CATELLUS DEVELOPMENT CORP
Form 10-Q
November 01, 2002
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the fiscal quarter ended September 30, 2002

Commission file number 0-18694

CATELLUS DEVELOPMENT CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**94-2953477**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

201 Mission Street
San Francisco, California 94105
(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: (415) 974-4500

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

As of October 24, 2002, there were 87,162,014 issued and outstanding shares of the Registrant s Common Stock.

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PART I

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited)***

CATELLUS DEVELOPMENT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands)

	September 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Properties	$ 2,415,846	$ 2,276,508
Less accumulated depreciation	(385,413)	(354,557)
	2,030,433	1,921,951
Other assets and deferred charges, net	236,886	167,305
Notes receivable, less allowance	58,268	73,335
Accounts receivable, less allowance	15,444	22,663
Assets held for sale	63	
Restricted cash and investments	35,622	7,566
Cash and cash equivalents	267,111	222,695
Total	$ 2,643,827	$ 2,415,515
LIABILITIES AND STOCKHOLDERS EQUITY		
Mortgage and other debt	$ 1,479,933	$ 1,310,457
Accounts payable and accrued expenses	106,260	145,688
Deferred credits and other liabilities	155,969	177,656
Liabilities associated with assets held for sale	305	
Deferred income taxes	320,633	290,658
Total liabilities	2,063,100	1,924,459
Commitments and contingencies (Note 8)		
Minority interests	55,839	55,799
Stockholders equity		
Common stock, 110,805 and 110,209 shares issued and 87,158 and 86,562 shares outstanding at September 30, 2002 and December 31, 2001, respectively	1,108	1,102
Paid-in capital	531,159	521,312
Treasury stock, at cost (23,647 shares at September 30, 2002 and December 31, 2001)	(401,082)	(401,082)
Accumulated earnings	393,703	313,925
Total stockholders equity	524,888	435,257
Total	$ 2,643,827	$ 2,415,515

See notes to condensed consolidated financial statements

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CATELLUS DEVELOPMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(Unaudited)		(Unaudited)	
Rental properties				
Rental revenue	$ 66,184	$ 58,642	$ 194,132	$ 170,359
Property operating costs	(18,130)	(17,193)	(51,099)	(44,894)
Equity in earnings of operating joint ventures, net	993	1,184	6,838	7,017
	49,047	42,633	149,871	132,482
Property sales and fee services				
Sales revenue	10,299	64,324	108,991	190,186
Cost of sales	(2,471)	(36,609)	(69,723)	(113,484)
Gain on property sales	7,828	27,715	39,268	76,702
Equity in earnings of development joint ventures, net	4,201	13,489	19,825	21,616
Total gain on property sales	12,029	41,204	59,093	98,318
Management and development fees	2,755	1,266	5,651	3,820
Selling, general and administrative expenses	(5,824)	(6,373)	(19,804)	(21,953)
Other, net	3,063	(127)	15,159	5,955
	12,023	35,970	60,099	86,140
Interest expense	(16,435)	(13,617)	(43,029)	(42,638)
Depreciation and amortization	(17,599)	(12,781)	(46,051)	(38,435)
Corporate administrative costs	(4,284)	(4,685)	(12,748)	(15,292)
Gain on non-strategic asset sales	421	765	7,242	3,901
Other, net	803	1,152	573	7,858
Income before minority interests, income taxes, and discontinued operations	23,976	49,437	115,957	134,016
Minority interests	(1,527)	(1,604)	(4,580)	(5,316)
Income before income taxes and discontinued operations	22,449	47,833	111,377	128,700
Income tax expense				
Current	(3,743)	(5,382)	(22,844)	(12,211)
Deferred	(5,312)	(13,747)	(21,975)	(39,276)
	(9,055)	(19,129)	(44,819)	(51,487)
Income from continuing operations	13,394	28,704	66,558	77,213
Discontinued operations, net of income tax:				
Gain from disposal of discontinued operations	1,277		13,332	

Loss from discontinued operations	(16)	(58)	(112)	(188)
Gain (loss) from discontinued operations	1,261	(58)	13,220	(188)
Net income	$ 14,655	$ 28,646	$ 79,778	$ 77,025
Income per share from continuing operations				
Basic	$ 0.15	$ 0.29	$ 0.77	$ 0.76
Assuming dilution	$ 0.15	$ 0.28	$ 0.74	$ 0.74
Income per share from discontinued operations				
Basic	$ 0.02	$	$ 0.15	$
Assuming dilution	$ 0.01	$	$ 0.15	$
Net income per share				
Basic	$ 0.17	$ 0.29	$ 0.92	$ 0.76
Assuming dilution	$ 0.16	$ 0.28	$ 0.89	$ 0.74
Average number of common shares outstanding basic	87,150	99,290	86,928	101,518
Average number of common shares outstanding diluted	89,603	102,178	89,539	104,389

See notes to condensed consolidated financial statements

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CATELLUS DEVELOPMENT CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2002	**2001**
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 79,778	$ 77,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,051	38,435
Deferred income taxes	21,975	39,276
Deferred gain recognized	(15,856)	(6,149)
Amortization of deferred loan fees and other costs	4,834	3,779
Equity in earnings of joint ventures	(26,663)	(28,633)
Operating distributions from joint ventures	72,770	29,781
Gain on sale of investment property	(22,305)	(31,271)
Cost of development property sold	66,304	83,594
Capital expenditures for development property	(43,220)	(47,942)
Other, net	10,366	1,739
Change in deferred credits and other liabilities	13,155	100,940
Change in other operating assets and liabilities	(45,381)	24,231
Net cash provided by operating activities	161,808	284,805
Cash flows from investing activities:		
Proceeds from sale of investment property	29,390	48,259
Capital expenditures for investment property	(246,354)	(233,451)
Reimbursable construction costs	(32,497)	
Contributions to joint ventures	(13,403)	
Restricted cash	(28,056)	16,920
Net cash used in investing activities	(290,920)	(168,272)
Cash flows from financing activities:		
Borrowings	381,386	369,873
Repayment of borrowings	(211,910)	(211,483)
Distributions to minority partners	(4,540)	(4,965)
Repurchase of common stock		(151,920)
Proceeds from issuance of common stock	8,592	14,678
Net cash provided by financing activities	173,528	16,183
Net increase in cash and cash equivalents	44,416	132,716
Cash and cash equivalents at beginning of period	222,695	336,558
Cash and cash equivalents at end of period	$ 267,111	$ 469,274
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 37,917	$ 39,639

Income taxes	$	22,926	$	3,874
Non-cash investing activities:				
Reclassification of prior period land acquisition and improvement costs from investing to operating activities due to change in intended use	$	31,590	$	35,529
Non-cash financing activities:				
Seller-financed acquisitions	$		$	10,000
Debt forgiveness-property reconveyance	$		$	(1,637)

See notes to condensed consolidated financial statements

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CATELLUS DEVELOPMENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002
(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

Catellus Development Corporation, together with its consolidated subsidiaries (the Company), is a diversified real estate operating company, with a large portfolio of rental properties and developable land, that manages and develops real estate for its own account and those of others. Interests of third parties in entities controlled and consolidated by the Company are separately reflected as minority interests in the accompanying financial statements. The Company s rental portfolio and developable land, consisting of industrial, residential, retail, office, and other projects are located mainly in major markets in California, Illinois, Texas, Colorado, and Oregon.

NOTE 2. INTERIM FINANCIAL DATA

The accompanying condensed consolidated financial statements should be read in conjunction with the Company s 2001 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial information includes all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods presented. Certain prior period financial data have been reclassified to conform to the current period presentation.

The Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long Lived Assets , effective January 1, 2002 (see Notes 4 and 10).

NOTE 3. RESTRICTED CASH AND INVESTMENTS

Of the total restricted cash and investments of $35.6 million at September 30, 2002, and $7.6 million at December 31, 2001, $0.6 million and $0.4 million, respectively, represent proceeds from property sales held in separate cash accounts at trust companies in order to preserve the Company s option to reinvest the proceeds on a tax-deferred basis. Approximately $20.3 million at September 30, 2002, represents funds held in pledge accounts at a bank until certain loan collateral pool requirements are met, and $5.4 million represents a reserve fund held by a lender in anticipation of substitution of real property collateral. In addition, restricted investments of $7.2 million at September 30, 2002, and December 31, 2001, represent certificates of deposits used to guarantee lease performance for certain properties that secure debt, and $2.1 million at September 30, 2002, was temporarily invested in short term deposits designated for the purchase of a Company-owned life insurance policy.

NOTE 4. INCOME PER SHARE

Income from continuing operations per share of common stock is computed by dividing income from continuing operations by the weighted average number of shares of common stock and equivalents outstanding during the period (see table below for effect of dilutive securities, and Notes 2 and 10).

