CRESCENT REAL ESTATE EQUITIES CO
Form 10-K/A
April 01, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(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, 2001.
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 $.01 per share	New York Stock Exchange
6 3/4% Series A Convertible Cumulative Preferred Shares of Beneficial Interest par value $.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. [ ]

As of March 25, 2002, the aggregate market value of the 96,368,621 common shares and 8,000,000 preferred shares held by non-affiliates of the registrant was approximately $1.8 billion and $157.6 million, respectively, based upon the closing price of $18.99 for common shares and $19.70 for preferred shares on the New York Stock Exchange.

Number of Common Shares outstanding as of March 25, 2002:	119,365,362
Number of Preferred Shares outstanding as of March 25, 2002:	8,000,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be filed with the Securities and Exchange Commission for Registrant's 2002 Annual Meeting of Shareholders to be held in June 2002 are incorporated by reference into Part III.

The Form 10-K of Crescent Real Estate Equities Company (the "Company") for the year ended December 31, 2001 is being amended to (i) amend the cover page to reflect certain additional and updated information relating to the Company's equity (ii) amend and restate in its entirety Item 1. Business to update internal cross references to amended Items (iii) amend and restate in its entirety Item 6. Selected Financial Data to conform to financial statement changes in Item 8. Financial Statements and Supplementary Data (iv) amend and restate in its entirety Item 7. Management's Discussion and Analysis of Financial Condition and Historical Results of Operations to include certain additional information in response to a comment letter received from the Securities and Exchange Commission ("SEC") related to another filing, (v) amend and restate in its entirety Item 7A. Quantitative and Qualitative Disclosures about Market Risk to include certain additional information in response to a comment letter received from the SEC related to another filing and (vi) to amend and restate in its entirety Item 8. Financial Statements and Supplementary Data to include certain additional information in response to a comment letter received from the SEC related to another filing.

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PART I

ITEM 1. BUSINESS

THE COMPANY

Crescent Real Estate Equities Company ("Crescent Equities") operates as a real estate investment trust for federal income tax purposes, (a "REIT"), and, together with its subsidiaries, provides management, leasing and development services for some of its properties.

The term "Company" includes, unless the context otherwise indicates, Crescent Equities, a Texas REIT, and all of its direct and indirect subsidiaries.

The direct and indirect subsidiaries of Crescent Equities at December 31, 2001 included:

- CRESCENT REAL ESTATE EQUITIES LIMITED PARTNERSHIP The "Operating Partnership."

- CRESCENT REAL ESTATE EQUITIES, LTD. The "General Partner" of the Operating Partnership.

- SUBSIDIARIES OF THE OPERATING PARTNERSHIP AND THE GENERAL PARTNER

Crescent Equities conducts all of its business through the Operating Partnership and its other subsidiaries. The Company is structured to facilitate and maintain the qualification of Crescent Equities as a REIT.

As of December 31, 2001, the Company's assets and operations were composed of four investment segments:

- Office Segment;

- Resort/Hotel Segment;

- Residential Development Segment; and

- Temperature-Controlled Logistics Segment.

Within these segments, the Company owned or had an interest in the following real estate assets (the "Properties") as of December 31, 2001:

- OFFICE SEGMENT consisted of 74 office properties (collectively referred to as the "Office Properties"), located in 26 metropolitan submarkets in six states, with an aggregate of approximately 28.0 million net rentable square feet.

- RESORT/HOTEL SEGMENT consisted of five luxury and destination fitness resorts and spas with a total of 1,028 rooms/guest nights and four upscale business-class hotel properties with a total of 1,769 rooms (collectively referred to as the "Resort/Hotel Properties").

- RESIDENTIAL DEVELOPMENT SEGMENT consisted of the Company's ownership of real estate mortgages and non-voting common stock representing interests ranging from 90% to 95% in five unconsolidated residential development corporations (collectively referred to as the "Residential Development Corporations"), which in turn, through joint venture or partnership arrangements, owned 21 upscale residential development properties (collectively referred to as the "Residential Development Properties").

- TEMPERATURE-CONTROLLED LOGISTICS SEGMENT consisted of the Company's 40% interest in a general partnership (the "Temperature-Controlled Logistics Partnership"), which owns all of the common stock, representing substantially all of the economic interest, of AmeriCold Corporation (the "Temperature-Controlled

Logistics Corporation"), a REIT, which, as of December 31, 2001, directly or indirectly owned 89 temperature-controlled logistics properties (collectively referred to as the "Temperature-Controlled Logistics Properties") with an aggregate of approximately 445.2 million cubic feet (17.7 million square feet) of warehouse space.

See "Note 1. Organization and Basis of Presentation" included in "Item 8. Financial Statements and Supplementary Data" for a table that lists the principal subsidiaries of Crescent Equities and the Properties owned by such subsidiaries.

See "Note 4. Investments in Real Estate Mortgages and Equity of Unconsolidated Companies" included in "Item 8. Financial Statements and Supplementary Data" for a table that lists the Company's ownership in significant unconsolidated companies and equity investments as of December 31, 2001, including the four Office Properties in which the Company owned an interest through unconsolidated companies and equity investments and the Company's ownership interests in the Residential Development Segment and the Temperature-Controlled Logistics Segment.

On February 14, 2002, the Company executed an agreement with Crescent Operating, Inc. ("COPI"), pursuant to which COPI transferred to the Company, in lieu of foreclosure, COPI's lessee interests in the eight Resort/Hotel Properties leased to subsidiaries of COPI and the voting common stock in three of the Company's Residential Development Corporations. The Company will fully consolidate the operations of the eight Resort/Hotel Properties and the three Residential Development Corporations, beginning on the date of the transfers of these assets. See "Note 22. Subsequent Events" included in "Item 8. Financial Statements and Supplementary Data" for additional information regarding the Company's agreement with COPI.

For purposes of investor communications, the Company classifies its luxury and destination fitness resorts and spas and upscale Residential Development Properties as a single group referred to as the "Resort and Residential Development Sector" due to their similar targeted customer characteristics. This group does not contain the four upscale business-class hotel properties. Additionally, for investor communications, the Company classifies its Temperature-Controlled Logistics Properties and its upscale business-class hotel properties as the "Investment Sector." However, for purposes of segment reporting as defined in Statement of Financial Accounting Standard ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information" and this Annual Report on Form 10-K, the Resort/Hotel Properties, including the upscale business-class hotel properties, the Residential Development Properties and the Temperature-Controlled Logistics Properties are considered three separate reportable segments.

See "Note 3. Segment Reporting" included in "Item 8. Financial Statements and Supplementary Data" for a table showing total revenues, funds from operations, and equity in net income of unconsolidated companies for each of these investment segments for the years ended December 31, 2001, 2000 and 1999 and identifiable assets for each of these investment segments at December 31, 2001 and 2000.

BUSINESS OBJECTIVES AND STRATEGIES

BUSINESS OBJECTIVES

The Company's primary business objective is to provide its shareholders with an attractive yet predictable growth in cash flow and underlying asset value. Additionally, the Company is focused on increasing funds from operations and cash available for distribution, while optimizing the corresponding growth rates. The Company also strives to attract and retain the best talent available and to empower management through the development and implementation of a cohesive set of operating, investing and financing strategies that will align their interests with the interests of the Company's shareholders.

OPERATING STRATEGIES

The Company seeks to enhance its operating performance by distinguishing itself as the leader in its core investment segments through customer service and asset quality.

The Company's operating strategies include:

- operating the Office Properties as long-term investments;
- providing exceptional customer service;

- increasing occupancies, rental rates and same-store net operating income; and
- emphasizing brand recognition of the Company's premier Class A Office Properties and luxury and destination fitness resorts and spas.

INVESTING STRATEGIES

The Company focuses on assessing investment opportunities and markets considered "demand-driven," or to have high levels of in-migration by corporations, affordable housing costs, moderate costs of living, and the presence of centrally located travel hubs, primarily within the Office Segment. These investment opportunities are evaluated in light of the Company's long-term investment strategy of acquiring properties at a significant discount to replacement cost in an environment in which the Company believes values will appreciate and equal or exceed replacement costs. Investment opportunities are expected to provide growth in cash flow after applying management skills, renovation and expansion capital and strategic vision.

The Company's investment strategies include:

- capitalizing on strategic acquisition opportunities, primarily within the Company's Office Segment;
- evaluating the expected returns on acquisition opportunities in relation to the Company's cost of capital;
- selectively developing the Company's commercial land inventory, primarily in its Office and Resort/Hotel Segments in order to meet the needs of customers;
- selectively developing luxury and destination fitness resorts and spas;
- monetizing the current investments of the Company in the five Residential Development Corporations and reinvesting returned capital from the Residential Development Segment primarily into the Office Segment where the Company expects to achieve favorable rates of return; and
- evaluating future repurchases of the Company's common shares, considering stock price, cost of capital, alternative investment options and growth implications.

