EQUITY FINANCING

SERIES A PREFERRED OFFERING

On January 15, 2004, we completed an offering of an additional 3,400,000 Series A Convertible Cumulative Preferred Shares at a $21.98 per share price and with a liquidation preference of $25.00 per share for aggregate total offering proceeds of approximately $74.7 million.The Series A Preferred Shares are convertible at any time, in whole or in part, at the option of the holders into common shares at a conversion price of $40.86 per common share (equivalent to a conversion rate of 0.6119 common shares per Series A Preferred Share), subject to adjustment in certain circumstances.The Series A Preferred Shares have no stated maturity and are not subject to sinking fund or mandatory redemption.At any time, the Series A Preferred Shares may be redeemed, at our option, by paying $25.00 per share plus any accumulated accrued and unpaid distributions.Dividends on the additional Series A Preferred Shares are cumulative from November 16, 2003, and are payable quarterly in arrears on the fifteenth of February, May, August and November, commencing February 16, 2004.The annual fixed dividend on the Series A Preferred Shares is $1.6875 per share.

Net proceeds to us from the January 2004 Series A Preferred Offering after underwriting discounts and other offering costs of approximately $3.7 million were approximately $71.0 million.We used the net proceeds to pay down our credit facility.

SHARE REPURCHASE PROGRAM

We commenced our share repurchase program in March 2000.On October 15, 2001, our Board of Trust Managers increased from $500.0 million to $800.0 million the amount of outstanding common shares that can be repurchased from time to time in the open market or through privately negotiated transactions.There were no share repurchases under the program for the year ended December 31, 2004.As of December 31, 2004, we had repurchased 20,256,423 common shares under the share repurchase program, at an aggregate cost of approximately $386.9 million, resulting in an average repurchase price of $19.10 per common share.All repurchased shares were recorded as treasury shares.

SHELF REGISTRATION STATEMENT

On October 29, 1997, we filed a shelf registration statement with the SEC relating to the future offering of up to an aggregate of $1.5 billion of common shares, preferred shares and warrants exercisable for common shares.Management believes the shelf registration statement will provide us with more efficient and immediate access to capital markets when considered appropriate.As of March 2, 2005, approximately $510.0 million was available under the shelf registration statement for the issuance of securities.

DEBT FINANCING ARRANGEMENTS

The significant terms of our primary debt financing arrangements existing as of December 31, 2004, are shown below:

DESCRIPTION (1)	MAXIMUM BORROWINGS	BALANCE OUTSTANDING AT DECEMBER 31, 2004	INTEREST RATE AT DECEMBER 31, 2004
	(dollars in thousands)		
SECURED FIXED RATE DEBT:			
AEGON Partnership Note (Greenway Plaza)	$ 254,604	$ 254,604	7.53%
LaSalle Note II (Fund II Defeasance) (2)	157,477	157,477	7.79
LaSalle Note I (Fund I)(3)	103,300	103,300	7.83
Cigna Note (707 17th Street/Denver Marriott)	70,000	70,000	5.22
Morgan Stanley I (Alhambra)	50,000	50,000	5.06
Bank of America Note (Colonnade)	38,000	38,000	5.53
Metropolitan Life Note V (Datran Center)	36,832	36,832	8.49
Mass Mutual Note (3800 Hughes) (4)	36,692	36,692	7.75
Metropolitan Life Note VII (Dupont Centre)	35,500	35,500	4.31
Northwestern Life Note (301 Congress)	26,000	26,000	4.94
Allstate Note (3993 Hughes) (4)	25,509	25,509	6.65
JP Morgan Chase (3773 Hughes)	24,755	24,755	4.98
Metropolitan Life Note VI (3960 Hughes) (4)	23,919	23,919	7.71
JP Morgan Chase I (3753/3763 Hughes)	14,350	14,350	4.98
Northwestern Life II (3980 Hughes) (4)	10,168	10,168	7.40
Woodmen of the World Note (Avallon IV)	8,500	8,500	8.20
Nomura Funding VI Note (Fund VI Defeasance) (5)	7,659	7,659	10.07
Construction, Acquisition and other obligations for various CRDI and Mira Vista projects	4,249	4,249	2.90 to 9.27
Subtotal/Weighted Average	$ 927,514	$ 927,514	6.96%
UNSECURED FIXED RATE DEBT:			
The 2009 Notes (6)	$ 375,000	$ 375,000	9.25%
The 2007 Notes (6)	250,000	250,000	7.50
Subtotal/Weighted Average	$ 625,000	$ 625,000	8.55%
SECURED VARIABLE RATE DEBT:			
Bank of America Term Loan (Fund XII) (7)	$ 199,995	$ 199,995	4.53%
Fleet Term Loan (Distributions from Fund III, IV and V)	75,000	75,000	6.81

Morgan Stanley II (1301 McKinney Street) (8)	70,000	70,000	3.64
National Bank of Arizona (Desert Mountain)	26,000	25,459	5.25 to 6.25
Texas Capital Bank (Ritz-Carlton Hotel Construction)	10,500	10,500	4.46
FHI Finance Loan (Sonoma Mission Inn)	10,000	10,000	6.81
The Rouse Company (Hughes Center undeveloped land)	7,500	7,500	6.25
Wells Fargo Bank (3770 Hughes) (9)	4,774	4,774	4.00
Fleet National Bank (Jefferson Station Apartments) (10)	41,009	4,300	4.35
Construction, Acquisition and other obligations for various CRDI and Mira Vista projects	147,262	49,713	4.66 to 6.25
Subtotal/Weighted Average	$ 592,040	$ 457,241	4.96%
UNSECURED VARIABLE RATE DEBT:			
Credit Facility (11)	$ 300,473	$ 142,500(12)	4.61%
Subtotal/Weighted Average	$ 300,473	$ 142,500	4.61%
TOTAL/WEIGHTED AVERAGE	$2,445,027	$ 2,152,255	6.84%(13)
AVERAGE REMAINING TERM			

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(1) For more information regarding the terms of our debt financing arrangements, including the amounts payable at maturity, properties securing our secured debt and the method of calculation of the interest rate for our variable rate debt, see Note 11, "Notes Payable and Borrowing under the Credit Facility," included in Item 8, "Financial Statements and Supplementary Data."

(2) In December 2003 and January 2004, we purchased a total of $179.6 million of U.S. Treasuries and government sponsored agency securities, or defeasance investments, to substitute as collateral for this loan. The cash flow from the defeasance investments (principal and interest) match the total debt service payment of this loan.

(3) In January 2005, we purchased a total of $115.8 million of defeasance investments to substitute as collateral for this loan. The cash flow from the defeasance investments (principal and interest) match the total debt service payment of this loan. In November 2004, we purchased $146.2 million of defeasance investments to legally defease $128.7 million of this loan.

(4) Includes a portion of total premiums of $6.5 million reflecting market value of debt acquired with the purchase of Hughes Center portfolio.

(5) In December 2004, we purchased a total of $10.1 million of defeasance investments to substitute as collateral for this loan. The cash flow from the defeasance investments (principal and interest) match the total debt service payment of this loan.

(6) To incur any additional debt, the indenture requires us to meet thresholds for a number of customary financial and other covenants, including maximum leverage ratios, minimum debt service coverage ratios, maximum secured debt as a percentage of total undepreciated assets, and ongoing

maintenance of unencumbered assets. Additionally, as long as the 2009 Notes are not rated investment grade, there are restrictions on our ability to make certain payments including distributions to shareholders and investments. In December 2004, we obtained consent from bondholders of the 2009 Notes to eliminate an increase in a debt incurrence test calling for the debt service ratio test to increase from 1.75x to 2.0x as of April 15, 2005 and to clarify the definition of assets and liabilities to exclude in-substance defeased debt and its related assets.

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(7) This loan has a one one-year extension option.

(8) This loan has two one-year extension options and was transferred to a new joint venture on February 24, 2005.

(9) In January 2005, we entered into a new loan with Wells Fargo for $7.8 million. The loan has an interest-only term until maturity in January 2008, with two one-year extension options, and bears interest at LIBOR plus 125 basis points.

(10) This loan has two one-year extension options.

(11) In February 2005, we entered into a new $300 million credit facility which replaces the previous facility. All outstanding amounts under the previous facility were repaid in full using cash on hand and proceeds from an initial borrowing under the new facility. The interest rate on the new facility is LIBOR plus 200 basis points and matures on December 31, 2006. Under the new facility, we are subject to certain limitations including the ability to: incur additional debt or sell assets, make certain investments and acquisitions and grant liens. We are also subject to financial covenants, which include debt service ratios, leverage ratios and, in the case of the Operating Partnership, a minimum tangible net worth limitation and a fixed charge coverage ratio.

(12) The outstanding balance excludes letters of credit issued under the credit facility of $7.9 million.