	Three Months Ended September 30,					
	2002			2001		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Income from continuing operations	$ 13,394	87,150	$ 0.15	$ 28,704	99,290	$ 0.29
Effect of dilutive securities: stock options		2,453			2,888	
Income from continuing operations assuming dilution	$ 13,394	89,603	$ 0.15	$ 28,704	102,178	$ 0.28
Gain (loss) from discontinued operations	$ 1,261	87,150	$ 0.02	$ (58)	99,290	$
Effect of dilutive securities: stock options		2,453			2,888	
Gain (loss) from discontinued operations assuming dilution	$ 1,261	89,603	$ 0.01	$ (58)	102,178	$
Net income	$ 14,655	87,150	$ 0.17	$ 28,646	99,290	$ 0.29
Effect of dilutive securities: stock options		2,453			2,888	
Net income assuming dilution	$ 14,655	89,603	$ 0.16	$ 28,646	102,178	$ 0.28

	Nine Months Ended September 30,					
	2002			2001		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Income from continuing operations	$ 66,558	86,928	$ 0.77	$ 77,213	101,518	$ 0.76
Effect of dilutive securities: stock options		2,611			2,871	
Income from continuing operations assuming dilution	$ 66,558	89,539	$ 0.74	$ 77,213	104,389	$ 0.74
Gain (loss) from discontinued operations	$ 13,220	86,928	$ 0.15	$ (188)	101,518	$
Effect of dilutive securities: stock options		2,611			2,871	

Gain (loss) from discontinued operations assuming dilution	$ 13,220	89,539	$ 0.15	$ (188)	104,389	$
Net income	$ 79,778	86,928	$ 0.92	$ 77,025	101,518	$ 0.76
Effect of dilutive securities: stock options		2,611			2,871	
Net income assuming dilution	$ 79,778	89,539	$ 0.89	$ 77,025	104,389	$ 0.74

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NOTE 5. MORTGAGE AND OTHER DEBT

Mortgage and other debt at September 30, 2002, and December 31, 2001, are summarized as follows:

	September 30, 2002	December 31, 2001
	(In thousands)	
Fixed rate mortgage loans	$ 1,052,764	$ 842,296
Floating rate mortgage loans	209,573	272,288
Construction loans	64,837	98,321
Land acquisition and development loans	43,550	58,498
Assessment district bonds	80,903	34,456
Capital leases	19,549	3,981
Other loans	8,757	617
Mortgage and other debt	1,479,933	1,310,457
Liabilities of assets held for sale:		
Floating rate mortgage loans	298	
Total mortgage and other debt	$ 1,480,231	$ 1,310,457
Due within one year	$ 69,435	$ 176,723

During the nine months ended September 30, 2002, the Company accepted a commitment for a $285.3 million fixed rate mortgage loan of which $242.1 million was closed and funded as of September 30, 2002. The loan bears interest of 7.05% (7.16% effective rate considering financing costs) and is amortized over 30 years with a maturity of 10 years. Of the loan proceeds, $81.6 million was used to pay off existing variable rate debt, related interest, and fees at closing. The loan is collateralized by certain of the Company s operating properties and by assignment of rents generated by the underlying properties. Under certain conditions, this loan may have a yield maintenance premium if paid prior to maturity. The remaining $43.2 million is expected to be funded in the fourth quarter of 2002.

In 2002, the Company recorded a $35.3 million bond with an estimated weighted average variable interest rate of 3.5% and a series of maturities up to twenty years. Bond payments will be made from anticipated retail sales tax revenue, real estate taxes, and miscellaneous fees generated from property currently owned by one of the Company s unconsolidated joint venture investments.

During the third quarter of 2002, the Company closed a $20.4 million floating rate mortgage loan (LIBOR plus 1.80%) that has a 25-year amortization schedule and a maturity of 3 years. The loan is collateralized by certain of the Company s operating properties and by assignment of rents generated by the underlying properties. Under certain conditions, this loan has a yield maintenance premium if paid prior to maturity.

During the third quarter of 2002, the Company acquired a corporate aircraft and financed it with an $8.3 million floating rate collateralized loan (LIBOR plus 2.42%) with a maturity of 10 years. There is a yield maintenance premium if paid prior to the first annual anniversary date. This loan is included in Other loans in the above schedule.

Also, during the third quarter of 2002, the Company extended the maturity of a $56.8 million floating rate mortgage loan for up to one year.

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Interest costs relating to mortgage and other debt for the three-month and nine-month periods ended September 30, 2002 and 2001, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In thousands)		(In thousands)	
Total interest incurred	$ 21,748	$ 20,396	$ 62,243	$ 61,673
Interest capitalized	(5,313)	(6,779)	(19,214)	(19,035)
Interest expensed	$ 16,435	$ 13,617	$ 43,029	$ 42,638

NOTE 6. PROPERTIES

Book value by property type at September 30, 2002, and December 31, 2001, consisted of the following:

	September 30, 2002	December 31, 2001
	(In thousands)	
Rental properties:		
Industrial buildings	$ 1,117,952	$ 943,340
Office buildings	337,916	297,707
Retail buildings	100,592	96,263
Ground leases	141,454	142,913
Investment in operating joint ventures	(11,313)	(13,026)
	1,686,601	1,467,197
Developable land:		
Commercial	200,068	188,527
Residential	52,206	52,108
Urban	274,736	261,206
Investment in development joint ventures	54,566	76,756
	581,576	578,597
Work-in-process:		
Commercial	38,541	118,668
Commercial capital lease	5,211	40,560
Urban	62,195	37,616
	105,947	196,844
Furniture and equipment	37,273	28,818
Other	4,449	5,052
Gross book value	2,415,846	2,276,508
Accumulated depreciation	(385,413)	(354,557)
Net book value	$ 2,030,433	$ 1,921,951

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NOTE 7. SEGMENT REPORTING

The Company s reportable segments are based on the Company s method of internal reporting, which disaggregates its business by type and before the adjustments for discontinued operations. The Company has five reportable segments: Asset Management; Suburban, which includes two reportable segments, Commercial and Residential; Urban; and Corporate. The Asset Management segment leases and manages the Company-owned commercial buildings and ground leases. The Suburban-Commercial segment develops real estate for the Company s own account or for third parties and acquires and sells developable land and commercial buildings. The Suburban-Residential segment acquires and develops suburban residential communities and sells finished lots to homebuilders via direct ownership or through joint ventures. The Urban segment develops major mixed-use sites including development for residential, office, retail, and entertainment purposes for the Company s own account and for joint ventures. The Corporate segment consists of administrative services.

Inter-segment gains and losses, if any, are not recognized. Debt and interest-bearing assets are allocated to segments based upon the grouping of the underlying assets. All other assets and liabilities are specifically identified and allocated to the segments.

Historically, the Company has measured and reported segment results using the supplemental performance measure Earnings Before Depreciation and Deferred Taxes (EBDDT). Starting with the first quarter 2002 results, the Company began to use net income, as defined by generally accepted accounting principles, as the primary earnings measure for purposes of discussing the results for each segment (see Notes 2 and 4). Prior year financial data by reportable segment have been reclassified to conform to current period presentation.

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Financial data by reportable segment is as follows:

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Subtotal	Discontinued Operations	Total
	(In thousands)							
Three Months Ended September 30, 2002								
Rental properties:								
Rental revenue	$ 66,191	$	$	$	$	$ 66,191	$ (7)	$ 66,184
Property operating costs	(18,156)					(18,156)	26	(18,130)
Equity in earnings of operating joint ventures, net	993					993		993
	49,028					49,028	19	49,047
Property sales and fee services:								
Sales revenue	5,997	(83)	8,871			14,785	(4,486)	10,299
Cost of sales	(2,465)	1,216	(3,508)		(60)	(4,817)	2,346	(2,471)
Gain on property sales	3,532	1,133	5,363		(60)	9,968	(2,140)	7,828
Equity in earnings of development joint ventures, net			5,028		(827)	4,201		4,201
Total gain on property sales	3,532	1,133	10,391		(887)	14,169	(2,140)	12,029
Management and development fees	9	1,355	647	744		2,755		2,755
Selling, general and administrative expenses	(168)	(2,455)	(1,549)	(1,652)		(5,824)		(5,824)
Other, net(1)	1,822	(125)	1,702	(336)		3,063		3,063
	5,195	(92)	11,191	(1,244)	(887)	14,163	(2,140)	12,023
Interest expense	(20,200)				3,759	(16,441)	6	(16,435)
Depreciation and amortization	(16,017)	(259)	(79)	(351)	(894)	(17,600)	1	(17,599)
Corporate administrative costs					(4,284)	(4,284)		(4,284)
Gain on non-strategic asset sales	421					421		421
Other, net					803	803		803
Income (loss) before minority interests, income taxes, and discontinued operations	18,427	(351)	11,112	(1,595)	(1,503)	26,090	(2,114)	23,976
Minority interests	(1,527)					(1,527)		(1,527)
Income (loss) before income taxes and discontinued operations	16,900	(351)	11,112	(1,595)	(1,503)	24,563	(2,114)	22,449
Income taxes	(6,816)	141	(4,476)	642	601	(9,908)	853	(9,055)

Income (loss) from continuing operations	10,084	(210)	6,636	(953)	(902)	14,655	(1,261)	13,394
Discontinued operations, net of tax:								
Gain from disposal of discontinued operations							1,277	1,277
Loss from discontinued operations							(16)	(16)
Gain from discontinued operations							1,261	1,261
Net income (loss)	$ 10,084	$ (210)	$ 6,636	$ (953)	$ (902)	$ 14,655	$	$ 14,655

(1) Includes $0.8 million of lease termination fees in the Asset Management segment.