FINANCING STRATEGIES

The Company implements a disciplined set of financing strategies in order to fund its operating and investing activities.

The Company's financing strategies include:

- funding operating expenses, debt service payments and distributions to shareholders and unitholders primarily through cash flow from operations;
- taking advantage of market opportunities to refinance existing debt and reduce interest cost, replace secured debt with unsecured debt, manage the Company's debt maturity schedule and expand the Company's lending group;
- actively managing the Company's exposure to variable-rate debt;
- utilizing a combination of the debt, equity, joint venture capital and selected asset disposition alternatives available to the Company to finance acquisition and development opportunities; and

- recycling capital within the Company through strategic sales of non-core assets and through joint ventures of selected Office Properties within the Company's portfolio while maintaining a minority interest and continuing to lease and manage the Properties.

EMPLOYEES

As of February 25, 2002, the Company had 794 employees. None of these employees are covered by collective bargaining agreements. The Company considers its employee relations to be good.

TAX STATUS

The Company elected under Section 856(c) of the Internal Revenue Code of 1986, as amended (the "Code"), to be taxed as a REIT under the Code beginning with its taxable year ended December 31, 1994. As a REIT for federal income tax purposes, the Company generally is not subject to federal income tax on REIT taxable income that it distributes to its shareholders. 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. The Company will be subject to federal income tax on its REIT taxable income (including any applicable alternative minimum tax) at regular corporate rates if it fails to qualify as a REIT for tax purposes in any taxable year. The Company will also not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost. Even if the Company qualifies as a REIT for federal income tax purposes, it may be subject to certain state and local income and franchise taxes and to federal income and excise taxes on its undistributed REIT taxable income. In addition, certain of its subsidiaries are subject to federal, state and local income taxes.

ENVIRONMENTAL MATTERS

The Company and its 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 the Company owns 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.

Compliance by the Company with existing environmental, health and safety laws has not had a material adverse effect on the Company's financial condition and results of operations, and management does not believe it will have such an impact in the future. In addition, the Company has not incurred, and does not expect to incur any material costs or liabilities due to environmental contamination at Properties it currently owns or has owned in the past. However, the Company cannot predict the impact of new or changed laws or regulations on its current Properties or on properties that it may acquire in the future. The Company has no current plans for substantial capital expenditures with respect to compliance with environmental, health and safety laws.

INDUSTRY SEGMENTS

OFFICE SEGMENT

OWNERSHIP STRUCTURE

As of December 31, 2001, the Company owned or had an interest in 74 Office Properties located in 26 metropolitan submarkets in six states, with an aggregate of approximately 28.0 million net rentable square feet. The Company, as lessor, has retained substantially all of the risks and benefits of ownership of the Office Properties and accounts for its leases as operating leases. Additionally, the Company provides management and leasing services for some of its Office Properties.

See "Item 2. Properties" for more information about the Company's Office Properties. In addition, see "Note 1. Organization and Basis of Presentation" included in "Item 8. Financial Statements and Supplementary Data" for a table that lists the principal subsidiaries of the Company and the Properties owned by such subsidiaries and "Note 4. Investments in Real Estate Mortgages and Equity of Unconsolidated Companies" included in "Item 8. Financial Statements and Supplementary Data" for a table that lists the Company's ownership in significant unconsolidated companies or equity investments and the four Office Properties in which the Company owned an interest through these unconsolidated companies or equity investments.

JOINT VENTURE ARRANGEMENTS

5 Houston Center

On June 4, 2001, the Company entered into a joint venture arrangement with a pension fund advised by JP Morgan Investment Management, Inc. ("JPM") to construct the 5 Houston Center Office Property within the Company's Houston Center mixed-use Office Property complex in Houston, Texas. The Class A Office Property will consist of 577,000 net rentable square feet. The joint venture is structured such that the fund holds a 75% equity interest, and the Company holds a 25% equity interest in the Property. In addition, the Company is developing, and will manage and lease, the Property on a fee basis.

Four Westlake Park and Bank One Tower

On July 30, 2001, the Company entered into joint venture arrangements with an affiliate of General Electric Pension Fund ("GE") for two Office Properties, Four Westlake Park in Houston, Texas, and Bank One Tower in Austin, Texas. The joint ventures are structured such that GE holds an 80% equity interest in each of the Office Properties, Four Westlake Park, a 560,000 square foot Class A Office Property located in the Katy Freeway submarket of Houston, and Bank One Tower, a 390,000 square foot Class A Office Property located in downtown Austin. The Company continues to hold the remaining 20% equity interests in each Office Property. In addition, the Company manages and leases the Office Properties on a fee basis.

MARKET INFORMATION

The Office Properties reflect the Company's strategy of investing in premier assets within markets that have significant potential for rental growth. Within its selected submarkets, the Company has focused on premier locations that management believes are able to attract and retain the highest quality tenants and command premium rents. Consistent with its long-term investment strategies, the Company has sought transactions where it was able to acquire properties that have strong economic returns based on in-place tenancy and also have a dominant position within the submarket due to quality and/or location. Accordingly, management's long-term investment strategy not only demands acceptable current cash flow return on invested capital, but also considers long-term cash flow growth prospects. In selecting the Office Properties, the Company analyzed demographic and economic data to focus on markets expected to benefit from significant long-term employment growth as well as corporate relocations.

The Company's Office Properties are located primarily in the Dallas/Fort Worth and Houston, Texas, metropolitan areas, both of which are projected to benefit from strong population and employment growth over the next 10 years. As indicated in the table below entitled "Projected Population Growth and Employment Growth for all Company Markets," these core Company markets are projected to outperform the 10-year averages for the United States. In addition, the Company considers these markets "demand-driven" markets due to high levels of in-migration by corporations, affordable housing costs, moderate cost of living, and the presence of centrally located travel hubs, making all areas of the country easily accessible.

Texas

As of December 2001, the Texas unemployment rate was 5.7%, slightly better than the national unemployment rate of 5.8%. According to the Texas Economic Update, Texas weathered the 2001 economic slowdown better than the nation as a whole.

Dallas/Fort Worth ("DFW")

According to the Bureau of Labor Statistics, 2001 job growth slowed considerably in the DFW area. As of December 2001, the DFW unemployment rate was 5.6%, compared with the Texas unemployment rate of 5.7% and the national unemployment rate of 5.8%. As for DFW's 2001 commercial office market, according to CoStar data, citywide net economic absorption, excluding space available for sublease, was approximately 1.0 million square feet, primarily represented by a positive 1.0 million square feet of absorption in Class A space. The city's total net absorption, including space available for sublease, was approximately (3.0) million square feet for 2001; however, Class A space represented only approximately (700,000) square feet of the (3.0) million total square feet.

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Houston

Houston's employment data held steady through much of 2001, despite the slowdown in the economy. Approximately 23,000 jobs were created in 2001, an increase of approximately 1.1% over 2000. As of December 2001, the Houston unemployment rate was 4.4%, compared with the Texas unemployment rate of 5.7% and the national unemployment rate of 5.8%. As for Houston's 2001 commercial office market, according to CoStar data, citywide net economic absorption, excluding space available for sublease, was 2.0 million square feet, with 2.75 million square feet in Class A space. The city's total net absorption, including space available for sublease, was a (200,000) square feet for 2001; however, Class A space had a positive total net absorption of 1.4 million square feet.

The demographic conditions, economic conditions and trends (population growth and employment growth) favoring the markets in which the Company has invested are projected to continue to exceed the national averages, as illustrated in the following table.

PROJECTED POPULATION GROWTH AND EMPLOYMENT GROWTH FOR ALL COMPANY MARKETS

Metropolitan Statistical Area	Population Growth 2002-2011	Employment Growth 2002-2011
Albuquerque, NM	22.05%	14.15%
Austin, TX	26.02	36.61
Colorado Springs, CO	27.48	15.83
Dallas, TX	15.89	20.92
Denver, CO	11.34	19.76
Fort Worth, TX	19.03	22.31
Houston, TX	15.61	22.43
Miami, FL	9.03	15.90
Phoenix, AZ	27.24	33.41
San Diego, CA	17.35	17.29
UNITED STATES	8.49	12.01

Source: Compiled from information published by Economy.com, Inc.

The Company does not depend on a single customer or a few major customers within the Office Segment, the loss of which would have a material adverse effect on the Company's financial condition or results of operations. Based on rental revenues from office leases in effect as of December 31, 2001, no single tenant accounted for more than 5% of the Company's total Office Segment rental revenues for 2001.