(13) The overall weighted average interest rate does not include the effect of our cash flow hedge agreements. Including the effect of these agreements, the overall weighted average interest rate would have been 7.06%.

We are generally obligated by our debt agreements to comply with financial covenants, affirmative covenants and negative covenants, or some combination of these types of covenants. The financial covenants to which we are subject include, among others, leverage ratios, debt service coverage ratios and limitations on total indebtedness. The affirmative covenants to which we are subject under our debt agreements include, among others, provisions requiring us to comply with all laws relating to operation of any Properties securing the debt, maintain those Properties in good repair and working order, maintain adequate insurance and provide timely financial information. The negative covenants under our debt agreements generally restrict our ability to transfer or pledge assets or incur additional debt at a subsidiary level, limit our ability to engage in transactions with affiliates and place conditions on our or our subsidiaries' ability to make distributions.

Failure to comply with covenants generally will result in an event of default under that debt instrument. Any uncured or unwaived events of default under our loans can trigger an increase in interest rates, an acceleration of payment on the loan in default, and for our secured debt, foreclosure on the property securing the debt, and could cause the credit facility to become unavailable to us. In addition, an event of default by us or any of our

subsidiaries with respect to any indebtedness in excess of $5.0 million generally will result in an event of default under the Credit Facility, 2007 Notes, 2009 Notes, Bank of America Fund XII Term Loan, and the Fleet Term Loan after the notice and cure periods for the other indebtedness have passed. As a result, any uncured or unwaived event of default could have an adverse effect on our business, financial condition, or liquidity.

Our secured debt facilities generally prohibit loan prepayment for an initial period, allow prepayment with a penalty during a following specified period and allow prepayment without penalty after the expiration of that period. During the year ended December 31, 2004, we paid a prepayment penalty of $17.5 million in connection with the early repayment of the JP Morgan Mortgage Note. There were no other circumstances that required prepayment penalties or increased collateral related to our existing debt.

DEFEASANCE OF LASALLE NOTE I

In November 2004, in connection with the joint venture of The Crescent Office Property, we released The Crescent, which is held in Funding I, as collateral for the Fleet Fund I Term Loan and the LaSalle Note I by paying off the $160.0 million Fleet Fund I Term Loan and by purchasing $146.2 million of U.S. Treasury and government sponsored agency securities. We placed those securities into a trust for the sole purpose of funding payment of principal and interest on approximately $128.7 million of the LaSalle Note I. This was structured as a legal defeasance, therefore, the debt is reflected as paid down and the difference between the amount of securities purchased and the debt paid down, $17.5 million, was recorded in the "Extinguishment of debt" line item in the Consolidated Statements of Operations.

In January 2005, we released the remaining properties in Funding I that served as collateral for the LaSalle Note I, by purchasing an additional $115.8 million of U.S. Treasury and government sponsored agency securities with an initial weighted average yield of 3.20%. We placed those securities into a collateral account for the sole purpose of funding payments of principal and interest on the remainder of LaSalle Note I. The cash flow from these securities is structured to match the cash flow (principal and interest payments) required under the LaSalle Note I. This transaction was accounted for as an in-substance defeasance, therefore, the debt and the securities purchased remain on our Consolidated Balance Sheets.

DEFEASANCE OF NOMURA FUNDING VI

On December 20, 2004, we released Canyon Ranch - Lenox, which is held in Funding VI, as collateral for the Nomura Funding VI Note by purchasing $10.1 million of U.S. Treasury and government sponsored agency securities with an initial weighted average yield of 3.59%. We placed those securities into a collateral account for the sole purpose of funding payments of principal and interest on the Nomura Funding VI Note. The cash flow from the securities is structured to match the cash flow (principal and interest payments) required under the Nomura Funding

VI Note. This transaction was accounted for as an in-substance defeasance, therefore, the debt and the securities purchased remain on our Consolidated Balance Sheets.

DEFEASANCE OF LASALLE NOTE II

In January 2004, we released the remaining properties in Funding II, that served as collateral for the Fleet Fund I and II Term Loan and the LaSalle

Note II, by reducing the Fleet Fund I and II Term Loan by $104.2 million and purchasing an additional $170.0 million of U.S. Treasury and government sponsored agency securities with an initial weighted average yield of 1.76%. We placed those securities into a collateral account for the sole purpose of funding payments of principal and interest on the remainder of the LaSalle Note II. The cash flow from the securities is structured to match the cash flow (principal and interest payments) required under the LaSalle Note II. This transaction was accounted for as an in-substance defeasance, therefore, the debt and the securities purchased remain on our Consolidated Balance Sheets. The retirement of the Fleet loan and the purchase of the defeasance securities were funded through the $275 million Bank of America Fund XII Term Loan. The collateral for the Bank of America loan was 10 of the 11 properties previously in the Funding II collateral pool. The Bank of America loan is structured to allow us the flexibility to sell, joint venture or long-term finance these 10 assets over the next 36 months. The final Funding II property, Liberty Plaza, was moved to the Operating Partnership and subsequently sold in April 2004.

LINE OF CREDIT

On October 26, 2004, we entered into a syndicated construction loan with Bank One, NA. The loan is a line of credit with a maximum commitment of $105.8 million which will be used for the development of Northstar at Tahoe and matures October 2006. No amount was outstanding under the loan as of December 31, 2004.

UNCONSOLIDATED DEBT ARRANGEMENTS

As of December 31, 2004, the total debt of the unconsolidated joint ventures and equity investments in which we have ownership interests was $2.0 billion, of which our share was $579.3 million. We guaranteed $4.3 million of this debt as of December 31, 2004. Additional information relating to our unconsolidated debt financing arrangements is contained in Note 9, "Investments in Unconsolidated Companies," of Item 8, "Financial Statements and Supplementary Data."

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We use derivative financial instruments to convert a portion of our variable rate debt to fixed rate debt and to manage the fixed to variable rate debt ratio. As of December 31, 2004, we had interest rate swaps and interest rate caps designated as cash flow hedges, which are accounted for in conformity with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 and No. 149, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133."

The following table shows information regarding the fair value of our interest rate swaps and caps designated as cash flow hedge agreements, which is included in the "Accounts payable, accrued expenses and other liabilities" line item in the Consolidated Balance Sheets, and additional interest expense and unrealized gains (losses) recorded in OCI for the year ended December 31, 2004.

EFFECTIVE DATE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FAIR MARKET VALUE	ADDITIONAL INTEREST EXPENSE	CHANGE IN UNREALIZED GAI (LOSSES) IN OC
(in thousands)						
INTEREST RATE SWAPS						

4/18/00	$100,000	4/18/04	6.76%	$ -	$ 1,712	$ 1,69
2/15/03	100,000	2/15/06	3.26%	(232)	1,845	2,11
2/15/03	100,000	2/15/06	3.25%	(229)	1,842	2,11
9/02/03	200,000	9/01/06	3.72%	(1,585)	4,712	5,07
7/08/04(1)	11,266	1/01/06	2.94%	22	-	2
				$ (2,024)	$ 10,111	$ 11,01
INTEREST RATE CAPS						
7/08/04(1)	$ 12,206	1/01/06	4.00%	$ 1	$ -	$ (1
12/21/04	70,000	1/09/06	3.50%	53	-	(2
				$ (1,970)	$ 10,111	$ 10,97

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(1)Cash flow hedge is at CRDI, a consolidated subsidiary.

In addition , two of our unconsolidated companies have interest rate caps designated as cash flow hedges of which our portion of change in unrealized gains reflected in OCI was approximately $0.8 million for the year ended December 31, 2004.

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REIT QUALIFICATION

We intend to maintain our qualification as a REIT under Section 856 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, and operate in a manner intended to enable us to continue to qualify as a REIT. As a REIT, we generally will not be subject to corporate federal income tax on income that we currently distributes to our shareholders, provided that we satisfy certain organizational and operational requirements of the Code, including the requirement to distribute at least 90% of its REIT taxable income to its shareholders.

UNCONSOLIDATED INVESTMENTS

The following is a summary of our ownership in significant unconsolidated joint ventures and investments as of December 31, 2004.