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	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Subtotal	Discontinued Operations	Total
				(In thousands)				
Three Months Ended September 30, 2001								
Rental properties:								
Rental revenue	$ 59,116	$	$	$	$	$ 59,116	$ (474)	$ 58,642
Property operating costs	(17,390)					(17,390)	197	(17,193)
Equity in earnings of operating joint ventures, net	1,184					1,184		1,184
	42,910					42,910	(277)	42,633
Property sales and fee services:								
Sales revenue	29,848	19,325	2,045	13,106		64,324		64,324
Cost of sales	(10,709)	(13,406)	(681)	(11,598)	(215)	(36,609)		(36,609)
Gain on property sales	19,139	5,919	1,364	1,508	(215)	27,715		27,715
Equity in earnings of development joint ventures, net			14,420		(931)	13,489		13,489
Total gain on property sales	19,139	5,919	15,784	1,508	(1,146)	41,204		41,204
Management and development fees	108	766	(5)	397		1,266		1,266
Selling, general and administrative expenses	(300)	(3,024)	(1,812)	(1,237)		(6,373)		(6,373)
Other, net(1)	846	(1,163)	(786)	976		(127)		(127)
	19,793	2,498	13,181	1,644	(1,146)	35,970		35,970
Interest expense	(18,825)				4,930	(13,895)	278	(13,617)
Depreciation and amortization	(11,918)	(52)	(124)	(423)	(360)	(12,877)	96	(12,781)
Corporate administrative costs					(4,685)	(4,685)		(4,685)
Gain on non-strategic asset sales	765					765		765
Other, net					1,152	1,152		1,152
Income (loss) before minority interests, income taxes, and discontinued operations	32,725	2,446	13,057	1,221	(109)	49,340	97	49,437
Minority interests	(1,604)					(1,604)		(1,604)
Income (loss) before income taxes and discontinued operations	31,121	2,446	13,057	1,221	(109)	47,736	97	47,833
Income taxes	(12,443)	(979)	(5,223)	(488)	43	(19,090)	(39)	(19,129)
Income (loss) from continuing operations	18,678	1,467	7,834	733	(66)	28,646	58	28,704
Discontinued operations, net of tax:								
Gain from disposal of discontinued operations								
Loss from discontinued operations							(58)	(58)
Loss from discontinued operations							(58)	(58)
Net income (loss)	$ 18,678	$ 1,467	$ 7,834	$ 733	$ (66)	$ 28,646	$	$ 28,646

(1) Includes $0.2 million of lease termination fees in the Asset Management segment.

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	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Subtotal	Discontinued Operations	Total
	(In thousands)							
Nine Months Ended September 30, 2002								
Rental properties:								
Rental revenue	$ 194,750	$	$	$	$	$ 194,750	$ (618)	$ 194,132
Property operating costs	(51,355)					(51,355)	256	(51,099)
Equity in earnings of operating joint ventures, net	6,838					6,838		6,838
	150,233					150,233	(362)	149,871
Property sales and fee services:								
Sales revenue	41,121	40,907	57,046			139,074	(30,083)	108,991
Cost of sales	(13,919)	(35,000)	(28,006)		(576)	(77,501)	7,778	(69,723)
Gain on property sales	27,202	5,907	29,040		(576)	61,573	(22,305)	39,268
Equity in earnings of development joint ventures, net			22,585		(2,760)	19,825		19,825
Total gain on property sales	27,202	5,907	51,625		(3,336)	81,398	(22,305)	59,093
Management and development fees	60	3,018	1,102	1,471		5,651		5,651
Selling, general and administrative expenses	(878)	(6,540)	(7,315)	(5,071)		(19,804)		(19,804)
Other, net(1)	10,434	53	4,864	(192)		15,159		15,159
	36,818	2,438	50,276	(3,792)	(3,336)	82,404	(22,305)	60,099
Interest expense	(58,083)				14,659	(43,424)	395	(43,029)
Depreciation and amortization	(42,919)	(534)	(152)	(820)	(1,781)	(46,206)	155	(46,051)
Corporate administrative costs					(12,748)	(12,748)		(12,748)
Gain on non-strategic asset sales	7,242					7,242		7,242
Other, net					573	573		573
Income (loss) before minority interests, income taxes, and discontinued operations	93,291	1,904	50,124	(4,612)	(2,633)	138,074	(22,117)	115,957
Minority interests	(4,580)					(4,580)		(4,580)
Income (loss) before income taxes and discontinued operations	88,711	1,904	50,124	(4,612)	(2,633)	133,494	(22,117)	111,377
Income taxes	(35,696)	(766)	(20,164)	1,855	1,055	(53,716)	8,897	(44,819)
Income (loss) from continuing operations	53,015	1,138	29,960	(2,757)	(1,578)	79,778	(13,220)	66,558
Discontinued operations, net of tax:								
Gain from disposal of discontinued operations							13,332	13,332
Loss from discontinued operations							(112)	(112)
Gain from discontinued operations							13,220	13,220

Net income (loss)	$ 53,015	$ 1,138	$ 29,960	$ (2,757)	$ (1,578)	$ 79,778	$	$ 79,778

(1) Includes $8.2 million of lease termination fees in the Asset Management segment.

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	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Subtotal	Discontinued Operations	Total
				(In thousands)				
Nine Months Ended September 30, 2001								
Rental properties:								
Rental revenue	$ 172,025	$	$	$	$	$ 172,025	$ (1,666)	$ 170,359
Property operating costs	(45,598)					(45,598)	704	(44,894)
Equity in earnings of operating joint ventures, net	7,017					7,017		7,017
	133,444					133,444	(962)	132,482
Property sales and fee services:								
Sales revenue	66,670	45,102	28,621	49,793		190,186		190,186
Cost of sales	(28,279)	(28,505)	(19,148)	(37,337)	(215)	(113,484)		(113,484)
Gain on property sales	38,391	16,597	9,473	12,456	(215)	76,702		76,702
Equity in earnings of development joint ventures, net			22,896		(1,280)	21,616		21,616
Total gain on property sales	38,391	16,597	32,369	12,456	(1,495)	98,318		98,318
Management and development fees	120	2,798	434	468		3,820		3,820
Selling, general and administrative expenses	(877)	(9,086)	(8,335)	(3,655)		(21,953)		(21,953)
Other, net(1)	2,918	868	(2,506)	4,675		5,955		5,955
	40,552	11,177	21,962	13,944	(1,495)	86,140		86,140
Interest expense	(56,763)	(7)		(56)	13,221	(43,605)	967	(42,638)
Depreciation and amortization	(35,417)	(371)	(244)	(1,432)	(1,279)	(38,743)	308	(38,435)
Corporate administrative costs					(15,292)	(15,292)		(15,292)
Gain on non-strategic asset sales	3,901					3,901		3,901
Other, net					7,858	7,858		7,858
Income (loss) before minority interests, income taxes, and discontinued operations	85,717	10,799	21,718	12,456	3,013	133,703	313	134,016
Minority interests	(4,812)		(504)			(5,316)		(5,316)
Income (loss) before income taxes and discontinued operations	80,905	10,799	21,214	12,456	3,013	128,387	313	128,700

Income taxes	(32,364)	(4,321)	(8,487)	(4,984)	(1,206)	(51,362)	(125)	(51,487)
Income (loss) from continuing operations	48,541	6,478	12,727	7,472	1,807	77,025	188	77,213
Discontinued operations, net of tax:								
Gain from disposal of discontinued operations								
Loss from discontinued operations							(188)	(188)
Loss from discontinued operations							(188)	(188)
Net income	$ 48,541	$ 6,478	$ 12,727	$ 7,472	$ 1,807	$ 77,025	$	$ 77,025

(1) Includes $0.2 million and $3.4 million of lease termination fees in the Asset Management and Urban segments, respectively.

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NOTE 8. COMMITMENTS AND CONTINGENCIES

The Company is a party to a number of legal actions arising in the ordinary course of business. The Company cannot predict with certainty the final outcome of these proceedings. Considering current insurance coverages and the substantial legal defenses available, however, management believes that none of these actions, when finally resolved, will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company. Where appropriate, the Company has established reserves for potential liabilities related to legal actions or threatened legal actions. These reserves are necessarily based on estimates and probabilities of the occurrence of events and, therefore, are subject to revision from time to time.

Some of the legal actions to which the Company is a party may seek to restrain actions related to the development process or challenge title to or possession of the Company s properties. Typically, such actions, if successful, would not result in significant financial liability for the Company but might instead prevent the completion of the development process originally planned, and, therefore, impairment may occur in certain development assets (see discussion of specific lawsuits in Part II, Item 1, *Legal Proceedings* of this form 10-Q).