The Company applies a well-defined leasing strategy in order to capture the potential rental growth in the Company's portfolio of Office Properties as occupancy and rental rates increase within the markets and the submarkets in which the Company has invested. The Company's strategy is based, in part, on identifying and focusing on investments in submarkets in which weighted average full-service rental rates (representing base rent after giving effect to free rent and scheduled rent increases that would be taken into account under generally accepted accounting principles ("GAAP") and including adjustments for expenses payable by or reimbursed from tenants) are significantly less than weighted average full-service replacement cost rental rates (the rate management estimates to be necessary to provide a return to a developer of a comparable, multi-tenant building sufficient to justify construction of new buildings) in that submarket. In calculating replacement cost rental rates, management relies on available third-party data and its own estimates of construction costs (including materials and labor in a particular market) and assumes replacement cost rental rates are achieved at a 95% occupancy level. The Company believes that the difference between the two rates is a useful measure of the additional revenue that the Company may be able to obtain from a property, because the difference should represent the amount by which rental rates would be required to increase in order to justify construction of new properties. For the Company's Office Properties, the weighted average full-service rental rate as of December 31, 2001 was $22.42 per square foot, compared to an estimated weighted average full-service replacement cost rental rate of $30.23 per square foot.

COMPETITION

The Company's 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 (for example, 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 the Company's ability to lease space and maintain or increase occupancy or rents in its existing Office Properties. Management believes, however, that the quality services and individualized attention that the Company offers its customers, together with its active preventive maintenance program and superior building locations within markets, enhance the Company's ability to attract and retain customers for its Office Properties. In addition, as of December 31, 2001, on a weighted average basis, the Company owned 16% of the Class A office space in the 26 submarkets in which the Company owned Class A office properties, and 24% of the Class B office space in the two submarkets in which the Company 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 the Company's ability to attract and retain customers and potentially results in increases in Company net operating income.

DISPOSITIONS

During the year ended December 31, 2001, five of the Company's fully consolidated Office Properties were disposed of. On September 18, 2001, the Company completed the sale of the two Washington Harbour Office Properties. The Washington Harbour Office Properties were the Company's only Office Properties in Washington, D.C. On September 28, 2001, the Woodlands Office Equities - '95 Limited ("WOE"), owned by the Company and the Woodlands Commercial Properties Company, L.P., sold two Office Properties located within The Woodlands, Texas. On December 20, 2001, WOE sold another Office Property located within The

Woodlands, Texas.

During the year ended December 31, 2001, two of the unconsolidated companies in which the Company has an equity interest, sold three office properties and one retail property. On September 27, 2001, the Woodlands Commercial Properties Company, L.P. ("Woodlands CPC"), owned by the Company and an affiliate of Morgan Stanley, sold one office/venture tech property located within The Woodlands, Texas. On November 9, 2001, The Woodlands Land Development Company, L.P., owned by the Company and an affiliate of Morgan Stanley, sold two office properties and one retail property located within The Woodlands, Texas.

DEVELOPMENT

Avallon IV Office Property

In May 2001, the Company completed the construction of the Avallon IV Office Property in Austin, Texas. The property is a Class A Office Property with 86,315 net rentable square feet. Construction of this property commenced in September 2000.

5 Houston Center Office Property

The Company is currently developing the 5 Houston Center Office Property in Houston, Texas. Construction of the planned 27-story, Class A Office Property consisting of 577,000 net rentable square feet commenced in November 2000, and is expected to be completed in the fourth quarter of 2002. In June 2001, the Company entered into a joint venture arrangement with a pension fund advised by JPM to construct this Office Property. The joint venture is structured such that the fund holds a 75% equity interest, and the Company holds a 25% equity interest in the Property.

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RESORT/HOTEL SEGMENT

OWNERSHIP STRUCTURE

Prior to enactment of the REIT Modernization Act, the Company's status as a REIT for federal income tax purposes prohibited it from operating the Resort/Hotel Properties. As of December 31, 2001, the Company owned nine Resort/Hotel Properties, all of which, other than the Omni Austin Hotel, were leased to subsidiaries of COPI pursuant to eight separate leases. The Omni Austin Hotel was leased, under a separate lease, to HCD Austin Corporation.

Under the leases, each having a term of 10 years, the Resort/Hotel Property lessees assumed the rights and obligations of the property owner under the respective management agreements with the hotel operators, as well as the obligation to pay all property taxes and other costs related to the Properties.

The leases provided for the payment by the Resort/Hotel Property lessees of all or a combination of the following:

- base rent, with periodic rent increases if applicable;
- percentage rent based on a percentage of gross hotel receipts or gross room revenues, as applicable, above a specified amount; and
- a percentage of gross food and beverage revenues above a specified amount.

On February 14, 2002, the Company executed an agreement with COPI, pursuant to which COPI transferred to subsidiaries of the Company, in lieu of foreclosure, COPI's lessee interests in the eight Resort/Hotel Properties leased to subsidiaries of COPI. As a result, these subsidiaries of the Company became the lessees of the eight Resort/Hotel Properties.

See "Note 22. Subsequent Events" included in "Item 8. Financial Statements and Supplemental Data" for additional information regarding the Company's agreement with COPI.

CR LICENSE, LLC AND CRL INVESTMENTS, INC.

As of December 31, 2001, the Company had a 28.5% interest in CR License, LLC, the entity which owns the right to the future use of the "Canyon Ranch" name. The Company also had a 95% economic interest, representing all of the non-voting common stock, in CRL Investments, Inc., which has an approximately 65% economic interest in the Canyon Ranch Spa Club in the Venetian Hotel in Las Vegas, Nevada.

On February 14, 2002, the Company executed an agreement with COPI, pursuant to which the Company acquired, in lieu of foreclosure, COPI's 1.5% interest in CR License, LLC and 5.0% interest, representing all of the voting stock, in CRL Investments, Inc.

MARKET INFORMATION

Lodging demand is highly dependent upon the global economy and volume of business travel. Prior to 2001, the hospitality industry enjoyed record profits. However, the uncertainty surrounding the weak global economy and the costs and fear resulting from the events of September 11, 2001 are expected to result in weak performance for much of 2002. This is evidenced by declines in both business and leisure travel in the United States. Although the hospitality industry will be negatively impacted to the extent demand is less than expected for much of 2002, management expects a recovery in 2003.

COMPETITION

Most of the Company's upscale business class Resort/Hotel Properties in Denver, Albuquerque, Austin and Houston are business and convention center hotels that compete against other business and convention center hotels. The Company believes, however, that its luxury and destination

fitness resorts and spas are unique properties that have no significant direct competitors due either to their high replacement cost or unique concept and location. 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.

RESIDENTIAL DEVELOPMENT SEGMENT

OWNERSHIP STRUCTURE

As of December 31, 2001, the Company owned economic interests in five Residential Development Corporations through the Residential Development Property mortgages and the non-voting common stock of these Residential

Development Corporations. The Residential Development Corporations in turn, through joint ventures or partnership arrangements, own interests in 21 Residential Development Properties. The Residential Development Corporations are responsible for the continued development and the day-to-day operations of the Residential Development Properties.

On February 14, 2002, the Company executed an agreement with COPI, pursuant to which COPI transferred to subsidiaries of the Company, in lieu of foreclosure, COPI's voting interests in three of the Residential Development Corporations. These three Residential Development Corporations, Desert Mountain Development Corporation ("Desert Mountain"), The Woodlands Land Company, Inc. ("The Woodlands") and Crescent Resort Development, Inc. ("CRD") own interests in 16 Residential Development Properties.

See "Note 22. Subsequent Events" included in "Item 8. Financial Statements and Supplemental Data" for additional information regarding the Company's agreement with COPI.

MARKET INFORMATION

A slowing economy, combined with the events of September 11, 2001 contributed to the reduction in lot absorption, primarily at Desert Mountain. CRD (formerly "Crescent Development Management Corp.") was not significantly impacted because most of its products were pre-sold. However, CRD did change its strategy by delaying the commencement of certain projects, which will impact its performance in 2002. In addition, The Woodlands experienced a reduction in lot absorption of its higher priced lots, including Carlton Woods, The Woodlands' new upscale gated residential development. However, The Woodlands was not significantly impacted due to the higher prices of the lots sold offsetting lower lot sales.

COMPETITION

The Company's 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 the Properties owned by The Woodlands, CRD and Desert Mountain, representing the Company's most significant investments in Residential Development Properties, contain certain features that provide competitive advantages to these developments.