ENTITY	CLASSIFICATION
Main Street Partners, L.P.	Office (Bank One Center-Dallas)
Crescent Miami Center, LLC	Office (Miami Center - Miami)
Crescent Big Tex I, L.P.	Office (Post Oak, Houston Center - Houston) Office (The Crescent - Dallas)
Crescent Big Tex II, L.P.	Office (Trammell Crow Center, Fountain Place - Dallas)
Crescent Five Post Oak Park L.P.	Office (Five Post Oak - Houston)
Crescent One BriarLake Plaza, L.P.	Office (BriarLake Plaza - Houston)
Crescent 5 Houston Center, L.P.	Office (5 Houston Center-Houston)
Austin PT BK One Tower Office Limited Partnership	Office (Bank One Tower-Austin)
Houston PT Three Westlake Office Limited Partnership	Office (Three Westlake Park - Houston)
Houston PT Four Westlake Office Limited	

Partnership	Office (Four Westlake Park-Houston)
AmeriCold Realty Trust	Temperature-Controlled Logistics
Blue River Land Company, L.L.C.	Other
Canyon Ranch Las Vegas, L.L.C.	Other
EW Deer Valley, L.L.C.	Other
CR License, L.L.C.	Other
CR License II, L.L.C.	Other
SunTx Fulcrum Fund, L.P.	Other
SunTx Capital Partners, L.P.	Other
G2 Opportunity Fund, L.P. (G2)	Other

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(1) The remaining 50% interest in Main Street Partners, L.P. is owned by Trizec Properties, Inc.

(2) The remaining 60% interest in Crescent Miami Center, LLC is owned by an affiliate of a fund managed by JPM.

(3) We have negotiated performance based incentives that allow for additional equity to be earned if return targets are exceeded.

(4) Of the remaining 76.1% interest in Crescent Big Tex I, L.P. , 60% is owned by a fund advised by JPM and 16.1% is owned by affiliates of GE.

(5) The remaining 76.1% interest in Crescent Big Tex II, L.P. is owned by a fund advised by JPM.

(6) The remaining 70% interest in Crescent Five Post Oak Park, L.P. is owned by an affiliate of GE.

(7) The remaining 70% interest in Crescent One BriarLake Plaza, L.P. is owned by affiliates of JPM.

(8) The remaining 75% interest in Crescent 5 Houston Center, L.P. is owned by a pension fund advised by JPM.

(9) The remaining 80% interest in each of Austin PT BK One Tower Office Limited Partnership, Houston PT Three Westlake Office Limited Partnership and Houston PT Four Westlake Office Limited Partnership is owned by an affiliate of General Electric Pension Fund Trust.

(10) Of the remaining 68.3% interest in AmeriCold Realty Trust, 47.6% is owned by Vornado and 20.7% is owned by The Yucaipa Companies.

(11) The remaining 50% interest in Blue River Land Company, L.L.C. is owned by parties unrelated to us. Blue River Land Company, L.L.C. was formed to acquire, develop and sell certain real estate property in Summit County, Colorado.

(12) Of the remaining 50% interest in Canyon Ranch Las Vegas, L.L.C., 35% is owned by an affiliate of the management company of two of our Resort/Hotel Properties and 15% is owned by us through our investments in CR License II, L.L.C. Canyon Ranch Las Vegas, L.L.C. operates a Canyon Ranch spa in a hotel in Las Vegas. In January 2005, this entity was contributed to CR Spa, L.L.C.

(13) The remaining 58.3% interest in EW Deer Valley, L.L.C. is owned by parties unrelated to us. EW Deer Valley, L.L.C. was formed to acquire, hold and dispose of its 3.3% ownership interest in Empire Mountain Village, L.L.C. Empire Mountain Village, L.L.C. was formed to acquire, develop and sell certain real estate property at Deer Valley Ski Resort next to Park

City, Utah.

(14) The remaining 70% interest in CR License, L.L.C. is owned by an affiliate of the management company of two of our Resort/Hotel Properties. CR License, L.L.C. owns the licensing agreement related to certain Canyon Ranch trade names and trademarks. In January 2005, this entity was contributed to CR Operating L.L.C.

(15) The remaining 70% interest in CR License II, L.L.C. is owned by an affiliate of the management company of two of our Resort/Hotel Properties. CR License II, L.L.C. and its wholly-owned subsidiaries provide management and development consulting services to a variety of entities in the hospitality, real estate, and health and wellness industries. In January 2005, this entity was contributed to CR Spa, L.L.C.

(16) Of the remaining 76.5% of SunTx Fulcrum Fund, 37.1% is owned by SunTx Capital Partners, L.P. and the remaining 39.4% is owned by a group of individuals unrelated to us. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of entities that offer the potential for substantial capital appreciation.

(17) SunTx Capital Partners, L.P. is the general Partner of the SunTx Fulcrum Fund, L.P.The remaining 85.5% interest in SunTx Capital Partners, L.P. is owned by parties unrelated to us.

(18) G2 was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments. The remaining 87.5% interest in G2 is owned by Goff-Moore Strategic Partners, L.P. , or GMSPLP, and by parties unrelated to us.G2 is managed and controlled by an entity that is owned equally by GMSPLP and GMAC Commercial Mortgage Corporation, or GMACCM. The ownership structure of GMSPLP consists of an approximately 86% limited partnership interest owned directly and indirectly by Richard E. Rainwater, Chairman of our Board of Trust Managers, and an approximately 14% general partnership interest, of which approximately 6% is owned by Darla Moore, who is married to Mr. Rainwater, and approximately 6% is owned by John C. Goff, Vice-Chairman of our Board of Trust Managers and our Chief Executive Officer. The remaining approximately 2% general partnership interest is owned by unrelated parties. Our investment balance at December 31, 2004 was $13.0 million and in February 2005 we received a cash distribution of approximately $17.9 million, bringing the total distributions to $40.3 million on an initial investment of $24.2 million.

SIGNIFICANT ACCOUNTING POLICIES

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities where that information is available from other sources. Certain estimates are particularly sensitive due to their significance to the financial statements. Actual results

may differ significantly from management's estimates.

We believe that the most significant accounting policies that involve the use estimates and assumptions as to future uncertainties and, therefore, may result in actual amounts that differ from estimates are the following:

- Impairments,
- Acquisition of operating properties,
- Relative sales method and percentage of completion (Residential Development entities),
- Gain recognition on sale of real estate assets,
- Consolidation of variable interest entities, and
- Allowance for doubtful accounts.

IMPAIRMENTS.Real estate and leasehold improvements are classified as long-lived assets held for sale or long-lived assets to be held and used. In accordance with SFAS No. 144, we record assets held for sale at the lower of carrying value or sales price less costs to sell. For assets classified as held and used, these assets are tested for recoverability when events or changes in circumstances indicate that the estimated carrying amount may not be recoverable. An impairment loss is recognized when expected undiscounted future cash flows from a Property is less than the carrying value of the Property. Our estimates of cash flows of the Properties requires us to make assumptions related to future rental rates, occupancies, operating expenses, the ability of our tenants to perform pursuant to their lease obligations and proceeds to be generated from the eventual sale of our Properties. Any changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of additional impairment losses.

If events or circumstances indicate that the fair value of an investment accounted for using the equity method has declined below its carrying value and we consider the decline to be "other than temporary," the investment is written down to fair value and an impairment loss is recognized. The evaluation of impairment for an investment would be based on a number of factors, including financial condition and operating results for the investment, inability to remain in compliance with provisions of any related debt agreements, and recognition of impairments by other investors. Impairment recognition would negatively impact the recorded value of our investment and reduce net income.

ACQUISITION OF OPERATING PROPERTIES. We allocate the purchase price of acquired properties to tangible and identified intangible assets acquired based on their fair values in accordance with SFAS No. 141, "Business Combinations." We initially record the allocation based on a preliminary purchase price allocation with adjustments recorded within one year of the acquisition.

In making estimates of fair value for purposes of allocating purchase price, management utilizes sources, including, but not limited to, independent value consulting services, independent appraisals that may be obtained in

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connection with financing the respective property, and other market

data. Management also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

The aggregate value of the tangible assets acquired is measured based on the sum of (i) the value of the property and (ii) the present value of the amortized in-place tenant improvement allowances over the remaining term of each lease. Management's estimates of the value of the property are made using models similar to those used by independent appraisers. Factors considered by management in its analysis include an estimate of carrying costs such as real estate taxes, insurance, and other operating expenses and estimates of lost rentals during the expected lease-up period assuming current market conditions. The value of the property is then allocated among building, land, site improvements, and equipment. The value of tenant improvements is separately estimated due to the different depreciable lives.

The aggregate value of intangible assets acquired is measured based on the difference between (i) the purchase price and (ii) the value of the tangible assets acquired as defined above. This value is then allocated among above-market and below-market in-place lease values, costs to execute similar leases (including leasing commissions, legal expenses and other related expenses), in-place lease values and customer relationship values.

Above-market and below-market in-place lease values for acquired properties are calculated based on the present value (using a market interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease for above-market leases and the initial term plus the term of the below-market fixed rate renewal option, if any, for below-market leases. We perform this analysis on a lease by lease basis. The capitalized above-market lease values are amortized as a reduction to rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term plus the term of the below-market fixed rate renewal option, if any, of the respective leases.

Management estimates costs to execute leases similar to those acquired at the property at acquisition based on current market conditions. These costs are recorded based on the present value of the amortized in-place leasing costs on a lease by lease basis over the remaining term of each lease.