Inherent in the operation of a real estate business is the possibility that environmental liability may arise from the current or past ownership, or current or past operation, of real properties. The Company may be required in the future to take action to correct or reduce the environmental effects of prior disposal or release of hazardous substances by third parties, the Company, or its corporate predecessors. Future environmental costs are difficult to estimate because of such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of the Company s potential liability in proportion to that of other potentially responsible parties, and the extent to which such costs are recoverable from insurance. Also, the Company does not generally have access to properties sold in the past.

At September 30, 2002, management estimates that future costs for remediation of environmental contamination on operating properties and properties previously sold approximate $9.4 million, and has provided a reserve for that amount. It is anticipated that such costs will be incurred over the next several years. Management also estimates approximately $13.1 million of similar costs relating to the Company s properties to be developed or sold. The Company may incur additional costs related to management of excess contaminated soil from our projects; however, the necessity of this activity depends on the type of future development activities, and, therefore, the related costs are not currently determinable. These costs will be capitalized as components of development costs when incurred, which is anticipated to be over a period of approximately twenty years, or will be deferred and charged to cost of sales when the properties are sold. Environmental costs capitalized during the nine months ended September 30, 2002, totaled $4.5 million. The Company s estimates were developed based on reviews that took place over several years based upon then-prevailing law and identified site conditions. Because of the breadth of its portfolio, and past sales, the Company is unable to review each property extensively on a regular basis. Such estimates are not precise and are always subject to the availability of further information about the prevailing conditions at the site, the future requirements of regulatory agencies, and the availability and ability of other parties to pay some or all of such costs.

As of September 30, 2002, the Company has outstanding $16.3 million of standby letters of credit and a total of $334.0 million of surety bonds in favor of local municipalities or financial institutions, commitments to guarantee performance on construction of real property improvements, and lease guarantees. The Company also has $0.4 million of standby letters of credit supporting financial obligations. The Company guarantees a portion of the debt and interest of certain of its unconsolidated joint ventures. As of September 30, 2002, these guarantees totaled $51.6 million. During the third quarter of 2002, the Company provided a repayment guarantee for 50% of the outstanding construction loan balance of one of its unconsolidated joint ventures. The maximum commitment amount guaranteed is $82.5 million of which $1.4 million was outstanding at September 30, 2002, and this amount is included in the $51.6 million above. In some cases, other parties have jointly and severally guaranteed these obligations.

As of September 30, 2002, $101.0 million of Community Facility District bonds were sold to finance public infrastructure improvements at several Company projects. The Company provided a letter of credit totaling $17.0 million in support of one of these bonds. The $17.0 million is not included in the standby letters of credit and surety bonds amounts disclosed above. Subsequent to September 30, 2002, an additional $23.4 million of CFD bonds were sold. The Company also provided a letter of credit totaling $23.4 million in support of the bond. The Company, along with other landowners, is required to satisfy any shortfall in annual debt service obligation for these bonds if incremental tax revenues generated by the projects are insufficient.

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NOTE 9. RELATED PARTY TRANSACTIONS

The Company provides development and management services and loan guarantees to various unconsolidated joint venture investments. Fees earned were $1.4 million and $2.5 million for the three and nine months ended September 30, 2002, respectively, and $0.4 million for the three and nine months ended September 30, 2001. Deferred fees of $1.9 million at September 30, 2002, will be earned as completed projects are sold or the venture is sold or liquidated.

In 2001, the Company entered into a 99-year ground lease with one of its unconsolidated joint venture investments. Rent payments of $0.9 million and $2.7 million were received and recognized as rental income during the three and nine months ended September 30, 2002, and $0.9 million for the same periods in 2001. Rent payments of $1.3 million of previously received rent was deferred at September 30, 2002, and will be recognized, together with annual rents, over the life of the lease.

The Company has a $4.6 million collateralized 9.0% note receivable from an unconsolidated joint venture for project costs plus accrued interest. The note is collateralized by property owned by the venture and matures in October 2028. The Company entered into various lease agreements with this unconsolidated joint venture. As lessee, rent expense was $34,000 in each of the three-month periods ended September 30, 2002 and 2001, and $102,000 for each of the nine-month periods ended September 30, 2002 and 2001; this lease will expire in November 2011. As lessor, the Company entered into a ground lease, which will expire in August 2054. The Company earned rental income of $0.1 million in each of the three-month periods ended September 30, 2002 and 2001, and $0.3 million for each of the nine-month periods ended September 30, 2002 and 2001, and recorded a $1.7 million receivable associated with this lease.

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NOTE 10. DISCONTINUED OPERATIONS

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long Lived Assets , which addresses financial accounting and reporting for the impairment and disposal of long-lived assets. In general, sales of rental property, (a) not sold subject to an initial tenant purchase option or, (b) explicitly built with the intention of selling, but not sold within two years of completion, are referred to as Investment Properties and classified as discontinued operations. Therefore, as required, income or loss attributed to the operations and sale of Investment Properties sold or held for sale is presented in the statement of operations as discontinued operations, net of applicable income tax. Prior period statements of operations have been reclassified to reflect as discontinued operations the income or loss related to Investment Properties that were sold or held for sale and presented as discontinued operations during the three-month and nine-month periods ended September 30, 2002. Additionally, all periods presented will likely require further reclassification in future periods as additional, similar sales of Investment Properties occur.

In the three and nine months ended September 30, 2002, the Company sold Investment Properties for $4.5 million and $30.1 million, respectively, with a gain from the disposal of discontinued operations of $1.3 million and $13.3 million, net of income taxes of $0.9 million and $9.0 million. Rents from these properties and properties under contract to be sold were $7,000 and $0.6 million for the three and nine month periods ended September 30, 2002, and $0.5 million and $1.7 million for the three and nine months ended September 30, 2001. Loss from discontinued operations from these properties was $16,000, net of income tax benefit of $10,000, and $58,000, net of income tax benefit of $39,000, for the three months ended September 30, 2002 and 2001, respectively, and $112,000, net of income tax benefit of $76,000, and $188,000, net of income tax benefit of $125,000, for the nine months ended September 30, 2002 and 2001, respectively.

Asset and liability balances of Investment Properties under contract to be sold at September 30, 2002, consist of the following:

	September 30, 2002 (In thousands)
Assets	
Properties	$ 151
Accumulated depreciation	(91)
Net	60
Other assets	3
Total assets	63
Liabilities	
Mortgage and other debt	298
Payables	2
Other liabilities	5
Total liabilities	305
Net liabilities	$ 242

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The Company:

Catellus Development Corporation is one of the nation s premier diversified real estate development companies. The Company specializes in developing, managing, and investing in a broad range of product types including industrial, office, residential, retail and major urban development projects. It owns a portfolio of rental properties totaling 36.5 million square feet and one of the largest supplies of developable land in the western United States capable of supporting more than 39 million square feet of new commercial development and an estimated 10,400 residential lots and units.

Following is a brief summary of the third quarter and year to date activity:

Construction completions during the quarter totaled 2.1 million square feet in four buildings, at a cost of $67.9 million and a projected return on cost, when fully occupied, of 10.4%. The occupancy rate of the four buildings, all of which have been added to Catellus rental portfolio, is currently 94.4%.

At September 30, 2002, the rental portfolio totaled 36.5 million square feet, a net increase of 2.0 million square feet from June 30, 2002. This increase consisted of 2.1 million square feet added to the portfolio through development, offset by the sale of a 70,000 square foot retail property that was 74.2% occupied.

At September 30, 2002, occupancy was 94.4%, as compared with 94.2% at the end of the second quarter 2002, and 94.4% at year end 2001.

For the third quarter, net operating income from the rental portfolio, including equity in earnings of operating joint ventures, increased 15.0% to $49.0 million, as compared to $42.6 million for the same period in the 2001.

For the third quarter, same space net operating income, adjusted for nonrecurring items, increased 3.9% over the same period in 2001. Year-to-date, same space net operating income increased 2.7% over the same period in 2001.

During the quarter, Catellus completed lease transactions on 1.8 million square feet of second-generation space. Year-to-date, lease transactions have been completed on 3.6 million square feet of second-generation space at an average rental rate increase of 7.7% on a GAAP basis.

Construction starts in the third quarter totaled 985,000 square feet, all of which will be added to the rental portfolio for a projected cost of $33.5 million and a projected return on cost, when fully occupied, of approximately 10.9%. Third quarter starts include a 346,000 square foot building for APL Logistics in Romeoville, IL, a 171,000 square foot building for Whirlpool Corporation in Denver, CO, and a 468,000 square foot speculative building in Rancho Cucamonga, CA.

Total construction in progress at quarter end was 3.2 million square feet, of which 1.8 million square feet will be added to the rental portfolio; 1.0 million square feet will be owned in joint ventures; 45,000 square feet will be sold upon completion; and 330,000 square feet is being developed for a fee on land sold to others.

The projected total cost of the 1.8 million square feet currently under construction and to be retained in the rental portfolio is $175.6 million. These buildings are 47.0% preleased and when fully leased and occupied are projected to yield a return on cost of approximately 12.0%.

Residential lot and home sales during the quarter, in direct sales and through joint ventures, totaled 341. This included 53 lots at Victoria by the Bay in Hercules, CA, 267 lots at Serrano, a suburb of Sacramento, CA, and 21 homes at Talega Village in San Clemente, CA.