The Woodlands, which is an approximately 27,000-acre, master-planned residential and commercial community north of Houston, Texas, is unique among developments in the Houston area, because it functions as a self-contained community. Amenities contained in the development, which are not contained within most other local developments, include a shopping mall, retail centers, office buildings, a hospital, a community college, places of worship, a conference center, 85 parks, 117 holes of golf, including a Tournament Players Course and signature courses by Jack Nicklaus, Arnold Palmer, and Gary Player, two man-made lakes and a performing arts pavilion. The Woodlands competes with other master planned communities in the surrounding Houston market.

Desert Mountain, a luxury residential and recreational community in Scottsdale, Arizona, which also offers five 18-hole Jack Nicklaus signature golf courses and tennis courts, has few direct competitors due in part to the superior environmental attributes and the types of amenities that it offers.

CRD invests primarily in mountain resort residential real estate in Colorado and California, and residential real estate in downtown Denver, Colorado. Management believes CRD does not have any direct competitors because the projects and project locations are unique and the land is limited in most of these locations.

TEMPERATURE-CONTROLLED LOGISTICS SEGMENT

OWNERSHIP STRUCTURE

Effective March 12, 1999, the Company, Vornado Realty Trust, COPI, the Temperature-Controlled Logistics Partnership and the Temperature-Controlled Logistics Corporation (including all affiliated entities that owned any portion of the business operations of the Temperature-Controlled Logistics Properties at that time) sold all of the non-real estate assets, encompassing the business operations, for approximately $48.7 million to a subsidiary of a newly formed partnership ("AmeriCold Logistics"), owned 60% by Vornado Operating L.P. and 40% by a subsidiary of COPI. The Company has no interest in AmeriCold Logistics.

As of December 31, 2001, the Company held a 40% interest in the Temperature-Controlled Logistics Partnership, which owns the Temperature-Controlled Logistics Corporation, which directly or indirectly owns the 89 Temperature-Controlled Logistics Properties, with an aggregate of approximately 445.2 million cubic feet (17.7 million square feet) of warehouse space.

AmeriCold Logistics, as sole lessee of the Temperature-Controlled Logistics Properties, leases the Temperature-Controlled Logistics Properties from the Temperature-Controlled Logistics Corporation under three triple-net master leases, as amended on January 23, 2002. On February 22, 2001, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics agreed to restructure certain financial terms of the leases, including the adjustment of the rental obligation for 2001 to $146.0 million, the adjustment of the rental obligation for 2002 to $150.0 million (plus contingent rent in certain circumstances), the increase of the Temperature-Controlled Logistics Corporation's share of capital expenditures for the maintenance of the properties from $5.0 million to $9.5 million (effective January 1, 2000) and the extension of the date on which deferred rent was required to be paid to December 31, 2003.

AmeriCold Logistics' same-store earnings before interest, taxes, depreciation and amortization, and rent declined 11% for the year ended December 31, 2001, compared to the same period in 2000. These declines are attributable to a reduction in total customer inventory stored at the warehouses and a reduction in the frequency of customer inventory turnover. AmeriCold Logistics deferred $25.5 million of rent for the year ended December 31, 2001, of which the Company's share was $10.2 million. AmeriCold Logistics also deferred $19.0 million and $5.4 million of rent for the years ended December 31, 2000 and 1999, respectively, of which the Company's share was $7.5 million and $2.1 million, respectively. In December 2001, the Temperature-Controlled Logistics Corporation waived its rights to collect $39.8 million of the total $49.9 million of deferred rent, of which the Company's share was $15.9 million. The Temperature-Controlled Logistics Corporation recorded adequate valuation allowances related to the waived deferred rental revenue during the years ended December 31, 2000, and 2001; therefore, there was no financial statement impact to the Temperature-Controlled Logistics Corporation or to the Company related to the Temperature-Controlled Logistics Corporation's decision to waive collection of the deferred rent.

BUSINESS AND INDUSTRY INFORMATION

AmeriCold Logistics provides frozen food manufacturers with refrigerated warehousing and transportation management services. The Temperature-Controlled Logistics Properties consist of production and distribution facilities. 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.

AmeriCold Logistics' transportation management services include freight routing, dispatching, freight rate negotiation, backhaul coordination, freight bill auditing, network flow management, order consolidation and distribution channel assessment. AmeriCold Logistics' temperature-controlled logistics expertise and access to both the frozen food warehouses and distribution channels enable the customers of AmeriCold Logistics to respond quickly and efficiently to time-sensitive orders from distributors and retailers.

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

	PERCENTAGE OF 2001 REVENUE
H.J. Heinz & Co	16%
Con-Agra, Inc	8
Sara Lee Corp	5
McCain Foods, Inc	5
Tyson Foods, Inc	4
General Mills	4
J.R. Simplot	3
Flowers Food, Inc	3
Pro-Fac Cooperative, Inc	2
Farmland Industries, Inc	2
Other	48
TOTAL	100%

Consolidation among retail and food service channels has limited the ability of manufacturers to pass along cost increases by raising prices. Because of this, manufacturers have been forced in the recent past to focus more intensely on supply chain cost (such as inventory management, transporataion and distribution) reduction initiatives in an effort to improve operating performance. As the economy continues to recover from the current recession and stabilize at a level significantly greater than the trailing six months' performance, AmeriCold Logistics will continue to examine key areas of its operations to maximize long-term growth potential. These initiatives include customer profitability, reductions of energy and labor costs and providing complete supply chain solutions complemented by information systems to its customers. In addition, as socioeconomic events create spikes in demand and upset the planning balance between manufacturers and retailers, AmeriCold will experience variability in short term revenues. However, as AmeriCold Logistics focuses on its key initiatives, it will forge alliances with existing and new customers that will encourage movement of product into its facilities and strengthen long-term revenues.

COMPETITION

AmeriCold Logistics is the largest operator of public refrigerated warehouse space in North America and has more than twice the cubic feet of the second largest operator. AmeriCold Logistics operated an aggregate of approximately 18% of total cubic feet of public refrigerated warehouse space as of December 31, 2001. No other person or entity operated more than 8% of total public refrigerated warehouse space as of December 31, 2001. As a result, AmeriCold Logistics does not have any competitors of comparable size. AmeriCold Logistics 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.

DEVELOPMENT

The Temperature-Controlled Logistics Corporation completed the acquisition of one facility in the first quarter of 2001 for $10.0 million and completed the construction of one facility in the third quarter of 2001 for $15.8 million, representing in aggregate approximately 8.5 million cubic feet (0.2 million square feet) of additional warehouse space.

ITEM 6. SELECTED FINANCIAL DATA

The following table includes certain financial information for the Company on a consolidated historical basis. All information relating to common shares has been adjusted to reflect the two-for-one stock split effected in the form of a 100% share dividend paid on March 26, 1997 to shareholders of record on March 20, 1997. 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 PER SHARE DATA)

	YEAR ENDED DECEMBER 31,			
	2001	2000	1999	
Operating Data:				
Total revenue	$ 696,054	$ 718,405	$ 746,279	$

Operating (loss) income	(28,084)	89,884	(54,954)	
Income before minority interests and extraordinary item	27,572	303,052	13,343	
Basic earnings per common share:				
(Loss) income before extraordinary item	$ (0.07)	$ 2.08	$ (0.06)	$
Net (loss) income	(0.17)	2.05	(0.06)	
Diluted earnings per common share:				
(Loss) income before extraordinary item	$ (0.07)	$ 2.05	$ (0.06)	$
Net (loss) income	(0.17)	2.02	(0.06)	
BALANCE SHEET DATA (AT PERIOD END):				
Total assets	$ 4,142,149	$ 4,543,318	$ 4,950,561	$
Total debt	2,214,094	2,271,895	2,598,929	
Total shareholders' equity	1,405,940	1,731,327	2,056,774	
OTHER DATA:				
Funds from Operations(1)	$ 177,117	$ 326,897	$ 340,777	$
Earnings before interest, taxes, depreciation and amortization(2) ..	$ 459,155	$ 520,002	$ 526,154	$
Cash distribution declared per common share	$ 1.85	$ 2.20	$ 2.20	$
Weighted average common shares and units outstanding - basic	121,017,605	127,535,069	135,954,043	
Weighted average common shares and units outstanding - diluted	122,544,421	128,731,883	137,891,561	
Cash flow provided by (used in):				
Operating activities	$ 320,753	$ 275,715	$ 336,060	$
Investing activities	102,054	428,306	(205,811)	
Financing activities	(425,488)	(737,981)	(167,615)	

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(1) Funds from Operations ("FFO"), based on the revised definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), effective January 1, 2000, and as used herein, 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. For a more detailed definition and description of FFO, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

(2) Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"), is calculated as the sum of (i) net income before minority interests and extraordinary item, interest expense, depreciation and amortization, amortization of deferred financing costs, impairment and other charges related to COPI (ii) less gain on property sales, net. EBITDA is presented because it provides useful information regarding the Company's ability to service debt. EBITDA should not be considered as an alternative measure of operating results or cash flow from operations as determined in accordance with GAAP. EBITDA as presented may not be comparable to other similarly titled measures used by other companies.