The in-place lease values and customer relationship values are based on management's evaluation of the specific characteristics of each customer's lease and our overall relationship with that respective customer. Characteristics considered by management in allocating these values include the nature and extent of our existing business relationships with the customer, growth prospects for developing new business with the customer, the customer's credit quality, and the expectation of lease renewals, among other factors. The in-place lease value and customer relationship value are both amortized to expense over the initial term of the respective leases and projected renewal periods, but in no event does the amortization period for the intangible assets exceed the remaining depreciable life of the building.

Should a tenant terminate its lease, the unamortized portion of the in-place lease value and the customer relationship value and above-market and below-market lease values would be charged to expense.

RELATIVE SALES METHOD AND PERCENTAGE OF COMPLETION. We use the accrual method to recognize earnings from the sale of Residential Development Properties when a third-party buyer had made an adequate cash down payment and

has attained the attributes of ownership. If a sale does not qualify for the accrual method of recognition, deferral methods are used as appropriate including the percentage-of-completion method. In certain cases, when we receive an inadequate cash down payment and take a promissory note for the balance of the sales price, revenue recognition is deferred until such time as sufficient cash is received to meet minimum down payment requirements. The cost of residential property sold is defined based on the type of product being purchased. The cost of sales for residential lots is generally determined as a specific percentage of the sales revenues recognized for each Residential Development project. The percentages are based on total estimated development costs and sales revenue for each Residential Development project. These estimates are revised annually and are based on the then-current development strategy and operating assumptions utilizing internally developed projections for product type, revenue and related development costs. The cost of sales for residential units (such as townhomes and condominiums) is determined using the relative sales value method. If the residential unit has been sold prior to the completion of infrastructure cost, and those uncompleted costs are not significant in relation to total costs, the full accrual method is utilized. Under this method, 100% of the revenue is recognized, and a commitment liability is established to reflect the allocated estimated future costs to complete the residential unit. If our estimates of costs or

the percentage of completion is incorrect, it could result in either an increase or decrease in cost of sales expense or revenue recognized and therefore, an increase or decrease in net income.

GAIN RECOGNITION ON SALE OF REAL ESTATE ASSETS. We perform evaluations of each real estate sale to determine if full gain recognition is appropriate in accordance with SFAS No. 66, "Accounting for Sales of Real Estate. "The application of SFAS No. 66 can be complex and requires us to make assumptions including an assessment of whether the risks and rewards of ownership have been transferred, the extent of the purchaser's investment in the property being sold, whether our receivables, if any, related to the sale are collectible and are subject to subordination, and the degree of our continuing involvement with the real estate asset after the sale. If full gain recognition is not appropriate, we account for the sale under an appropriate deferral method.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES. We perform evaluations of each of our investment partnerships, real estate partnerships and joint ventures to determine if the associated entities constitute a Variable Interest Entity, or VIE, as defined under Interpretations 46 and 46R, "Consolidation of Variable Interest Entities," or FIN 46 and 46R, respectively. In general, a VIE is an entity that has (i) an insufficient amount of equity for the entity to carry on its principal operations, without additional subordinated financial support from other parties, (ii) a group of equity owners that are unable to make decisions about the entity's activities, or (iii) equity that does not absorb the entity's losses or receive the benefits of the entity. If any one of these characteristics is present, the entity is subject to FIN 46R's variable interests consolidation model.

Quantifying the variability of VIEs is complex and subjective, requiring consideration and estimates of a significant number of possible future outcomes as well as the probability of each outcome occurring. The results of each possible outcome are allocated to the parties holding interests in the VIE and, based on the allocation, a calculation is performed to determine which party, if any, has a majority of the potential negative outcomes (expected losses) or a majority of the potential positive outcomes (expected residual returns). That party, if any, is the VIE's primary beneficiary and is required

to consolidate the VIE. Calculating expected losses and expected residual returns requires modeling potential future results of the entity, assigning probabilities to each potential outcome, and allocating those potential outcomes to the VIE's interest holders. If our estimates of possible outcomes and probabilities are incorrect, it could result in the inappropriate consolidation or deconsolidation of the VIE.

For entities that do not constitute VIEs, we consider other GAAP, as required, determining (i) consolidation of the entity if our ownership interests comprise a majority of its outstanding voting stock or otherwise control the entity, or (ii) application of the equity method of accounting if we do not have direct or indirect control of the entity, with the initial investment carried at costs and subsequently adjusted for our share of net income or less and cash contributions and distributions to and from these entities.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. Our accounts receivable balance is reduced by an allowance for amounts that may become uncollectible in the future. Our receivable balance is composed primarily of rents and operating cost recoveries due from its tenants, receivables associated with club memberships at our Residential Development properties and guest receivables at our Resort/Hotel properties. We also maintain an allowance for deferred rent receivables which arise from the straight-lining of rents. The allowance for doubtful accounts is reviewed at least quarterly for adequacy by reviewing such factors as the credit quality of our tenants or members, any delinquency in payment, historical trends and current economic conditions. If the assumptions regarding the collectibility of accounts receivable prove incorrect, we could experience write-offs in excess of its allowance for doubtful accounts, which would result in a decrease in net income.

ADOPTION OF NEW ACCOUNTING STANDARDS

EITF 03-1. At the March 17-18, 2004 meeting, consensus was reached by the FASB Emerging Issues Task Force on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. " The Consensus applies to investments in debt and equity securities within the scope of SFAS Nos. 115, "Accounting for Certain Investments in Debt and Equity Securities," and 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations. "It also applies to investments in equity securities that are both

outside SFAS No. 115's scope and not accounted for under the equity method. The Task Force reached a consensus that certain quantitative and qualitative disclosures should be required for securities that are impaired at the balance sheet date but for which an other - than-temporary impairment has not been recognized. The new impairment guidance creates a model that calls for many judgments and additional evidence gathering in determining whether or not securities are other-than-temporarily impaired and lists some of these impairment indicators. The impairment accounting guidance is effective for periods beginning after June 15, 2004 and the disclosure requirements for annual reporting periods are effective for periods ending after June 15, 2004. We adopted EITF 03-1 effective July 1, 2004 and it had no impact on our financial condition or its results of operations.

SFAS NO. 123R. In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment." The new FASB rule requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. We will be required to apply SFAS No. 123R as of the first interim reporting period that begins after June 15, 2005.

The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees."SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Effective January 1, 2003, we adopted the fair value expense recognition provisions of SFAS No. 123 on a prospective basis. Except for the 2004 Unit Plan, we do not believe there will be a significant impact to our financial condition or results of operations from the adoption of SFAS No. 123R. We are continuing to evaluate the impact of the adoption of SFAS No. 123R as it relates to the 2004 Unit Plan.

SFAS NO. 153. In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29. "The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe there will be an impact to our financial condition or results of operations from the adoption of SFAS No. 153.

SOP 04-2. In December 2004, the AICPA issued Statement of Position, or SOP, 04-2, "Accounting for Real Estate Time-Sharing Transactions." This SOP provides guidance to a seller of real estate time sharing interests and provides, among other requirements, that uncollectibles be reflected as a reduction of revenues rather than as bad debt expense. The provisions in the SOP are effective for financial statements for fiscal years beginning after June 15, 2005. To facilitate the issuance of this standard, the FASB issued Statement No. 152, "Accounting for Real Estate Time-Sharing Transactions - An Amendment of FASB Statements No. 66 and 67," on December 16, 2004 which references the financial accounting and reporting guidance for real estate time-sharing transactions to SOP 04-2. We do not believe there will be a significant impact to our financial condition or results of operations from the adoption of SOP 04-2.

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FUNDS FROM OPERATIONS

FFO, as used in this document, means:

- Net Income (Loss) - determined in accordance with GAAP;
- excluding gains (or losses) from sales of depreciable operating property;
- excluding extraordinary items (as defined by GAAP);
- plus depreciation and amortization of real estate assets; and
- after adjustments for unconsolidated partnerships and joint ventures.

We calculate FFO available to common shareholders - diluted - NAREIT

definition in the same manner, except that Net Income (Loss) is replaced by Net Income (Loss) Available to Common Shareholders and we include the effect of operating partnership unitholder minority interests.

The National Association of Real Estate Investment Trusts, or NAREIT, developed FFO as a relative measure of performance and liquidity of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP.We consider FFO available to common shareholders - diluted - NAREIT definition and FFO appropriate measures of performance for an equity REIT and for its investment segments.However, FFO available to common shareholders - diluted - NAREIT definition and FFO should not be considered an alternative to net income determined in accordance with GAAP as an indication of our operating performance.