At quarter end, the Company had cash totaling $302.7 million, including $35.6 million of restricted cash.

Fixed charge coverage ratio of 3.1x.

Debt to total market capitalization ratio of 47.9%.

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General

Our reportable segments are based on our method of internal reporting, which disaggregates its business by type and before the adjustments for discontinued operations. We have five reportable segments: Asset Management; Suburban, which includes two reportable segments, Commercial and Residential; Urban; and Corporate.

Business Segment Descriptions:

Asset Management:

The Asset Management segment consists of the rental activities of our assets, our share of income from operating joint ventures, and activity related to our desert portfolio. Growth in this segment is attributed primarily to the transfer of property developed by the Suburban-Commercial and Urban segments that we intend to hold and operate. Revenue consists of rental property operations and gains from the sale of rental properties.

	September 30,		
	2002	2001	Difference
	(In thousands of square feet, except percentages)		
Rental Building Occupancy:			
Owned(1)	36,477	30,254	6,223
Occupied(1)	34,450	28,483	5,967
Occupancy percentage	94.4%	94.1%	0.3%

(1) New buildings are added to our rental portfolio at the earlier of the twelve months after completion of the shell, or commencement of rent on 50% of the space. Space is considered Occupied upon commencement of rent.

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The table below provides the rental portfolio rental revenue less property operating costs for the three months ended September 30, 2002, and square feet by state (in thousands):

Property Type/State		Rental Revenue less Property Operating Expenses	% of Total	Owned Square Feet	% of Total	# Bldg s	% of Total
Industrial Distribution/Warehouse							
Southern California	CA	$ 12,618	25.7%	12,196	33.5%	99	40.1%
Northern California	CA	7,143	14.6%	5,667	15.5%	38	15.5%
Illinois	IL	4,634	9.5%	5,921	16.3%	18	7.3%
Texas	TX	2,316	4.7%	3,264	8.9%	11	4.5%
Colorado	CO	2,301	4.7%	2,033	5.6%	9	3.6%
Maryland	MD	777	1.6%	471	1.3%	1	0.4%
Ohio	OH	574	1.2%	966	2.6%	3	1.2%
Oregon	OR	509	1.0%	449	1.2%	3	1.2%
Arizona	AZ	455	0.9%	1,133	3.1%	9	3.6%
Kentucky	KY	313	0.6%	549	1.5%	2	0.8%
Oklahoma	OK	42	0.1%	125	0.3%	1	0.4%
Kansas	KS	(6)	0.0%	70	0.2%	1	0.4%
Subtotal		$ 31,676	64.6%	32,844	90.0%	195	79.0%
Office							
Northern California	CA	$ 1,965	4.0%	525	1.4%	10	4.0%
Texas	TX	1,523	3.1%	868	2.4%	4	1.6%
Illinois	IL	1,311	2.7%	468	1.3%	2	0.8%
Southern California	CA	1,303	2.7%	574	1.6%	11	4.5%
Colorado	CO	703	1.4%	273	0.7%	2	0.8%
Oregon	OR	87	0.2%	57	0.2%	1	0.4%
Subtotal		$ 6,892	14.1%	2,765	7.6%	30	12.1%
Retail							
Northern California		$ 1,615	3.3%	481	1.3%	9	3.7%
Southern California		697	1.4%	176	0.5%	6	2.4%
Colorado		283	0.6%	100	0.3%	1	0.4%
Arizona		127	0.3%	74	0.2%	4	1.6%
Oregon		69	0.1%	37	0.1%	2	0.8%
Subtotal		$ 2,791	5.7%	868	2.4%	22	8.9%
Land Development		$ 1,864	3.8%				
Ground Leases		4,812	9.8%				
Rental Revenue less Property Operating Expenses		$ 48,035	98%				
Equity in Earnings of Joint Ventures		993	2.0%				
		$ 49,028	100.0%	36,477	100.0%	247	100.0%

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Suburban-Commercial:

The Suburban-Commercial segment acquires and develops suburban commercial business parks for our own account and the account of others. Net income consists primarily of sales gains from development properties sold and construction management, developer and loan guarantee fees.

The table below provides the development potential, by square feet, of our Commercial Development Land Portfolio (In thousands):

Project Name	City	September 30, 2002 Square feet
Southern California		
Kaiser Commerce Center	Ontario	4,392
Crossroads Business Park	Ontario	2,016
Rancho Pacific Distribution Centre	Rancho Cucamonga	318
Pacific Center	Anaheim	44
Northridge	Northridge	44
Subtotal Southern Calif.		6,814
Northern California		
Pacific Commons	Fremont	3,671
Duck Creek	Stockton	2,000
Alameda FISC	Alameda	1,300
Spreckels Business Park	Manteca	686
Regatta Business Park	Richmond	89
Subtotal Northern Calif.		7,746
Total in California		14,560
Illinois		
Minooka	Minooka	1,710
Internationale Centre	Woodridge	976
Prairie Glen Corporate Campus	Glenview	457
Joliet	Joliet	370
Internationale Centre West	Romeoville	102
Subtotal Illinois		3,615
Texas		
Hobby Business Park	Houston	1,969
Gateway Corporate Center	Coppell	1,120
Stellar Way Business Park	Grand Prairie	814
Gateway East Business Park	Garland	763
Plano	Plano	403
Ft. Worth	Ft. Worth	104
Subtotal Texas		5,173
Other		
South Shore Corp. Park	Portland, OR	848
Circle Point Corporate Center	Westminster, CO	685
Stapleton Business Park	Denver, CO	609
South Shore Corp. Park	Gresham, OR	547
Cedar Grove Business Park	Louisville, KY	545

Santa Fe Industrial Center	Oklahoma, OK	300
Total Outside of California		12,322
Total Suburban Commercial Inventory		26,882

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Suburban-Residential:

The Suburban-Residential segment acquires and develops land primarily for single-family residential property, via direct investment or through joint ventures, and sells finished lots to homebuilders. This segment also owns an interest in a joint venture that develops senior housing.

The table below provides the development potential, by lots/homes, of our Suburban-Residential land portfolio.

	Ownership Interest	Lots/Homes/Units at September 30, 2002
Colorado		
Vista Range, Commerce City	100%	2,149
Northern California		
Alameda (controlled)	100%	485
Hercules	100%	154
Serrano, Sacramento	50%	1,452
Parkway, Sacramento	50%	874
		2,965
Southern California		
Talega Seniors, San Clemente	50%	130
Talega, San Clemente	30%	1,700
Westbluffs, Playa del Rey(1)	100%	114
		1,944
Total		7,058

(1) We have entitlements for this project; however, individuals are challenging the entitlements under the California Environmental Quality Act and the California Coastal Act *(see Legal Proceedings section).*

Urban:

The Urban segment entitles and develops urban mixed-use sites in San Francisco, Los Angeles, and San Diego. The principal active project of the segment is Mission Bay in San Francisco.

The table below provides the development potential by square feet, of our Urban Land Portfolio (in thousands):

	R&D, Biotech & Office	CBD Office	Retail/ Entertainment	Hotel (rooms)	Residential (units)
Urban:					
Mission Bay (SF, CA)	4,537		549	500	3,073
Union Station (LA, CA)		5,175	675		
Santa Fe Depot (SD, CA)		1,485	270		275
Total	4,537	6,660	1,494	500	3,348

Corporate:

Corporate consists primarily of administrative costs and interest contra-expense. Corporate interest (contra-expense) represents required capitalized interest, on qualifying assets in the Suburban and Urban segments, in excess of interest directly incurred by these segments. As these qualifying assets are sold, the corresponding capitalized interest is reflected as cost of sales in the Corporate segment or, for those assets transferred to Asset Management, as the assets are placed in service the corresponding interest capitalized is added to the cost basis of the asset and depreciated over the life of the building.

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 our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, impairment of real estate assets, capitalization of costs, allowances for doubtful accounts, environmental and legal reserves, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue recognition

Our revenue is primarily derived from two sources: rental revenue from our rental portfolio and property sales.

Rental revenue is recognized when due from tenants. Revenue from leases with rent concessions or fixed escalations is recognized on a straight-line basis over the initial term of the related lease. The financial terms of leases are contractually defined. Rental revenue is not accrued when a tenant vacates the premises and ceases to make rent payments or files for bankruptcy.

Revenue from sales of properties is recognized using the accrual method. If a sale does not qualify for the accrual method of recognition, other deferral methods will be used as appropriate including the percentage-of-completion method. In certain cases, we retain the right to repurchase property from the buyer at a specified price. Profit on these sales is not recognized until our right to repurchase expires. In other instances, when we receive an inadequate cash down payment and take a promissory note for the balance of the sale price, profit is deferred until such time as sufficient cash is received to meet minimum down payment requirements. Also, in general, specific identification and relative sales value methods are used to determine the cost of sales. Management estimates of future costs to complete infrastructure are included in cost of sales. A change in circumstances that causes the estimate of future costs to increase or decrease significantly would affect the gain or loss recognized on future sales.