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

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 Supplementary Data," respectively, of this report. Historical results and percentage relationships set forth in these Items and this section should not be taken as indicative of future operations of the Company. Capitalized terms used but not otherwise defined in this section have the meanings given to them in Items 1 - 6 of this Form 10-K.

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" and "may."

Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those described in the forward-looking statements.

The following factors might cause such a difference:

- The Company's inability to obtain the confirmation of a prepackaged bankruptcy plan of COPI binding all creditors and COPI stockholders;

- The inability of the Company to successfully integrate the lessee interests in the Resort/Hotel Properties and the voting interests in the Residential Development Corporations and related entities into its current business and operations;

- The inability of the Company to complete the distribution to its shareholders of the shares of a new entity to purchase COPI's interest in AmeriCold Logistics;

- Further deterioration in the resort/business-class hotel markets or in the market for residential land or luxury residences, including single-family homes, townhomes and condominiums, or in the economy generally;

- The Company's ability, at its Office Properties, to timely lease unoccupied square footage and timely re-lease occupied square footage upon expiration on favorable terms, which may be adversely affected by changes in real estate conditions (including rental rates and competition from other properties and new development of competing properties or a general downturn in the economy);

- Financing risks, such as the ability to generate revenue sufficient to service and repay existing or additional debt, the ability to meet applicable debt covenants, the Company's ability to fund the share repurchase program, increases in debt service associated with increased debt and with variable-rate debt, and the ability to consummate financings and refinancings on favorable terms and within any applicable time frames;

- Further adverse conditions in the temperature-controlled logistics business (including both industry-specific conditions and a general downturn in the economy) which may further jeopardize the ability of AmeriCold Logistics to pay rent;

- Adverse changes in the financial condition of existing tenants;

- The concentration of a significant percentage of the Company's assets in Texas;

- The Company's ability to find acquisition and development opportunities which meet the Company's investment strategy;

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- The existence of complex regulations relating to the Company's 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 the Company's filings with the SEC.

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

The following sections include information for each of the Company's investment segments for the year ended December 31, 2001.

The economic slowdown in the third quarter of 2001, combined with the events of the September 11, 2001 have had an adverse impact on Resort/Hotel operations and lot sales primarily at the Desert Mountain Residential Development Property. However, the Office Property portfolio, which represents approximately 66% of total assets, continues to be stable with same-store weighted average occupancy in excess of 92% and average remaining lease term of approximately five years at December 31, 2001. Although management does not expect full recovery of these investment segments in the near-term, the Company remains committed to its fundamental investment segments.

OFFICE SEGMENT

As of December 31, 2001, the Company owned or had an interest in 74 Office Properties.

The following table shows the same-store net operating income growth for the approximately 25.4 million square feet of Office Property space owned as of December 31, 2001, which excludes approximately 1.5 million square feet of Office Property space at Bank One Center, in which the Company owns a 50% equity interest, approximately 1.0 million square feet of Office Property space at Four Westlake Park and Bank One Tower, in each of which the Company has a 20% equity interest, and 0.1 million square feet of Office Property space at Avallon IV, which was completed during the year ended December 31, 2001.

	FOR THE YEAR ENDED DECEMBER 31,
	PERCENTAGE/

(IN MILLIONS)	2001	2000	POINT INCREASE
Same-store Revenues	$ 552.5	$ 519.9	6.3%
Same-store Expenses	(250.1)	(229.3)	9.1%
Net Operating Income	$ 302.4	$ 290.6	4.1%
Weighted Average Occupancy	92.3%	91.8%	0.5 pt

The following table shows renewed or re-leased leasing activity and the percentage increase of leasing rates for signed leases compared to expiring leases at the Company's Office Properties owned as of December 31, 2001.

	FOR THE YEAR ENDED DECEMBER 31, 2001			
	SIGNED LEASES		EXPIRING LEASES	PERCENTAGE INCREASE
Renewed or re-leased (1)	1,890,000	sq. ft.	N/A	N/A
Weighted average full-service rental rate (2)	$23.67	per sq. ft.	$20.21 per sq. ft.	17%
FFO annual net effective rental rate (3)	$14.70	per sq. ft.	$11.21 per sq. ft.	31%

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(1) All of which have commenced or will commence during the next 12 months.

(2) Including free rent, scheduled rent increases taken into account under GAAP and expense recoveries.

(3) Calculated as weighted average full-service rental rate minus operating expenses.

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o For 2002, the Company projects same-store net operating income for its Office Properties to increase between 0% and 4% over 2001, based on an average occupancy range of 90% to 93%.

RESORT/HOTEL SEGMENT

As of December 31, 2001, the Company owned nine Resort/Hotel Properties.

The following table shows weighted average occupancy, average daily rate and revenue per available room/guest for the Resort/Hotel Properties for the years ended December 31, 2001 and 2000.

FOR THE YEAR ENDED DECEMBER 31,

	2001	2000	PERCENTAGE/ POINT INCREASE (DECREASE)
Weighted average occupancy(1)	70%	76%	(6)pts
Average daily rate(1)	$ 245	$ 238	3%
Revenue per available room/guest(1)	$ 170	$ 180	(6)%

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(1) Excludes the Four Seasons Hotel - Houston, which was sold on November 3, 2000.

On February 14, 2002, the Company executed an agreement with COPI, pursuant to which COPI transferred to subsidiaries of the Company, in lieu of foreclosure, COPI's lessee interests in the eight Resort/Hotel Properties leased to subsidiaries of COPI. As a result, the subsidiaries of the Company became the lessees of these Resort/Hotel Properties. The Company will fully consolidate the operations of the eight Resort/Hotel Properties beginning on the date of the asset transfers. See "Note 22. Subsequent Events" included in "Item 8. Financial Statements and Supplemental Data" for additional information regarding the Company's agreement with COPI.

The following table shows the Resort/Hotel Property same-store net operating income for the years ended December 31, 2001 and 2000, for the nine Resort/Hotel Properties owned during both of these periods.

	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	PERCENT DECREA
(in thousands)			
Upscale Business-Class Hotels (1)	$ 20,165	$ 22,157	
Luxury and Destination Fitness Resorts and Spas	29,451	36,837	(
All Resort/Hotel Properties (1)	$ 49,616	$ 58,994	(

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(1) Excludes the Four Seasons Hotel - Houston, which was sold on November 3, 2000.

o For 2002, the Company projects same-store net operating income will increase between 0% and 3% over 2001. Also, the average daily rate is expected to increase between 0% and 2% over 2001, and revenue per available room is expected to increase between 0% and 3% over 2001.

CR License, LLC and CRL Investments, Inc.

As of December 31, 2001, the Company had a 28.5% interest in CR License, LLC, the entity which owns the right to the future use of the "Canyon Ranch" name. The Company also had a 95% economic interest, representing all of the non-voting common stock, in CRL Investments, Inc., which has an approximately 65% economic interest in the Canyon Ranch Spa Club in the Venetian Hotel in Las Vegas, Nevada.

On February 14, 2002, the Company executed an agreement with COPI, pursuant to which COPI transferred to subsidiaries of the Company, in lieu of foreclosure, COPI's 1.5% interest in CR License, LLC and 5.0% interest, representing all of the voting stock, in CRL Investments, Inc.

RESIDENTIAL DEVELOPMENT SEGMENT

As of December 31, 2001, the Company owned economic interests in five Residential Development Corporations through the Residential Development Property mortgages and the non-voting common stock of these Residential Development Corporations. The Residential Development Corporations in turn, through joint ventures or partnership arrangements, currently own interests in 21 Residential Development Properties. The Residential Development Corporations are responsible for the continued development and the day-to-day operations of the Residential Development Properties.

On February 14, 2002, the Company executed an agreement with COPI, pursuant to which COPI transferred to subsidiaries of the Company, in lieu of foreclosure, COPI's voting interests in three of the Residential Development Corporations (The Woodlands Land Company, Inc., Desert Mountain Development Corporation and Crescent Resort Development, Inc.). The Company will fully consolidate the operations of the three Residential Development Corporations beginning on the date of the asset transfers. Management plans to monetize the Company's current investments in the five Residential Development Corporations and reinvest returned capital from the Residential Development Segment primarily into the Office Segment where the Company expects to achieve favorable rates of return.