The aggregate cash distributions paid to common shareholders and unitholders for the years ended December 31, 2004, 2003 and 2002 were $175.6 million, $175.5 million, and $176.4 million respectively.We reported Adjusted FFO available to common shareholders - diluted of $143.2 million, $212.6, and $238.2 million, for the years ended December 31, 2004, 2003, and 2002 respectively.We calculate Adjusted FFO available to common shareholders - diluted by excluding the effect of impairment charges related to real estate assets and the effect of extinguishment of debt expense related to real estate asset sales.We reported FFO available to common shareholders - diluted - NAREIT definition of $95.7 million, $174.8 million, and $212.1million for the years ended December 31, 2004, 2003, and 2002.

An increase or decrease in FFO available to common shareholders - diluted - NAREIT definition does not necessarily result in an increase or decrease in aggregate distributions because our Board of Trust Managers is not required to increase distributions on a quarterly basis unless necessary to maintain our REIT status.However, we must distribute 90% of our REIT taxable income (as defined in the Code).Therefore, a significant increase in FFO available to common shareholders - diluted - NAREIT definition will generally require an increase in distributions to shareholders and unitholders although not necessarily on a proportionate basis.

Accordingly, we believe that to facilitate a clear understanding of our consolidated historical operating results, FFO available to common shareholders - diluted - NAREIT definition should be considered in conjunction with our net income and cash flows reported in the consolidated financial statements and notes to the financial statements.However, our measure of FFO available to common shareholders - diluted - NAREIT definition may not be comparable to similarly titled measures of other REITs because these REITs may apply the definition of FFO in a different manner than we apply it.

CONSOLIDATED STATEMENTS OF FUNDS FROM OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,	
	2004	2003
Net income	$ 172,936	$ 26,022
Adjustments to reconcile net income to funds from operations available to common shareholders - diluted:		
Depreciation and amortization of real estate assets	156,766	150,788
Gain on property sales, net	(267,053)	(8,919)

Extinguishment of debt expense related to real estate asset sales (1)	39,121	-
Impairment charges related to real estate assets and assets held for sale	6,008	37,794
Adjustment for investments in unconsolidated companies:		
Office Properties	11,601	6,254
Resort/Hotel Properties	-	(2,544)
Residential Development Properties	(228)	3,573
Temperature-Controlled Logistics Properties (2)	24,873	21,136
Other	-	206
Unitholder minority interest	30,950	4,546
Series A Preferred Share distributions	(23,723)	(18,225)
Series B Preferred Share distributions	(8,075)	(8,075)
Adjusted funds from operations available to common shareholders -diluted(3)	$ 143,176	$ 212,556
Impairment charges related to real estate assets	(8,332)	(37,794)
Extinguishment of debt expense related to real estate asset sales(1)	(39,121)	-
Funds from operations available to common shareholders -diluted(3) - NAREIT definition	$ 95,723	$ 174,762
Investment Segments:		
Office Properties	$ 268,829	$ 282,838
Resort/Hotel Properties	44,978	51,123
Residential Development Properties	31,216	88,127
Temperature-Controlled Logistics Properties (2)	31,026	23,308
Other:		
Corporate general and administrative	(38,889)	(32,661)
Interest expense	(176,771)	(172,232)
Series A Preferred Share distributions	(23,723)	(18,225)
Series B Preferred Share distributions	(8,075)	(8,075)
Other(4)	14,585	(1,647)
Adjusted funds from operations available to common shareholders -diluted(3)	$ 143,176	$ 212,556
Impairment charges related to real estate assets	(8,332)	(37,794)
Extinguishment of debt expense related to real estate asset sales(1)	(39,121)	-
Funds from operations available to common shareholders -diluted(3) - NAREIT definition	$ 95,723	$ 174,762
Basic Weighted average shares outstanding	99,025	98,886
Diluted Weighted average shares and units outstanding (5)	116,966	116,676

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(1) Extinguishment of debt directly related to the sale of real estate assets.An additional $3.5 million for the year ended 2004 of extinguishment of debt that is not related to the sale of real estate assets is included in funds from operations available to common shareholders.

(2) Excludes impairment charges related to real estate assets of $2.3 million for the year ended 2004.

(3) To calculate basic funds from operations available to common shareholders, deduct unitholder minority interest.

(4) Includes income from investment land sales, net, interest and other

income, extinquishment of debt, income/loss from other unconsolidated companies, other expenses, depreciation and amortization of non-real estate assets, and amortization of deferred financing costs.

(5) See calculations for the amounts presented in the reconciliation following this table.

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The following schedule reconciles our basic weighted average shares to the diluted weighted average shares/units presented above:

(shares/units in thousands)	FOR THE YEARS ENDED DECEMBER 31, 2004	2003
Basic weighted average shares:	99,025	98,886
Add: Weighted average units	17,722	17,749
Restricted shares and share and unit options	219	41
Diluted weighted average shares and units	116,966	116,676

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our use of financial instruments, such as debt instruments, subject us to market risk which may affect our future earnings and cash flows as well as the fair value of our assets. Market risk generally refers to the risk of loss from changes in interest rates and market prices. We manage our market risk by attempting to match anticipated inflow of cash from its operating, investing and financing activities with anticipated outflow of cash to fund debt payments, distributions to shareholders, investments, capital expenditures and other cash requirements. We also enter into derivative financial instruments such as interest rate swaps to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt.

The following discussion of market risk is based solely on hypothetical changes in interest rates related to our variable rate debt. This discussion does not purport to take into account all of the factors that may affect the financial instruments discussed in this section.

INTEREST RATE RISK

Our interest rate risk is most sensitive to fluctuations in interest rates on our short-term variable rate debt. We had total outstanding debt of approximately $2.2 billion at December 31, 2004, of which approximately $188.5 million, or approximately 8.8%, was unhedged variable rate debt. The variable rate debt is based on an index (LIBOR or Prime plus a credit spread). The weighted average interest rate on such unhedged variable rate debt was 4.7% as of December 31, 2004. A 10% increase in the underlying index would cause an increase of 34.5 basis points to the weighted average interest rate on such unhedged variable rate debt, which would result in an annual decrease in net income and cash flows of approximately $0.7 million. Conversely, a 10 % decrease in the underlying index would cause a decrease of 34.5 basis points to the weighted average interest rate on such unhedged variable rate debt, which would

result in an annual increase in net income and cash flows of approximately $0.7 million based on the unhedged variable rate debt outstanding as of December 31, 2004.

CASH FLOW HEDGES

We use derivative financial instruments to convert a portion of our variable rate debt to fixed rate debt and to manage the fixed to variable rate debt ratio. A description of these derivative financial instruments is contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Equity and Debt Financing - Derivative Instruments and Hedging Activities."

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm...

Consolidated Balance Sheets at December 31, 2004 and 2003......................................

Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002.......

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2004, 2003, and 2002...

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 ......

Notes to Consolidated Financial Statements...

Schedule III Consolidated Real Estate Investments and Accumulated Depreciation..................

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Trust Managers and Shareholders
Crescent Real Estate Equities Company and subsidiaries

We have audited the accompanying consolidated balance sheets of Crescent Real Estate Equities Company and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Crescent Real Estate Equities Company and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles," as of January 1, 2002. As a result, the Company recorded the cumulative effect of a change in accounting principle in the consolidated statement of operations for the year ended December 31, 2002, referred to above, in accordance with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Crescent Real Estate Equities Company and subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005, expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

ERNST & YOUNG LLP

Dallas, Texas
March 14, 2005

CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS:
Investments in real estate:
Land
Land improvements, net of accumulated depreciation of $23,592 and $19,270 at December 31, 2004 and December 31, 2003, respectively
Building and improvements, net of accumulated depreciation of $416,530 and $576,682 at December 31, 2004 and December 31, 2003, respectively

Furniture, fixtures and equipment, net of accumulated depreciation of $40,562 and $33,344 at December 31, 2004 and December 31, 2003, respectively
Land held for investment or development
Properties held for disposition, net

Net investment in real estate

Cash and cash equivalents
Restricted cash and cash equivalents
Defeasance investments
Accounts receivable, net
Deferred rent receivable
Investments in unconsolidated companies
Notes receivable, net
Income tax asset - current and deferred, net
Other assets, net

Total assets

LIABILITIES:
Borrowings under Credit Facility
Notes payable
Accounts payable, accrued expenses and other liabilities
Current income tax payable

Total liabilities

COMMITMENTS AND CONTINGENCIES:
MINORITY INTERESTS:
Operating partnership, 10,535,139 and 8,873,347 units, at December 31, 2004 and December 31, 2003, respectively
Consolidated real estate partnerships

Total minority interests

SHAREHOLDERS' EQUITY:
Preferred shares, $0.01 par value, authorized 100,000,000 shares:
Series A Convertible Cumulative Preferred Shares, liquidation preference of $25.00 per share, 14,200,000 and 10,800,000 shares issued and outstanding at December 31, 2004 and December 31, 2003 respectively
Series B Cumulative Preferred Shares, liquidation preference of $25.00 per share, 3,400,000 shares issued and outstanding at December 31, 2004 and December 31, 2003
Common shares, $0.01 par value, authorized 250,000,000 shares, 124,542,018 and 124,396,168 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively
Additional paid-in capital
Deferred compensation on restricted shares
Accumulated deficit
Accumulated other comprehensive income

Less - shares held in treasury, at cost, 25,121,861 common shares at December 31, 2004 and December 31, 2003

Total shareholders' equity

Total liabilities and shareholders' equity

The accompanying notes are an integral part of these

consolidated financial statements.

CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEARS
	2004
REVENUE:	
Office Property	$ 484,049
Resort/Hotel Property	183,515
Residential Development Property	311,197
Total Property Revenue	$ 978,761
EXPENSE:	
Office Property real estate taxes	$ 60,390
Office Property operating expenses	173,969
Resort/Hotel Property expense	155,812
Residential Development Property expense	271,819
Total Property Expense	$ 661,990
Income from Property Operations	$ 316,771
OTHER INCOME (EXPENSE):	
Income from sale of investment in unconsolidated company, net	$ -
Income from investment land sales, net	18,879
Gain on joint venture of properties, net	265,772
Loss on property sales, net	-
Interest and other income	18,005
Corporate general and administrative	(38,889)
Interest expense	(176,771)
Amortization of deferred financing costs	(13,056)
Extinguishment of debt	(42,608)
Depreciation and amortization	(163,630)
Impairment charges related to real estate assets	(4,094)
Other expenses	(725)
Equity in net income (loss) of unconsolidated companies:	
Office Properties	6,262
Resort/Hotel Properties	(245)
Residential Development Properties	(2,266)
Temperature-Controlled Logistics Properties	6,153
Other	(280)
Total other income (expense)	$(127,493)
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES	$ 189,278
Minority interests	(37,211)
Income tax benefit (provision)	12,937
INCOME BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT	

OF A CHANGE IN ACCOUNTING PRINCIPLE	$ 165,004	$
Income from discontinued operations, net of minority interests	10,221	
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(2,978)	
Gain on real estate from discontinued operations, net of minority interests	1,052	
Cumulative effect of a change in accounting principle, net of minority interests	(363)	
NET INCOME	$ 172,936	$
Series A Preferred Share distributions	(23,723)	
Series B Preferred Share distributions	(8,075)	
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 141,138	$
BASIC EARNINGS PER SHARE DATA:		
Income available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ 1.35	$
Income from discontinued operations, net of minority interests	0.10	
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(0.03)	
Gain on real estate from discontinued operations, net of minority interests	0.01	
Cumulative effect of a change in accounting principle, net of minority interests	-	
Net income (loss) available to common shareholders - basic	$ 1.43	$
DILUTED EARNINGS PER SHARE DATA:		
Income available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ 1.34	$
Income from discontinued operations, net of minority interests	0.10	
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(0.03)	
Gain on real estate from discontinued operations, net of minority interests	0.01	
Cumulative effect of a change in accounting principle, net of minority interests	-	
Net income (loss) available to common shareholders - diluted	$ 1.42	$

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

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CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	Series A Preferred Shares		Series B Preferred Shares		Treasury Shares	
	Shares	Net Value	Shares	Net Value	Shares	Net Val

SHAREHOLDERS' EQUITY, December 31, 2001	8,000,000	$ 200,000	-	$ -	18,770,418	$ (359,
Preferred Equity Issuance	2,800,000	48,160	3,400,000	81,923	-	
Issuance of Common Shares	-	-	-	-	-	
Exercise of Common Share Options	-	-	-	-	-	
Extension on employee stock option notes	-	-	-	-	-	
Deferred Compensation	-	-	-	-	-	
Issuance of Shares in Exchange for Operating Partnership Units	-	-	-	-	-	
Share Repurchases	-	-	-	-	6,298,341	(99,
Dividends Paid	-	-	-	-	-	
Net Income Available to Common Shareholders	-	-	-	-	-	
Unrealized Loss or Marketable Securities	-	-	-	-	-	
Unrealized Net Gain on Cash Flow Hedges	-	-	-	-	-	
SHAREHOLDERS' EQUITY, December 31, 2002	10,800,000	$ 248,160	3,400,000	$ 81,923	25,068,759	$ (459,
Issuance of Common Shares	-	-	-	-	-	
Exercise of Common Share Options	-	-	-	-	-	
Accretion of Discount on Employee Stock Option Notes	-	-	-	-	-	
Issuance of Shares in Exchange for Operating Partnership Units	-	-	-	-	-	
Stock Option Grants	-	-	-	-	-	
Purchase under Compensation Plan	-	-	-	-	53,102	(
Amortization of Deferred Compensation on Restricted Shares	-	-	-	-	-	
Dividends Paid	-	-	-	-	-	
Net Loss Available to Common Shareholders	-	-	-	-	-	

Unrealized Gain on Marketable Securities	-	-	-	-	-	
Unrealized Net Gain on Cash Flow Hedges	-	-	-	-	-	
SHAREHOLDERS' EQUITY, December 31, 2003	10,800,000	$ 248,160	3,400,000	$ 81,923	25,121,861	$ (460,
Issuance of Common Shares	-	-	-	-	-	
Exercise of Common Share Options	-	-	-	-	-	
Accretion of Discount on Employee Stock Option Notes	-	-	-	-	-	
Issuance of Shares in Exchange for Operating Partnership Units	-	-	-	-	-	
Preferred Equity Issuance	3,400,000	71,006	-	-	-	
Stock Option Grants	-	-	-	-	-	
Amortization of Deferred Compensation on Restricted Shares	-	-	-	-	-	
Dividends Paid	-	-	-	-	-	
Net Income Available to Common Shareholders	-	-	-	-	-	
Unrealized Net Gain on Marketable Securities	-	-	-	-	-	
Unrealized Net Gain on Cash Flow Hedges	-	-	-	-	-	
SHAREHOLDERS' EQUITY, December 31, 2004	14,200,000	$ 319,166	3,400,000	$ 81,923	25,121,861	$ (460,

	Additional Paid-in Capital	Deferred Compensation on Restricted Shares	Accumulated (Deficit)	Accumulated Other Comprehensive Income	Tota
SHAREHOLDERS' EQUITY, December 31, 2001	$2,234,360	$ -	$ (638,435)	$ (31,484)	$1,405
Issuance of Preferred Shares	-	-	-	-	130
Issuance of Common Shares	153	-	-	-	

Exercise of Common Share Options	577	-	-	-	
Extension on employee stock option notes	1,628	-	-	-	1
Deferred Compensation	5,250	(5,253)	-	-	
Issuance of Shares in Exchange for Operating Partnership Units	1,493	-	-	-	1
Share Repurchases	(42)	-	-	-	(99
Dividends Paid	-	-	(155,584)	-	(155
Net Income Available to Common Shareholders	-	-	65,959	-	65
Unrealized Loss or Marketable Securities	-	-	-	(833)	
Unrealized Net Gain on Cash Flow Hedges	-	-	-	5,065	5
SHAREHOLDERS' EQUITY, December 31, 2002	$2,243,419	$ (5,253)	$ (728,060)	$ (27,252)	$1,354
Issuance of Common Shares	157	-	-	-	
Exercise of Common Share Options	1,436	-	-	-	1
Accretion of Discount on Employee Stock Option Notes	(252)	-	-	-	
Issuance of Shares in Exchange for Operating Partnership Units	8	-	-	-	
Stock Option Compensation	915	-	-	-	
Purchase under Compensation Plan	-	-	-	-	
Amortization of Deferred Compensation on Restricted Shares	-	1,151	-	-	1
Dividends Paid	-	-	(148,782)	-	(148
Net Loss Available to Common Shareholders	-	-	(278)	-	
Unrealized Gain on Marketable Securities	-	-	-	3,761	3
Unrealized Net Gain on Cash Flow Hedges	-	-	-	9,662	9

SHAREHOLDERS' EQUITY, December 31, 2003	$2,245,683	$ (4,102)	$ (877,120)	$ (13,829)	$1,221
Issuance of Common Shares	130	-	-	-	
Exercise of Common Share Options	821	-	-	-	
Accretion of Discount on Employee Stock Option Notes	(252)	-	-	-	
Issuance of Shares in Exchange for Operating Partnership Units	(37)	-	-	-	
Preferred Equity Issuance	-	-	-	-	71
Stock Option Grants	(10)	-	-	-	
Amortization of Deferred Compensation on Restricted Shares	-	1,869	-	-	1
Dividends Paid	-	-	(149,034)	-	(149
Net Income Available to Common Shareholders	-	-	141,138	-	141
Unrealized Net Gain on Marketable Securities	-	-	-	1,036	1
Unrealized Net Gain on Cash Flow Hedges	-	-	-	11,771	11
SHAREHOLDERS' EQUITY, December 31, 2004	$2,246,335	$ (2,233)	$ (885,016)	$ (1,022)	$1,300