Impairment of real estate assets

We assess the impairment of a real estate asset when events or changes in circumstances indicate that the net book value may not be recoverable. Indicators we consider important which could trigger an impairment review include the following:

a significant negative industry or economic trend;

a significant underperformance relative to historical or projected future operating results;

a significant change in the manner in which an asset is used; and

an accumulation of costs significantly in excess of the amount originally expected to construct an asset.

Real estate is stated at the lower of cost or estimated fair value using the methodology described as follows: (a) for operating properties and properties held for investment, a write-down to estimated fair value is recognized when a property s estimated undiscounted future cash flow, before interest charges, is less than its net book value; and (b) for properties held for sale, a write-down to estimated fair value is recorded when we determine that the net book value exceeds the estimated selling price less cost to sell. These evaluations are made on a property-by-property basis. When we determine that the net book value of an asset may not be recoverable based upon the estimated undiscounted cash flow, we measure any impairment write-down based on a projected discounted cash flow method using an estimated discount rate. Value from comparable property sales will also be considered. The evaluation of future cash flows, discount rates, and fair value of individual properties requires significant judgment and assumptions, including estimates of market value, lease terms, development absorption, development costs, lease up costs, and financings. Significant adverse changes in circumstances affecting these judgments and assumptions in future periods could cause a significant impairment adjustment to be recorded.

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Capitalization of costs

We capitalize direct construction and development costs, including predevelopment costs, property taxes, insurance, and certain indirect project costs, including a portion of our general and administrative costs that are associated with the acquisition, development, or construction of a project. Interest is capitalized in accordance with FAS 34. Costs previously capitalized related to any abandoned development opportunities are written off, if we determine such costs will not provide any future benefits. Should development activity decrease, a portion of interest, property taxes, insurance, and certain general and administrative costs would no longer be eligible for capitalization and would be expensed as incurred.

Allowance for doubtful accounts

We make estimates with respect to the collectability of our receivables and provide for doubtful accounts based on several factors, including our estimate of collectability and the age of the outstanding balances. Our estimate of collectability is based on our contacts with the debtors, collection agencies, our knowledge of the debtors credit and financial condition, debtors payment terms, and current economic trends. If a debtor becomes insolvent or files for bankruptcy, we provide an allowance for the entire outstanding amount. Significant judgments and estimates must be made and used in connection with establishing allowances in any accounting period. Material differences may result in the amount and timing of our allowances for any period if adverse general economic conditions cause widespread financial difficulties among our tenants.

Environmental and legal reserve

We incur ongoing environmental remediation costs, including clean up costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to clean up, litigation defense, and the pursuit of responsible third parties. Costs incurred in connection with operating properties and properties previously sold are expensed. Costs relating to undeveloped land are capitalized as part of development costs. Costs incurred for properties to be sold are deferred and charged to cost of sales when the properties are sold.

We maintain a reserve for estimated costs of environmental remediation to be incurred in connection with operating properties and properties previously sold. The amounts for our properties to be developed or sold will be capitalized as components of development costs when incurred, which is anticipated to be over a period of twenty years, or will be deferred and charged to cost of sales when the properties are sold. Our estimates are developed based on reviews that took place over many years based upon then-prevailing law and identified site conditions. Because of the breadth of our portfolio, and past sales, we are unable to review each property extensively on a regular basis. Such estimates are not precise and are always subject to the availability of further information about the prevailing conditions at the site, the future requirements of regulatory agencies, and the availability and ability of other parties to pay some or all of such costs. Should a previously undetected, substantial environmental hazard be found on our properties, significant liquidity could be consumed by the resulting clean up requirements, and a material expense may be recorded.

The Company is a party to a number of legal actions arising in the ordinary course of business. The Company cannot predict with certainty the final outcome of the proceedings. Where appropriate, the Company has established reserves for potential liabilities related to legal actions or threatened legal actions. These reserves are necessarily based on estimates and probabilities of the occurrence of events and therefore are subject to revision from time to time. Should the circumstances affecting these estimates change significantly, a material expense would be recognized.

Income taxes

As part of the process of preparing our consolidated financial statements, significant management judgment is required to estimate our income taxes. Our estimates are based on interpretation of tax laws. We estimate our actual current tax due and assess temporary differences resulting from differing treatment of items for tax and accounting purposes. The temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. Adjustments may be required by a change in assessment of our deferred tax assets and liabilities, changes due to audit adjustments by Federal and State tax authorities, and changes in tax laws. To the extent adjustments are required in any given period we would include the adjustments within the tax provision in the statement of operations and/or balance sheet. Any applicable interest charges would be recorded as an expense. These adjustments could materially impact our statement of operations and liquidity.

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Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes appearing elsewhere in this Form 10-Q. This discussion and analysis covers our five business segments: Asset Management; Suburban, which includes a Commercial and Residential division; Urban; and Corporate.

We have historically analyzed and discussed our financial condition and results of operations, before the adjustments for discontinued operations, based on a supplemental performance measure, Earnings Before Depreciation and Deferred Taxes (EBDDT). Commencing with the first quarter of 2002, we decided to use net income as our primary earnings measure and will present our analysis and discussion in that format. However, for comparative purposes only, reconciliation between net income and EBDDT is provided for the three and nine months ended September 30, 2002 and 2001.

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Below is a summary of Net income by segment and EBDDT for the Three Months Ended September 30, 2002:

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
			(In thousands)			
Rental properties:						
Rental revenue	$ 66,191	$	$	$	$	$ 66,191
Property operating costs	(18,156)					(18,156)
Equity in earnings of operating joint ventures, net	993					993
	49,028					49,028
Property sales and fee services:						
Gain on property sales	3,532	1,133	5,363		(60)	9,968
Equity in earnings of development joint ventures, net			5,028		(827)	4,201
Management and development fees	9	1,355	647	744		2,755
Selling, general and administrative expenses	(168)	(2,455)	(1,549)	(1,652)		(5,824)
Other, net	1,822	(125)	1,702	(336)		3,063
	5,195	(92)	11,191	(1,244)	(887)	14,163
Interest expense	(20,200)				3,759	(16,441)
Depreciation and amortization	(16,017)	(259)	(79)	(351)	(894)	(17,600)
Corporate administrative costs					(4,284)	(4,284)
Gain on non-strategic asset sales	421					421
Other, net					803	803
Minority interests	(1,527)					(1,527)
Income tax expense	(6,816)	141	(4,476)	642	601	(9,908)
Net income (loss)	$ 10,084	$ (210)	$ 6,636	$ (953)	$ (902)	14,655
Depreciation and amortization						17,600
Depreciation recapture						(1,901)
Deferred income taxes						6,175
Gain on non-strategic asset sales						(421)
Earnings before depreciation and deferred taxes(1)						$ 36,108

Net income by segment and EBDDT for the Three Months Ended September 30, 2001:

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
Rental properties:						
Rental revenue	$ 59,116	$	$	$	$	$ 59,116
Property operating costs	(17,390)					(17,390)
Equity in earnings of operating joint ventures, net	1,184					1,184
	42,910					42,910
Property sales and fee services:						
Gain on property sales	19,139	5,919	1,364	1,508	(215)	27,715
Equity in earnings of development joint ventures, net			14,420		(931)	13,489
Management and development fees	108	766	(5)	397		1,266

Selling, general and administrative expenses	(300)	(3,024)	(1,812)	(1,237)		(6,373)
Other, net	846	(1,163)	(786)	976		(127)
	19,793	2,498	13,181	1,644	(1,146)	35,970
Interest expense	(18,825)				4,930	(13,895)
Depreciation and amortization	(11,918)	(52)	(124)	(423)	(360)	(12,877)
Corporate administrative costs					(4,685)	(4,685)
Gain on non-strategic asset sales	765					765
Other, net					1,152	1,152
Minority interests	(1,604)					(1,604)
Income tax expense	(12,443)	(979)	(5,223)	(488)	43	(19,090)
Net income (loss)	$ 18,678	$ 1,467	$ 7,834	$ 733	$ (66)	28,646
Depreciation and amortization						12,877
Depreciation recapture						(8,176)
Deferred income taxes						13,747
Gain on non-strategic asset sales						(765)
Earnings before depreciation and deferred taxes						$ 46,329

(1) EBDDT is calculated by making various adjustments to net income. Depreciation, amortization, and deferred income taxes are added back to net income as they represent non-cash charges. Since depreciation expense is added back to net income in arriving at EBDDT, the portion of gain on property sales attributable to depreciation recapture is excluded from EBDDT. In addition, gains on the sale of non-strategic assets and extraordinary items, including their current tax effect, represent unusual and/or non-recurring items and are excluded from the EBDDT calculation.