The Woodlands Land Development Company, L.P. and The Woodlands Commercial Properties Company, L.P. (collectively "The Woodlands"), The Woodlands, Texas:

	FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000
Residential lot sales	1,718	2,033
Average sales price per lot	$ 72,000	$ 62,000
Commercial land sales	94 acres	124 acres
Average sales price per acre	$337,000	$308,000

The following table shows residential lot sales at an average price per lot and commercial land sales at an average price per acre.

o Average sales price per lot increased by $10,000, or 16%, due to a product mix of higher priced lots from the Carlton Woods development in the year ended December 31, 2001, compared to the same period in 2000.

o Carlton Woods is The Woodlands' new upscale residential development. It is a gated community consisting of 491 lots located around a Jack Nicklaus signature golf course. As of December 31, 2001, 213 lots have been sold at prices ranging from $0.1 million to $1.0 million per lot, or an average price of $343,000 per lot. Additional phases within Carlton Woods are expected to be marketed to the public over the next two years.

- Future buildout of The Woodlands is estimated at approximately 13,100 residential lots and approximately 1,700 acres of commercial land, of which approximately 1,555 residential lots and 1,075 acres are currently in inventory.

- The Company projects residential lot sales at The Woodlands to range between 1,550 lots and 1,800 lots at an average sales price per lot ranging between $70,000 and $80,000 for 2002.

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Desert Mountain Properties Limited Partnership ("Desert Mountain"), Scottsdale, Arizona:

The following table shows residential lot sales at an average price per lot.

	FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000
Residential lot sales	86	178
Average sales price per lot(1)	$ 688,000	$619,000

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(1) Including equity golf memberships.

- With the higher priced residential lots being completed during the latter phases of development at Desert Mountain, the average sales price per lot increased by $69,000, or 11%, for the year ended December 31, 2001, as compared to the same period in 2000. As a result of product mix and a decline in the economy combined with the events of September 11, 2001, the number of lot sales decreased to 86 lots for the year ended December 31, 2001, as compared to 178 lots for the same period in 2000.

- Approved future buildout is estimated to be approximately 300 residential lots, of which approximately 140 are currently in inventory.

- As a result of product mix and a decline in the economy, the Company projects residential lot sales in 2002 to range between 50 lots and 75 lots at an average sales price per lot ranging between $700,000 and $800,000.

Crescent Resort Development, Inc. ("CRD"), (formerly Crescent Development Management Corp.), Beaver Creek, Colorado:

The following table shows total active projects, residential lot and residential unit sales, commercial land sales and average sales price per lot and unit.

	FOR THE YEAR ENDED DECEMBER 31, 2001	FOR THE YEAR ENDED DECEMBER 31, 2000
Active projects	14	12
Residential lot sales	181	343
Residential unit sales:		
Townhome sales	11	19
Single-family home sales	--	5
Equivalent timeshare unit sales	11	--
Condominium sales	109	26
Commercial land sales	-- acres	9 acres
Average sale price per residential lot	$73,000	$136,000
Average sale price per residential unit	$ 1.0 million	$ 1.6 million

- Average sales price per lot decreased by $63,000, or 46%, and average sales price per unit decreased $0.6 million, or 38%, due to lower priced product mix sold in the year ended December 31, 2001, as compared to the same period in 2000.

- For 2002, the Company projects that residential lot sales will range between 325 lots and 375 lots at an average sales price per lot ranging between $110,000 and $130,000. In addition, the Company expects between 280 and 310 residential unit sales, including single family homes, townhomes and condominiums to be sold at an average sales price per residential unit ranging between $750,000 and $850,000.

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TEMPERATURE-CONTROLLED LOGISTICS SEGMENT

As of December 31, 2001, the Company held a 40% interest in the Temperature-Controlled Logistics Partnership, which owns the Temperature-Controlled Logistics Corporation, which directly or indirectly owns the 89 Temperature-Controlled Logistics Properties. The business operations associated with the Temperature-Controlled Logistics Properties are owned by AmeriCold Logistics, which is owned 60% by Vornado Operating, L.P. and 40% by a subsidiary of COPI. The Company has no interest in AmeriCold Logistics.

AmeriCold Logistics, as sole lessee of the Temperature-Controlled Logistics Properties, leases the Temperature-Controlled Logistics Properties from the Temperature-Controlled Logistics Corporation under three triple-net master leases, as amended on January 23, 2002. On February 22, 2001, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics agreed to restructure certain financial terms of the leases, including the adjustment of the rental obligation for 2001 to $146.0 million, the adjustment of the rental obligation for 2002 to $150.0 million (plus contingent rent in certain circumstances), the increase of the Temperature-Controlled Logistics Corporation's share of capital expenditures for the maintenance of the properties from $5.0 million to $9.5 million (effective January 1, 2000) and the extension of the date on which deferred rent was required to be paid to December 31, 2003.

In the first quarter of 2000, AmeriCold Logistics started to experience a slowing in revenue growth from the previous year, this was primarily due to customers focusing more interest on inventory management in an effort to improve operating performance. Starting in 2000 and continuing into 2001, AmeriCold Logistics has seen consolidation among retail and food service channels begin to significantly limit the ability of manufacturers to pass along cost increases by raising prices. Because of this, manufacturers are focused on supply chain cost (such as inventory management, transportation and distribution) reduction initiatives in an effort to improve operating performance. In the third quarter of 2000, AmeriCold Logistics' same-store earning before interest, taxes, depreciation and amortization, and rent ("EBITDAR") declined 2% for the nine months ended September 30, 2000 compared to the same period in 1999. As a result of the reductions in revenues and the second consecutive quarter decline in same-store EBITDAR, AmeriCold Logistics was unable to fulfill its rental obligation under the leases which resulted in deferred rent. At that time, the Temperature-Controlled Logistics Corporation recorded a valuation allowance for 100% of the rent that had been deferred during the three months ended September 30, 2000 and has continued to record a valuation allowance for 100% of the deferred rent prospectively. AmeriCold Logistics experienced a 2% decline in same-store EBITDAR during 2000 compared to 1999 and an 11% decline in same-store EBITDAR during 2001 compared to 2000.

AmeriCold Logistics deferred $25.5 million of rent for the year ended December 31, 2001, of which the Company's share was $10.2 million. AmeriCold Logistics also deferred $19.0 million and $5.4 million of rent for the years ended December 31, 2000 and 1999, respectively, of which the Company's share was $7.5 million and $2.1 million, respectively. In December 2001, the Temperature-Controlled Logistics Corporation waived its rights to collect $39.8 million of the total $49.9 million of deferred rent, of which the Company's share was $15.9 million. The Temperature-Controlled Logistics Corporation recorded adequate valuation allowances related to the waived deferred rental revenue during the years ended December 31, 2000 and 2001; therefore, there was no financial statement impact to the Temperature-Controlled Logistics Corporation or to the Company related to the Temperature-Controlled Logistics Corporation's decision to waive collection of deferred rent.

	Deferred Rent		Valuation Allowance		
(in millions)	Total	Company's Portion	Total	Company's Portion	Tota
For the year ended December 31,					
1999	$ 5.4	$ 2.1	$ --	$ --	$
2000	19.0	7.5	16.3	6.5	
2001	25.5	10.2	25.5	10.2	
Balance at December 31, 2001	$ 49.9	$ 19.8	$ 41.8	$ 16.7	$

Management believes that EBITDAR is a useful financial performance measure for assessing the relative stability of the financial condition of AmeriCold Logistics prior to the payment of rent to the Company. Therefore, management believes EBITDAR is a reasonable indication of AmeriCold Logistics' ability to make rent payments to the Company. The following table shows EBITDAR, lease payment, cash flow from operations and net loss for AmeriCold Logistics for the years ended December 31, 2001 and 2000.

(in millions)	FOR THE YEAR ENDED DECEMBER 31, 2001	2000
EBITDAR(1)	$ 135.8	$ 162.1
Lease Payment (2)	146.0	160.5
Cash Flow from Operations	9.5	3.0
Net Loss	(5.7)	(18.4)

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(1) EBITDAR does not represent net income or cash flows from operating, financing or investing activities as defined by GAAP.

(2) Represents the rental obligation (excluding the effect of straight-lining rents and deferred rent) of AmeriCold Logistics.

The Temperature-Controlled Logistics Corporation completed the acquisition of one facility in the first quarter of 2001 for $10.0 million and completed the construction of one facility in the third quarter of 2001 for $15.8 million, representing a total of approximately 8.5 million cubic feet (0.2 million square feet.)