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

CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	FOR THE YE	
	2004	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 172,936	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	176,686	
Residential Development cost of sales	161,853	

Residential Development capital expenditures	(205,714)
Impairment charges related to real estate assets from discontinued operations, net of minority interests	2,978
Gain on real estate from discontinued operations, net of minority interests	(1,052)
Discontinued operations - depreciation and minority interests	5,152
Extinguishment of debt	6,459
Impairment charges related to real estate assets	4,094
Gain from sale of investment in unconsolidated company, net of tax	-
Income from investment land sales, net	(18,879)
Gain on joint venture of properties, net	(265,772)
Loss on property sales, net	-
Minority interests	37,211
Cumulative effect of a change in accounting principle, net of minority interests	363
Non-cash compensation	1,737
Equity in (earnings) loss from unconsolidated companies:	
Office Properties	(6,262)
Ownership portion of Office Properties Fee	1,833
Resort/Hotel Properties	245
Residential Development Properties	2,266
Temperature-Controlled Logistics Properties	(6,153)
Other	280
Distributions received from unconsolidated companies:	
Office Properties	4,833
Resort/Hotel Properties	-
Residential Development Properties	113
Temperature-Controlled Logistics Properties	1,822
Other	1,214
Change in assets and liabilities, net of effect of consolidations and acquisitions:	
Restricted cash and cash equivalents	54,889
Accounts receivable	(17,924)
Deferred rent receivable	(16,246)
Income tax -current and deferred, net	(21,657)
Other assets	(16,449)
Accounts payable, accrued expenses and other liabilities	34,828
Net cash provided by operating activities	$ 95,684
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net cash impact of consolidation of previously unconsolidated companies	$ 334
Proceeds from property sales	174,881
Proceeds from sale of investment in unconsolidated company and related property sales	3,229
Proceeds from joint venture partner	1,028,913
Acquisition of investment properties	(381,672)
Development of investment properties	(4,142)
Property improvements - Office Properties	(14,297)
Property improvements - Resort/Hotel Properties	(27,739)
Tenant improvement and leasing costs - Office Properties	(92,876)
Residential Development Properties Investments	(35,428)
Decrease (increase) in restricted cash and cash equivalents	75,395
Purchase of defeasance investments and other securities	(206,515)
Proceeds from defeasance investment maturities	13,754
Return of investment in unconsolidated companies:	
Office Properties	2,981
Resort/Hotel Properties	1,299
Residential Development Properties	14
Temperature-Controlled Logistics Properties	125,109

Other	290
Investment in unconsolidated companies:	
Office Properties	(10,100)
Resort/Hotel Properties	-
Residential Development Properties	(2,192)
Temperature-Controlled Logistics Properties	(2,400)
Other	(4,355)
(Increase) decrease in notes receivable	(15,230)
Net cash provided by (used in) investing activities	$ 629,253
CASH FLOWS FROM FINANCING ACTIVITIES:	
Debt financing costs	$ (12,918)
Borrowings under Credit Facility	530,000
Payments under Credit Facility	(626,500)
Notes Payable proceeds	577,146
Notes Payable payments	(1,027,661)
Residential Development Properties note payable borrowings	111,672
Residential Development Properties note payable payments	(118,495)
Purchase of GMAC preferred interest	-
Amortization of debt premiums	(2,386)
Capital distributions - joint venture partner	(8,565)
Capital distributions - joint venture preferred equity	-
Capital contributions - joint venture partner	2,833
Proceeds from exercise of share options	829
Common share repurchases held in Treasury	-
Issuance of preferred shares-Series A	71,006
Issuance of preferred shares-Series B	-
Series A Preferred Share distributions	(23,963)
Series B Preferred Share distributions	(8,075)
Dividends and unitholder distributions	(175,621)
Net cash used in financing activities	$ (710,698)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 14,239
CASH AND CASH EQUIVALENTS,	
Beginning of period	78,052
CASH AND CASH EQUIVALENTS,	
End of period	$ 92,291

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

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

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

Estate Equities, Ltd., a wholly-owned subsidiary of Crescent Real Estate Equities Company, which we refer to as the General Partner.

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

The following table shows our consolidated subsidiaries that owned or had an interest in real estate assets and the real estate assets that each subsidiary owned or had an interest in as of December 31, 2004.

Operating Partnership	Wholly-owned assets - The Avallon IV, Datran Center (two office properties) and Dupont Centre. These properties are included in our Office Segment. Non wholly-owned assets, consolidated - 301 Congress Avenue (50% interest) is included in our Office Segment. Sonoma Mission Inn (80.1% interest) is included in our Resort/Hotel Segment. Non wholly-owned assets, unconsolidated - Bank One Center (50% interest), Bank One Tower (20% interest), Three Westlake Park (20% interest), Four Westlake Park (20% interest), Miami Center (40% interest), 5 Houston Center (25% interest), BriarLake Plaza (30% interest), Five Post Oak Park (30% interest), Houston Center (23.85% interest in three office properties and the Houston Center Shops), The Crescent Atrium (23.85% interest), The Crescent Office Towers (23.85% interest), Trammell Crow Center(1) (23.85% interest), Post Oak Central (23.85% interest in three Office Properties), and Fountain Place (23.85% interest). These properties are included in our Office Segment. AmeriCold Realty Trust (31.7% interest in 88 properties), included in our Temperature-Controlled Logistics Segment.
Hughes Center Entities(2)	Wholly-owned assets - Hughes Center Properties (seven office properties each in a separate limited liability company). These properties are included in our Office Segment. Non wholly-owned assets, consolidated - 3770 Hughes Parkway (67% interest), included in our Office Segment.
Crescent Real Estate Funding I, L.P. ("Funding I")	Wholly-owned assets - The Aberdeen, The Avallon I, II & III, Carter Burgess Plaza, The Citadel, Regency Plaza One, Waterside Commons and 125 E. John Carpenter Freeway. These properties are included in our Office Segment.
Crescent Real Estate Funding III, IV and V, L.P.	Wholly-owned assets - Greenway Plaza Office Properties (ten Office Properties). These

("Funding III, IV and V")(3)	properties are included in our Office Segment. Renaissance Houston Hotel is included in our Resort/Hotel Segment.
Crescent Real Estate Funding VI, L.P. ("Funding VI")	Wholly-owned asset - Canyon Ranch - Lenox, included in our Resort/Hotel Segment.
Crescent Real Estate Funding VIII, L.P. ("Funding VIII")	Wholly-owned assets - The Addison, Austin Centre, The Avallon V, Chancellor Park, 816 Congress, Greenway I & IA (two office properties), Greenway II, Johns Manville Plaza, One Live Oak, Palisades Central I, Palisades Central II, Peakview Tower, Stemmons Place, 3333 Lee Parkway, 44 Cook and 55 Madison. These properties are included in our Office Segment. The Canyon Ranch - Tucson, Omni Austin Hotel, and Ventana Inn & Spa, all of which are included in our Resort/Hotel Segment.
Crescent Real Estate Funding XII, L.P. ("Funding XII")	Wholly-owned assets - Albuquerque Plaza(4), Barton Oaks Plaza, Briargate Office and Research Center, MacArthur Center I & II, Stanford Corporate Center, and Two Renaissance Square. These properties are included in our Office Segment. The Park Hyatt Beaver Creek Resort & Spa is included in our Resort/Hotel Segment.
Crescent 707 17th Street, L.L.C	Wholly-owned assets - 707 17th Street, included in our Office Segment, and The Denver Marriott City Center, included in our Resort/Hotel Segment.
Crescent Alhambra, L.L.C.	Wholly-owned asset - Alhambra Plaza (two Office Properties), included in our Office Segment.
Crescent Spectrum Center, L.P	Non wholly-owned asset, consolidated - Spectrum Center (approximately 100% interest), . included in our Office Segment.