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Below is a summary of Net income by segment and EBDDT for the Nine Months Ended September 30, 2002:

		Suburban				
	Asset Management	Commercial	Residential	Urban	Corporate	Total
			(In thousands)			
Rental properties:						
Rental revenue	$ 194,750	$	$	$	$	$ 194,750
Property operating costs	(51,355)					(51,355)
Equity in earnings of operating joint ventures, net	6,838					6,838
	150,233					150,233
Property sales and fee services:						
Gain on property sales	27,202	5,907	29,040		(576)	61,573
Equity in earnings of development joint ventures, net			22,585		(2,760)	19,825
Management and development fees	60	3,018	1,102	1,471		5,651
Selling, general and administrative expenses	(878)	(6,540)	(7,315)	(5,071)		(19,804)
Other, net	10,434	53	4,864	(192)		15,159
	36,818	2,438	50,276	(3,792)	(3,336)	82,404
Interest expense	(58,083)				14,659	(43,424)
Depreciation and amortization	(42,919)	(534)	(152)	(820)	(1,781)	(46,206)
Corporate administrative costs					(12,748)	(12,748)
Gain on non-strategic asset sales	7,242					7,242
Other, net					573	573
Minority interests	(4,580)					(4,580)
Income tax expense	(35,696)	(766)	(20,164)	1,855	1,055	(53,716)
Net income (loss)	$ 53,015	$ 1,138	$ 29,960	$ (2,757)	$ (1,578)	79,778
Depreciation and amortization						46,206
Depreciation recapture						(8,121)
Deferred income taxes						30,948
Gain on non-strategic asset sales						(7,242)
Earnings before depreciation and deferred taxes						$ 141,569

Net income by segment and EBDDT for the Nine Months Ended September 30, 2001:

Rental properties:						
Rental revenue	$ 172,025	$	$	$	$	$ 172,025
Property operating costs	(45,598)					(45,598)
Equity in earnings of operating joint ventures, net	7,017					7,017
	133,444					133,444
Property sales and fee services:						
Gain on property sales	38,391	16,597	9,473	12,456	(215)	76,702
Equity in earnings of development joint ventures, net			22,896		(1,280)	21,616
Management and development fees	120	2,798	434	468		3,820
Selling, general and administrative expenses	(877)	(9,086)	(8,335)	(3,655)		(21,953)

Other, net	2,918	868	(2,506)	4,675		5,955
	40,552	11,177	21,962	13,944	(1,495)	86,140
Interest expense	(56,763)	(7)		(56)	13,221	(43,605)
Depreciation and amortization	(35,417)	(371)	(244)	(1,432)	(1,279)	(38,743)
Corporate administrative costs					(15,292)	(15,292)
Gain on non-strategic asset sales	3,901					3,901
Other, net					7,858	7,858
Minority interests	(4,812)		(504)			(5,316)
Income tax expense	(32,364)	(4,321)	(8,487)	(4,984)	(1,206)	(51,362)
Net income	$ 48,541	$ 6,478	$ 12,727	$ 7,472	$ 1,807	77,025
Depreciation and amortization						38,743
Depreciation recapture						(11,428)
Deferred income taxes						39,276
Gain on non-strategic asset sales						(3,901)
Earnings before depreciation and deferred taxes						$ 139,715

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Variance Three Months Ended September 30, 2002 vs Three Months Ended September 30, 2001:

		Suburban				
	Asset Management	Commercial	Residential	Urban	Corporate	Total
			(In thousands)			
Rental properties:						
Rental revenue	$ 7,075	$	$	$	$	$ 7,075
Property operating costs	(766)					(766)
Equity in earnings of operating joint ventures, net	(191)					(191)
	6,118					6,118
Property sales and fee services:						
Gain on property sales	(15,607)	(4,786)	3,999	(1,508)	155	(17,747)
Equity in earnings of development joint ventures, net			(9,392)		104	(9,288)
Management and development fees	(99)	589	652	347		1,489
Selling, general and administrative expenses	132	569	263	(415)		549
Other, net	976	1,038	2,488	(1,312)		3,190
	(14,598)	(2,590)	(1,990)	(2,888)	259	(21,807)
Interest expense	(1,375)				(1,171)	(2,546)
Depreciation and amortization	(4,099)	(207)	45	72	(534)	(4,723)
Corporate administrative costs					401	401
Gain on non-strategic asset sales	(344)					(344)
Other, net					(349)	(349)
Minority interests	77					77
Income tax expense	5,627	1,120	747	1,130	558	9,182
Net income	$ (8,594)	$ (1,677)	$ (1,198)	$ (1,686)	$ (836)	(13,991)
Depreciation and amortization						4,723
Depreciation recapture						6,275
Deferred income taxes						(7,572)
Gain on non-strategic asset sales						344
Earnings before depreciation and deferred taxes						$ (10,221)

Variance Nine Months Ended September 30, 2002 vs Nine Months Ended September 30, 2001:

	Asset Management	Commercial	Residential	Urban	Corporate	Total
Rental properties:						
Rental revenue	$ 22,725	$	$	$	$	$ 22,725
Property operating costs	(5,757)					(5,757)
Equity in earnings of operating joint ventures, net	(179)					(179)
	16,789					16,789
Property sales and fee services:						
Gain on property sales	(11,189)	(10,690)	19,567	(12,456)	(361)	(15,129)
Equity in earnings of development joint ventures, net			(311)		(1,480)	(1,791)

Management and development fees	(60)	220	668	1,003		1,831
Selling, general and administrative expenses	(1)	2,546	1,020	(1,416)		2,149
Other, net	7,516	(815)	7,370	(4,867)		9,204
	(3,734)	(8,739)	28,314	(17,736)	(1,841)	(3,736)
Interest expense	(1,320)	7		56	1,438	181
Depreciation and amortization	(7,502)	(163)	92	612	(502)	(7,463)
Corporate administrative costs					2,544	2,544
Gain on non-strategic asset sales	3,341					3,341
Other, net					(7,285)	(7,285)
Minority interests	232		504			736
Income tax expense	(3,332)	3,555	(11,677)	6,839	2,261	(2,354)
Net income	$ 4,474	$ (5,340)	$ 17,233	$ (10,229)	$ (3,385)	2,753
Depreciation and amortization						7,463
Depreciation recapture						3,307
Deferred income taxes						(8,328)
Gain on non-strategic asset sales						(3,341)
Earnings before depreciation and deferred taxes						$ 1,854

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The following is a schedule of the largest ten tenants of our rental portfolio, based on GAAP rents:

Customer Name	State	Type of Product Leased	% of Total Base Rent September 30, 2002
APL Logistics, Inc	CA, IL, KY, TX	Industrial	5.1%
Ford Motor Company	CA, CO, TX	Industrial	2.4%
Kellogg s USA, Inc.	CA, IL, CO	Industrial	2.2%
J.C. Penney Company	TX	Office	2.1%
Exel Corporation	CA	Industrial	2.1%
Home Depot USA, Inc.	CA	Industrial/Retail	1.8%
Gillette Company	CA, IL	Industrial	1.6%
MCI Telecommunications (1)	CA, WA, IL, MN, TX, OK, OR	Office/Ground Leases	1.5%
Office Depot, Inc.	CA	Industrial/Retail	1.4%
CISCO Technology	CA	Ground Leases	1.4%

(1) The Company has ten leases with MCI WORLDCOM Communications, Inc. or its affiliates (MCI). On July 21, 2002, a group of MCI Companies filed for Chapter 11 reorganization. Pursuant to an order of the United States Bankruptcy Court, the MCI Companies have until September 22, 2003 to assume or reject the leases, but they remain obligated under the Bankruptcy Code to continue to perform their obligations under each lease in a timely manner pending the assumption or rejection of that lease.

Rental Revenue less Property Operating Costs

Rental revenue less property operating costs increased for both the three and nine months ended September 30, 2002, mainly because of additions of buildings, new ground leases, and rental increases from renewals on Same Space (as defined below), partially offset by properties sold. From October 2001 to September 2002, we added a net 6.2 million square feet to our rental portfolio. Rental revenue less operating costs for the three and nine months ended September 30, 2002 and 2001, are summarized as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2002	2001	Difference 2002/2001	2002	2001	Difference 2002/2001
	(In thousands)			(In thousands)		
Rental revenue less property operating costs:						
Same space(1)	$ 33,223	$ 31,354	$ 1,869	$ 102,844	$ 99,065	$ 3,779
Properties added to portfolio	9,086	4,196	4,890	21,777	7,414	14,363
Properties sold from portfolio	(35)	430	(465)	570	3,348	(2,778)
Ground leases	5,761	5,746	15	18,204	16,600	1,604
	$ 48,035	$ 41,726	$ 6,309	$ 143,395	$ 126,427	$ 16,968

(1) Same Space properties were owned and operated for the entire current year and the entire immediate preceding year.

We do not expect substantial changes in rental income from our Same Space rental portfolio. Rather, we expect growth in overall portfolio rental income will result primarily from new properties we add to our rental portfolio over time.

Rental revenue less operating costs increased $6.3 million for the three months ended September 30, 2002, as compared to the same period in 2001, primarily attributable to $4.9 million from the additions of buildings and $1.9 million increases in revenue from Same Space, due to higher average rental rate from renewals, partially offset by $0.5 million from properties sold.

Rental revenue less operating costs increased $17.0 million for the nine months ended September 30, 2002, as compared to the same period in 2001, primarily attributable to $16.0 million from the additions of buildings and new ground leases, and $3.8 million from Same Space due to higher average rental rates from renewals. These increases were partially offset by a $2.8 million decrease in revenue from properties sold.