CHARTER BEHAVIORAL HEALTH SYSTEMS ("CBHS")

During the year ended December 31, 1999, the Company received cash rental payments of approximately $35.3 million from CBHS. As of December 31, 1999, the behavioral healthcare segment consisted of 88 behavioral healthcare properties in 24 states, all of which were leased to CBHS and its subsidiaries under a triple-net master lease. However, during 1999, CBHS's business was negatively affected by many factors, including adverse industry conditions, and CBHS failed to perform in accordance with its operating budget. In the third quarter of 1999 CBHS was unable to meet its rental obligation to the Company and the Company began to recognize rent from CBHS on a cash basis, due to the uncertainty that CBHS would be able to fulfill its rental obligations under the lease. In the fourth quarter of 1999, the Company, COPI, Magellan Health Services, Inc. ("Magellan") and CBHS completed a recapitalization of CBHS. Pursuant to the recapitalization, Magellan transferred its remaining hospital-based assets to CBHS, canceled its accrued franchise fees and terminated the franchise agreements, pursuant to which Magellan had provided services to CBHS in exchange for franchise fees.

The following financial statement charges were made with respect to the Company's investment in the behavioral healthcare properties for the year ended December 31, 1999:

- o CBHS rent was reflected on a cash basis beginning in the third quarter of 1999;

- o The Company wrote-off the rent that was deferred according to the CBHS lease agreement from the commencement of the lease in June of 1997 through June 30, 1999. The balance written-off totaled $25.6 million;

- o The Company wrote-down its behavioral healthcare real estate assets by approximately $103.8 million to a book value of $245.0 million;

- The Company wrote-off the book value of warrants to purchase common shares of Magellan of $12.5 million:

- The Company recorded approximately $15.0 million of additional expense to be used by CBHS as working capital; and

- The Company ceased recording depreciation expense in the beginning of November of 1999 on the behavioral healthcare properties that were classified as held for disposition.

On February 16, 2000, CBHS and all of its subsidiaries that were subject to the master lease with the Company filed voluntary Chapter 11 bankruptcy petitions in the United States Bankruptcy Court for the District of Delaware.

During the year ended December 31, 2000, payment and treatment of rent for the behavioral healthcare properties was subject to a rent stipulation agreed to by certain of the parties involved in the CBHS bankruptcy proceeding. The Company received approximately $15.4 million in rent and interest from CBHS during the year ended December 31,

2000. The Company also completed the sale of 60 behavioral healthcare properties previously classified as held for disposition during the year ended December 31, 2000 (contained in Net Investment in Real Estate). The sales generated approximately $233.7 million in net proceeds and a net gain of approximately $58.6 million for the year ended December 31, 2000. During the year ended December 31, 2000, the Company recognized an impairment loss of approximately $9.3 million on the behavioral healthcare properties held for disposition. This amount represents the difference between the carrying values and the estimated sales prices less the costs of the sales. At December 31, 2000, the carrying value of the 28 behavioral healthcare properties classified as held for disposition was approximately $68.5 million (contained in Net Investment in Real Estate). Depreciation has not been recognized since the dates the behavioral healthcare properties were classified as held for sale.

The Company received approximately $6.0 million in repayment of a working capital loan from CBHS during the year ended December 31, 2001. The Company also completed the sale of 18 behavioral healthcare properties previously classified as held for disposition during the year ended December 31, 2001. The sales generated approximately $34.7 million in net proceeds and a net gain of approximately $1.6 million for the year ended December 31, 2001. During the year ended December 31, 2001, the Company recognized an impairment loss of approximately $8.5 million on the behavioral healthcare properties held for disposition. This amount represents the difference between the carrying values and the estimated sales prices less the costs of the sales. At December 31, 2001, the carrying value of the 10 behavioral healthcare properties classified as held for disposition was approximately $27.9 million (contained in Net Investment in Real Estate). Depreciation expense has not been recognized since the dates the behavioral healthcare properties were classified as held for sale.

RESULTS OF OPERATIONS

The following table shows the Company's financial data as a percentage of total revenues for the three years ended December 31, 2001, 2000 and 1999 and the variance in dollars between the years ended December 31, 2001 and 2000 and the years ended December 31, 2000 and 1999. See "Note 3. Segment Reporting" included in "Item 8. Financial Statements and Supplementary Data" for financial information about investment segments.

	FINANCIAL DATA AS A PERCENTAGE OF TOTAL REVENUES FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999
REVENUES			
Office properties	87.7%	84.4%	82.3%
Resort/Hotel properties	6.6	10.0	8.8
Interest and other income	5.7	5.6	8.9
Total Revenues	100.0%	100.0%	100.0%
EXPENSES			
Operating expenses	38.0%	34.8%	34.4%
Corporate general and administrative	3.5	3.4	2.2
Interest expense	26.2	28.3	25.7
Amortization of deferred financing costs	1.3	1.1	1.4
Depreciation and amortization	18.1	17.2	17.6
Settlement of merger dispute	--	--	2.0
Impairment and other charges related to real estate assets	3.6	2.5	24.0
Impairment and other charges related to COPI	13.3	--	--
TOTAL EXPENSES	104.0%	87.3%	107.3%
OPERATING (LOSS) INCOME	(4.0)%	12.7%	(7.3)%
OTHER INCOME			
Equity in net income of unconsolidated companies:			
Office properties	0.9	0.4	0.7
Residential development properties	5.9	7.4	5.7
Temperature-controlled logistics properties	0.2	1.0	2.0
Other	0.4	1.6	0.7
TOTAL EQUITY IN NET INCOME FROM UNCONSOLIDATED COMPANIES	7.4%	10.4%	9.1%
Gain on property sales, net	0.6	19.1	--
TOTAL OTHER INCOME AND EXPENSE	8.0%	29.5%	9.1%
(LOSS) INCOME BEFORE MINORITY INTERESTS AND EXTRAORDINARY ITEM	4.0%	42.2%	1.8%

Minority interests	(3.1)	(7.1)	(0.3)
NET (LOSS) INCOME BEFORE EXTRAORDINARY ITEM	0.9%	35.1%	1.5%
EXTRAORDINARY ITEM - EXTINGUISHMENT OF DEBT	(1.6)	(0.5)	--
NET (LOSS) INCOME	(0.7)%	34.6%	1.5%
6 3/4% Series A Preferred Share distributions	(1.9)	(1.9)	(1.8)
Share repurchase agreement return	--	(0.4)	(0.1)
Forward share purchase agreement return	--	--	(0.6)
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	(2.6)%	32.3%	(1.0)%

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2001 TO THE YEAR ENDED DECEMBER 31, 2000

REVENUES

Total revenues decreased $22.4 million, or 3.1%, to $696.0 million for the year ended December 31, 2001, as compared to $718.4 million for the year ended December 31, 2000. The primary components of the decrease in total revenues are discussed below.

The increase in Office Property revenues of $4.1 million, or 0.7%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to:

- increased revenues of $31.3 million from the 74 consolidated Office Properties that the Company owned or had an interest in as of December 31, 2001, primarily as a result of increased full-service weighted average rental rates (reflecting increases in both rental revenue and operating expense recoveries), and increased occupancy; and

- increased other income of $4.1 million, primarily due to parking revenue; partially offset by

- decreased revenues of $27.3 million due to the disposition of 11 Office Properties and four retail properties during 2000, compared to the disposition of five Office Properties and the joint ventures of two Office Properties during 2001; and

- decreased lease termination fees (net of the write-off of deferred rent receivables) of $4.0 million, from $12.0 million for the year ended December 31, 2000, to $8.0 million for the year ended December 31, 2001.

The decrease in Resort/Hotel Property revenues of $26.4 million, or 36.6%, for the year ended December 31, 2001, as compared to the year ended

December 31, 2000, is attributable to:

- decreased revenues from the upscale business-class hotels of $8.1 million, due to the disposition of the Four Seasons Hotel - Houston in November 2000;

- decreased revenues of $6.3 million due to a decrease in rental income attributed to the softening of the economy and the events of September 11, 2001; and

- decreased revenues of $12.0 million due to not recognizing revenue during the fourth quarter of 2001 under the leases with COPI.

EXPENSES

Total expenses increased $95.6 million, or 15.2%, to $724.1 million for the year ended December 31, 2001, as compared to $628.5 million for the year ended December 31, 2000. The primary components of the increase in total expenses are discussed below.

The increase in Office Property operating expenses of $13.9 million, or 0.6%, for the year ended December 31, 2001, as compared to the year ended December 31, 2000, is attributable to:

- increased expenses of $24.7 million from the 74 consolidated Office Properties that the Company owned or had an interest in as of December 31, 2001, primarily as a result of increased operating expenses for utilities of $7.8 million, taxes of $3.6 million and other increased operating expenses such as insurance, security, and technology initiatives of $13.3 million during the year ended December 31, 2001, as compared to the same period in 2000; partially offset by

- decreased expenses of $10.8 million due to the disposition of 11 Office Properties and four retail properties during 2000, compared to the disposition of five Office Properties and the joint ventures of two Office Properties during 2001.