Crescent Colonnade, L.L.C.	Wholly-owned asset - The BAC-Colonnade Building, included in our Office Segment.
Crescent 1301 McKinney, L.P.	Wholly-owned asset - 1301 McKinney Street, included in our Office Segment.
Mira Vista Development Corp. ("MVDC")	Non wholly-owned asset, consolidated - Mira Vista (98% interest), included in our Residential Development Segment.
Houston Area Development Corp. ("HADC")	Non wholly-owned assets, consolidated - Falcon Point (98% interest) and Spring Lakes (98% interest). These properties are

	included in our Residential Development Segment.
Desert Mountain Development Corporation ("DMDC")	Non wholly-owned assets, consolidated - Desert Mountain (93% interest), included in our Residential Development Segment.
Crescent Resort Development Inc.("CRDI")	Non wholly-owned assets, consolidated - Brownstones (64% interest), Creekside at Inc. ("CRDI") Riverfront (64% interest), Delgany (64% interest), Eagle Ranch (60% interest), Gray's Crossing (71% interest), Horizon Pass (64% interest), Hummingbird (64% interest), Main Street Station (30% interest), Northstar (57% interest), Old Greenwood (71% interest), Riverbend (60% interest), Riverfront Park (64% interest). These properties are included in our Residential Development Segment.
	Non wholly-owned assets, unconsolidated - Blue River Land Company, L.L.C. - Three Peaks (30% interest) and EW Deer Valley, L.L.C. (41.7% interest), included in our Residential Development Segment.

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(1) We own 23.85% of the economic interest in Trammell Crow Center through our ownership of a 23.85% interest in the joint venture that holds fee simple title to the Office Property (subject to a ground lease and a leasehold estate regarding the building) and two mortgage notes encumbering the leasehold interests in the land and the building.

(2) In addition, we own nine retail parcels located in Hughes Center.

(3) Funding III owns nine of the ten office properties in the Greenway Plaza office portfolio and the Renaissance Houston Hotel; Funding IV owns the central heated and chilled water plant building located at Greenway Plaza; and Funding V owns 9 Greenway, the remaining office property in the Greenway Plaza office portfolio.

(4) This Office Property was sold in February 2005.

See Note 9, "Investments in Unconsolidated Companies," for a table that lists our ownership in significant unconsolidated joint ventures and investments as of December 31, 2004.

See Note 11, "Notes Payable and Borrowings Under Credit Facility," for a list of certain other subsidiaries, all of which are consolidated in our financial statements and were formed primarily for the purpose of obtaining secured debt or joint venture financing.

SEGMENTS

Our assets and operations consisted of four investment segments at December 31, 2004, as follows:

- Office Segment;
- Resort/Hotel Segment;
- Residential Development Segment; and

- Temperature-Controlled Logistics Segment.

Within these segments, we owned in whole or in part the following operating real estate assets, which we refer to as the Properties, as of December 31, 2004:

- OFFICE SEGMENT consisted of 78 office properties, which we refer to as the Office Properties, located in 29 metropolitan submarkets in eight states, with an aggregate of approximately 31.6 million net rentable square feet. Fifty-seven of the Office Properties are wholly-owned and twenty-one are owned through joint ventures, two of which are consolidated and nineteen of which are unconsolidated.

- RESORT/HOTEL SEGMENT consisted of five luxury and destination fitness resorts and spas with a total of 1,036 rooms/guest nights and three upscale business-class hotel properties with a total of 1,376 rooms, which we refer to as the Resort/Hotel Properties. Seven of the Resort/Hotel Properties are wholly-owned and one is owned through a joint venture that is consolidated.

- RESIDENTIAL DEVELOPMENT SEGMENT consisted of our ownership of common stock representing interests of 98% to 100% in four residential development corporations. These Residential Development Corporations, through partnership arrangements, owned in whole or in part 23 upscale residential development properties, which we refer to as the Residential Development Properties.

- THE TEMPERATURE-CONTROLLED LOGISTICS SEGMENT consisted of our 31.7% interest in AmeriCold Realty Trust, or AmeriCold, a REIT. As of December 31, 2004, AmeriCold operated 103 facilities, of which 87 were wholly-owned, one was partially-owned and fifteen were managed for outside owners. The 88 owned facilities, which we refer to as the Temperature-Controlled Logistics Properties, had an aggregate of approximately 443.7 million cubic feet (17.6 million square feet) of warehouse space. AmeriCold also owned two quarries and the related land. We account for our interest in AmeriCold as an unconsolidated equity investment.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include all of our direct and indirect subsidiary entities. The equity interests that we do not own in those direct and indirect subsidiaries are reflected as minority interests. All significant intercompany balances and transactions have been eliminated.

Certain amounts in prior period financial statements have been reclassified to conform to the current year presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ADOPTION OF NEW ACCOUNTING STANDARDS

EITF 03-1. At the March 17-18, 2004 meeting, consensus was reached by the FASB Emerging Issues Task Force on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The

Consensus applies to investments in debt and equity securities within the scope of Statements of Financial Accounting Standards, or SFAS, Nos. 115, "Accounting for Certain Investments in Debt and Equity Securities," and 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." It also applies to investments in equity securities that are both outside SFAS No. 115's scope and not accounted for under the equity method. The Task Force reached a consensus that certain quantitative and qualitative disclosures should be required for securities that are impaired at the balance sheet date but for which an other - than-temporary impairment has not been recognized. The new impairment guidance creates a model that calls for many judgments and additional evidence gathering in determining whether or not securities are other-than-temporarily impaired and lists some of these impairment indicators. The impairment accounting guidance is effective for periods beginning after June 15, 2004 and the disclosure requirements for annual reporting periods are effective for periods ending after June 15, 2004. We adopted EITF 03-1 effective July 1, 2004 and it had no impact on our financial condition or results of operations.

SFAS NO. 123R. In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment." The new FASB rule requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. We will be required to apply SFAS No. 123R as of the first interim reporting period that begins after June 15, 2005. The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Effective January 1, 2003, we adopted the fair value expense recognition provisions of SFAS No. 123 on a prospective basis. Except for the 2004 Unit Plan, we do not believe there will be a significant impact to our financial condition or results of operations from the adoption of SFAS No. 123R. We are continuing to evaluate the impact of the adoption of the SFAS No. 123R as it relates to the 2004 Unit Plan.

SFAS NO. 153. In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe there will be an impact to our financial condition or results of operations from the adoption of SFAS No. 153.

SOP 04-2. In December 2004, the AICPA issued Statement of Position, or SOP, 04-2, "Accounting for Real Estate Time-Sharing Transactions." This SOP provides guidance to a seller of real estate time sharing interests and provides, among other requirements, that uncollectibles be reflected as a reduction of revenues rather than as bad debt expense. The provisions in the SOP

are effective for financial statements for fiscal years beginning after June 15, 2005. To facilitate the issuance of this standard, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - An Amendment of FASB Statements No. 66 and 67," on December 16, 2004 which references the financial accounting and reporting guidance for real estate time-sharing transactions to SOP 04-2. We do not believe there will be a significant impact to our financial condition or results of operations from the adoption of SOP 04-2.

SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION OF VARIABLE INTEREST ENTITIES. On January 15, 2003, the FASB approved the issuance of Interpretation 46, "Consolidation of Variable Interest Entities," or FIN 46, an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities" or FIN 46R, which amended FIN 46. Under FIN 46R, consolidation requirements are effective immediately for new Variable Interest Entities, or VIEs, created after January 31, 2003. The consolidation requirements apply to existing VIEs for financial periods ending after March 15, 2004, except for special purpose entities which had to be consolidated by December 31, 2003. VIEs are generally a legal structure used for business enterprises that either do not have equity investors with voting rights, or have equity investors that do not provide sufficient financial resources for the entity to support its activities. The objective of the new guidance is to improve reporting by addressing when a company should include in its financial statements the assets, liabilities and activities of other entities such as VIEs. FIN 46R requires VIEs to be consolidated by a company if the company is subject to a majority of the expected losses of the VIE's activities or entitled to receive a majority of the VIE's expected residual returns or both.

The adoption of FIN 46R did not have a significant impact on our financial condition or results of operations. Due to the adoption of this Interpretation and management's assumptions in application of the guidelines stated in the Interpretation, we have consolidated GDW LLC, a subsidiary of DMDC, as of December 31, 2003 and Elijah Fulcrum Fund Partners, L.P., which we refer to as Elijah, as of January 1, 2004. Elijah is a limited partnership whose purpose is to invest in the SunTx Fulcrum Fund, L.P. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of entities that offer the potential for substantial capital appreciation. While it was determined that one of our unconsolidated joint ventures, Main Street Partners, L.P., and its investments in Canyon Ranch Las Vegas, L.L.C., CR License, L.L.C. and CR License II, L.L.C., which we refer to as the Canyon Ranch Entities, are VIEs under FIN 46R, we are not the primary beneficiary and are not required to consolidate these entities under other Generally Accepted Accounting Principles, or GAAP. Our maximum exposure to loss is limited to our equity investment of approximately $57.8 million in Main Street Partners, L.P. and $5.1 million in the Canyon Ranch Entities at December 31, 2004.

During 2004, we entered into three separate exchange agreements with a third party intermediary. The first exchange agreement included two parcels of undeveloped land, the second exchange agreement included the 3930 Hughes Parkway Office Property, and the third exchange agreeme