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Gain on Property Sales:

Three Months Ended September 30, 2002

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
			(In thousands)			
Building/Home Sales						
Sales Proceeds	$ 4,486	$	$	$	$	$ 4,486
Cost of Sales	(2,346)					(2,346)
Gain	2,140					2,140
Land/Lot Sales						
Sales Proceeds		(83)	8,871			8,788
Cost of Sales		708	(3,260)			(2,552)
Gain		625	5,611			6,236
Ground Lease and Other Sales						
Sales Proceeds	1,511					1,511
Cost of Sales	(119)	508	(248)		(60)	81
Gain (loss)	1,392	508	(248)		(60)	1,592
Total sales proceeds	5,997	(83)	8,871			14,785
Total cost of sales	(2,465)	1,216	(3,508)		(60)	(4,817)
Total gain (loss) on property sales	$ 3,532	$ 1,133	$ 5,363	$	$ (60)	$ 9,968

Three Months Ended September 30, 2001

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
			(In thousands)			
Building/Home Sales						
Sales Proceeds	$ 27,972	$ 10,663	$ 1,064	$	$	$ 39,699
Cost of Sales	(9,367)	(6,327)				(15,694)
Gain	18,605	4,336	1,064			24,005
Land/Lot Sales						
Sales Proceeds		8,662	981	13,106		22,749
Cost of Sales		(7,004)	(831)	(11,598)		(19,433)
Gain		1,658	150	1,508		3,316
Ground Lease and Other sales						
Sales Proceeds	1,876					1,876

Cost of Sales	(1,342)	(75)	150		(215)	(1,482)
Gain (loss)	534	(75)	150		(215)	394
Total sales proceeds	29,848	19,325	2,045	13,106		64,324
Total cost of sales	(10,709)	(13,406)	(681)	(11,598)	(215)	(36,609)
Total gain (loss) on property sales	$ 19,139	$ 5,919	$ 1,364	$ 1,508	$ (215)	$ 27,715

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Nine Months Ended September 30, 2002

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
			(In thousands)			
Building/Home Sales						
Sales Proceeds	$ 34,141	$	$	$	$	$ 34,141
Cost of Sales	(12,411)					(12,411)
Gain	21,730					21,730
Land/Lot Sales						
Sales Proceeds		40,519	54,993			95,512
Cost of Sales		(35,470)	(27,257)			(62,727)
Gain		5,049	27,736			32,785
Ground Lease and Other Sales						
Sales Proceeds	6,980	388	2,053			9,421
Cost of Sales	(1,508)	470	(749)		(576)	(2,363)
Gain (loss)	5,472	858	1,304		(576)	7,058
Total sales proceeds	41,121	40,907	57,046			139,074
Total cost of sales	(13,919)	(35,000)	(28,006)		(576)	(77,501)
Total gain (loss) on property sales	$ 27,202	$ 5,907	$ 29,040	$	$ (576)	$ 61,573

Nine Months Ended September 30, 2001

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
			(In thousands)			
Building/Home Sales						
Sales Proceeds	$ 37,897	$ 18,719	$ 9,436	$	$	$ 66,052
Cost of Sales	(13,245)	(13,087)	(7,127)			(33,459)
Gain	24,652	5,632	2,309			32,593
Land/Lot Sales						
Sales Proceeds		26,383	19,185	49,793		95,361
Cost of Sales		(15,538)	(12,194)	(37,337)		(65,069)
Gain(2)		10,845	6,991	12,456		30,292
Ground Lease and Other Sales						
Sales Proceeds	28,773					28,773
Cost of Sales	(15,034)	120	173		(215)	(14,956)

Gain (loss)	13,739	120	173		(215)	13,817
Total sales proceeds	66,670	45,102	28,621	49,793		190,186
Total cost of sales	(28,279)	(28,505)	(19,148)	(37,337)	(215)	(113,484)
Total gain (loss) on property sales	$ 38,391	$ 16,597	$ 9,473	$ 12,456	$ (215)	$ 76,702

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Variance Three Months Ended September 30, 2002 vs Three Months Ended September 30, 2001

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
			(In thousands)			
Building/Home Sales						
Sales Proceeds	$ (23,486)	$ (10,663)	$ (1,064)	$	$	$ (35,213)
Cost of Sales	7,021	6,327				13,348
Gain	(16,465)	(4,336)	(1,064)			(21,865)
Land/Lot Sales						
Sales Proceeds		(8,745)	7,890	(13,106)		(13,961)
Cost of Sales		7,712	(2,429)	11,598		16,881
Gain		(1,033)	5,461	(1,508)		2,920
Ground Lease and Other Sales						
Sales Proceeds	(365)					(365)
Cost of Sales	1,223	583	(398)		155	1,563
Gain	858	583	(398)		155	1,198
Total sales proceeds	(23,851)	(19,408)	6,826	(13,106)		(49,539)
Total cost of sales	8,244	14,622	(2,827)	11,598	155	31,792
Total gain (loss) on property sales	$ (15,607)	$ (4,786)	$ 3,999	$ (1,508)	$ 155	$ (17,747)

Variance Nine Months Ended September 30, 2002 vs Nine Months Ended September 30, 2001

	Asset Management	Suburban Commercial	Suburban Residential	Urban	Corporate	Total
			(In thousands)			
Building/Home Sales						
Sales Proceeds	$ (3,756)	$ (18,719)	$ (9,436)	$	$	$ (31,911)
Cost of Sales	834	13,087	7,127			21,048
Gain	(2,922)	(5,632)	(2,309)			(10,863)
Land/Lot Sales						
Sales Proceeds		14,136	35,808	(49,793)		151
Cost of Sales		(19,932)	(15,063)	37,337		2,342
Gain		(5,796)	20,745	(12,456)		2,493
Ground Lease and Other Sales						
Sales Proceeds	(21,793)	388	2,053			(19,352)
Cost of Sales	13,526	350	(922)		(361)	12,593

Gain (loss)	(8,267)	738	1,131		(361)	(6,759)
Total sales proceeds	(25,549)	(4,195)	28,425	(49,793)		(51,112)
Total cost of sales	14,360	(6,495)	(8,858)	37,337	(361)	35,983
Total gain (loss) on property sales	$ (11,189)	$ (10,690)	$ 19,567	$ (12,456)	$ (361)	$ (15,129)

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During the three months ended September 30, 2002, we sold a 70,000 square foot existing operating property, closed on the sale of improved land capable of supporting 107,000 square feet of commercial development and 112.7 acres of ground leases. During the same period in 2001, we sold five existing operating properties and a newly completed commercial building totaling 442,000 square feet, sold improved land capable of supporting 0.4 million square feet of commercial development, sold 308.71 acres of ground leases, and sold 1.4 acres of Urban land.

For the three months ended September 30, 2002, we closed on the sales of 53 residential lots. No residential lots or homes were sold for the three months ended September 30, 2001, but a $1.4 million gain on residential property sales was recognized, which represents our portion of profit participation related to certain properties that were sold in the prior year (see Variability in Results section).

During the nine months ended September 30, 2002, we sold six operating properties totaling 769,000 square feet of building space sold, closed on the sale of improved land capable of supporting 3.4 million square feet of commercial development, and closed on the sale of 569.4 acres of ground leases. During the same period in 2001, we sold seven existing operating properties and two newly completed commercial buildings totaling 729,000 square feet, sold improved land capable of supporting 5.0 million square feet of commercial development, and sold 959.9 acres of ground leases and 5.1 acres of Urban land.

For the nine months ended September 30, 2002, we also closed on the sales of 324 residential lots, as compared to 227 residential lots and 55 homes during the same period in 2001. In addition, the gain for the nine months ended September 30, 2002 and 2001, from Suburban-Residential segment included $2.1 million and $1.1 million, respectively, of our portion of profit participation related to certain properties that were sold in the prior year (see Variability in Results section).

Equity in Earnings of Development Joint Ventures, Net

Our Equity in Earnings of Development Joint Ventures is generated from our Suburban-Residential investments. The tables below summarize the activities of our shares from the Joint Ventures for the three and nine months ended September 30, 2002 and 2001. The decrease in our share of gain from sales is primarily because of the sale of our investment interest in the Brookfield joint venture during 2001. Also, see Variability in Results section. As we have not entered into any significant new joint ventures in 2002, nor are many new investments anticipated, the Equity in Earnings of Development Joint Ventures, Net will likely decline over time.

	Three Months Ended September 30, 2002				Three Months Ended September 30, 2001			
Projects	**Lots/Homes Sold**	**Sales**	**Cost of Sales**	**Gain (loss)**	**Lots/Homes Sold**	**Sales**	**Cost of Sales**	**Gain (loss)**
				(In thousands)				
Brookfield		$	$	$	392	$ 14,800	$ (6,601)	$ 8,199
Talega Village	21	10,325	(9,573)	752	22	10,457	(9,964)	493
Serrano	267	18,630	(16,664)	1,966	5	12,126	(12,260)	(134)
Talega		553(1)	(319)	234	1	9,480	(7,723)	1,757
Parkway		7,331(1)	(6,082)	1,249	190	15,069	(11,895)	3,174
Total	288	$ 36,839	$ (32,638)	$ 4,201	610	$ 61,932	$ (48,443)	$ 13,489