The decrease in interest expense of $20.8 million, or 10.2%, for the year ended December 31, 2001, as compared to the same period in 2000, is primarily attributable to a decrease in the weighted average interest rate of 0.61%, or $14.0 million of interest expense, combined with a decrease in the average debt balance of $104.0 million, or $8.0 million of interest expense.

The increase in impairment and other charges related to real estate assets of $7.5 million is due to:

- the conversion of the Company's preferred member interest in Metropolitan Partners, LLC ("Metropolitan") into common stock of Reckson Associates Realty Corp. ("Reckson"), which resulted in an impairment charge of $11.9 million; partially offset by

- a decrease in the impairment loss of $3.5 million, from $8.5 million in 2000 to $5.0 million in 2001, recognized on a fund which primarily holds real estate investments and marketable securities, in which the Company has an interest; and

- a decrease in the impairment of the behavioral healthcare properties of $0.9 million.

The increase in impairment and other charges related to COPI of $92.8 million is due to the reduction in net assets of $74.8 million, primarily attributable to the write-down of debt and rental obligations of COPI to the estimated underlying collateral value of assets to be received from COPI, and estimated COPI bankruptcy costs to be funded by the Company of $18.0 million.

OTHER INCOME

Other income decreased $157.6 million, or 73.9%, to $55.6 million for the year ended December 31, 2001, as compared to $213.2 million for the year ended December 31, 2000. This decrease is due to:

The decrease in equity in net income of unconsolidated companies of $24.5 million, or 32.4%, for the year ended December 31, 2001, as compared to the same period in 2000, is primarily attributable to:

- a decrease in equity in net income of unconsolidated Residential Development Properties of $12.5 million, or 24%, primarily attributable to lower lot sales at Desert Mountain during the year ended December 31, 2001, resulting in a decrease of $16.3 million; partially offset by higher unit sales at CRD, resulting in an increase of $4.5 million;

- a decrease in equity in net income of the Temperature-Controlled Logistics Properties of $6.3 million, or 85%, due to the lease restructuring in 2001 and an increase in deferred rent of $9.2 million; and

- a decrease in equity in net income of other unconsolidated Properties of $8.6 million, or 75.0%, primarily attributable to lower earnings of $3.8 million from Metropolitan due to the conversion of the Company's preferred member interest into common stock of Reckson in May 2001, the $1.0 million write-off of the Company's investment in a retail distribution company and lower earnings from DBL Holdings, Inc. ("DBL") of $1.7 million, due to an approximate $12.2 million return of investment received in March 2001; partially offset by

- an increase in equity in net income of the unconsolidated Office Properties of $2.9 million, or 94.0%, primarily attributable to lower interest expense at one unconsolidated office property.

The net decrease in gain on property sales of $133.1 million for the year ended December 31, 2001, as compared to the same period in 2000, is attributable to a decrease in net gains recognized primarily on Office, Resort/Hotel and behavioral healthcare property sales for the year ended December 31, 2001, as compared with the same period in 2000.

EXTRAORDINARY ITEMS

The increase in extraordinary items of $6.9 million, or 176.9%, is attributable to the write-off of deferred financing costs related to the early extinguishment of the UBS Facility in May 2001 of $10.8 million, compared with the write-off of deferred financing costs related to the early extinguishment of the BankBoston Facility in February 2000 of $3.9 million.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2000 TO THE YEAR ENDED DECEMBER 31, 1999

REVENUES

Total revenues decreased $27.9 million, or 3.7%, to $718.4 million for the year ended December 31, 2000, as compared to $746.3 million for the year ended December 31, 1999.

The decrease in Office Property revenues of $8.5 million, or 1.4%, for the year ended December 31, 2000, as compared to the same period in 1999, is attributable to:

- decreased revenues of $38.0 million due to the disposition of 11 Office Properties and four retail properties during 2000, which contributed revenues during the full year of 1999, as compared to a partial year in 2000; partially offset by

- increased revenues of $24.4 million from the 78 Office Properties owned as of December 31, 2000, primarily as a result of increased weighted average full-service rental rates at these Properties; and

- increased revenues of $5.1 million from lease termination fees.

The increase in Resort/Hotel Property revenues of $6.9 million, or 10.6%, for the year ended December 31, 2000, as compared to the same period in 1999, is attributable to:

- increased revenues of $3.1 million at the luxury resorts and spas primarily due to an increase in percentage rents resulting from increased room revenue due to the 30-room expansion at the Sonoma Mission Inn & Spa that opened in April 2000;

- increased revenues of $2.6 million at the business class hotels primarily due to (i) the reclassification of the Renaissance Houston Hotel from the Office segment to the Resort/Hotel segment as a result of the restructuring of its lease on July 1, 1999, which resulted in $2.4 million of incremental revenues under the new lease and (ii) increased percentage rents due to higher room and occupancy rates at the Omni Austin Hotel, partially offset by (iii) decreased revenues of $1.2 million due to the disposition of one Resort/Hotel Property during the fourth quarter of 2000, which contributed revenues during the full year of 1999, as compared to a partial year in 2000; and

- increased revenues of $1.2 million at the destination fitness resorts and spas primarily due to an increase in percentage rents at the Canyon Ranch Properties as a result of higher room rates.

The decrease in interest and other income of $26.3 million, or 39.4%, for the year ended December 31, 2000, as compared to the same period in 1999, is primarily attributable to the recognition of rent from Charter Behavioral Health Systems, LLC ("CBHS") on a cash basis beginning in the third quarter of 1999, the filing of voluntary bankruptcy petitions by CBHS and its subsidiaries on February 16, 2000, and a rent stipulation agreed to by certain parties to the bankruptcy proceedings, which resulted in a reduction in behavioral healthcare property revenues, which are included in interest and other income, to $15.4 million for the year ended December 31, 2000 as compared to $41.1 million for the same period in 1999.

EXPENSES

Total expenses decreased $172.6 million, or 21.6%, to $628.5 million for the year ended December 31, 2000, as compared to $801.2 million for the year ended December 31, 1999.

The decrease in Office Property operating expenses of $7.1 million, or 2.8%, for the year ended December 31, 2000, as compared to the same period in 1999, is attributable to:

- decreased expenses of $17.2 million due to the disposition of 11 Office Properties and four retail properties during 2000, which incurred expenses during the full year of 1999, as compared to a partial year in 2000; partially offset by

- increased expenses of $10.1 million from the 78 Office Properties owned as of December 31, 2000, as a result of (i) increased general repair and maintenance expenses at these Properties of $5.6 million and (ii) an increase in real estate taxes of $4.5 million.

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The increase in corporate general and administrative expense of $7.8 million, or 47.9%, for the year ended December 31, 2000, as compared to the same period in 1999, is primarily attributable to technology initiatives, employee retention programs, incentive compensation, and additional personnel.

The increase in interest expense of $11.2 million, or 5.8%, for the year ended December 31, 2000, as compared to the same period in 1999, is primarily attributable to an increase in the weighted-average interest rate from 7.4% in 1999 to 8.4% in 2000, partially offset by a decrease in average debt balance outstanding from $2.6 billion in 1999 to $2.4 billion in 2000.

The decrease in depreciation and amortization expense of $7.9 million, or 6.0%, for the year ended December 31, 2000, as compared to the same period in 1999, is primarily attributable to the cessation of the recognition of depreciation expense on Office Properties and behavioral healthcare properties from the dates they were classified as held for disposition.

An additional decrease in expenses of $175.9 million is primarily attributable to:

- non-recurring costs of $15.0 million in connection with the settlement of litigation relating to the merger agreement entered into in January 1998 between the Company and Station Casinos, Inc. in the first quarter of 1999; and

- a decrease of $169.5 million due to the impairment and other charges related to the behavioral healthcare properties in the third quarter of 1999 and the impairment charge in the fourth quarter of 1999 on one of the Office Properties held for disposition as compared to the year ended December 31, 2000; partially offset by

- an impairment loss of $8.5 million recognized in 2000 on a fund which primarily holds real estate investments and marketable securities, in which the Company has an interest.

OTHER INCOME

Other income increased $144.9 million, or 212.2%, to $213.2 million for the year ended December 31, 2000, as compared to $68.3 million for the year ended December 31, 1999. The components of the increase in other income are discussed below.

The increase in equity in unconsolidated companies of $7.4 million, or 10.8%, for the year ended December 31, 2000, as compared to the same period in 1999 is attributable to:

- an increase in equity in net income of the Residential Development Corporations of $10.6 million, or 24.7%, attributable to (i) an increase in average sales price per lot and an increase in membership conversion revenue at Desert Mountain, partially offset by a decrease in lot absorption, which resulted in an increase of $6.0 million in equity in net income to the Company; (ii) an increase in residential lot and commercial land sales and an increase in average sales price per lot at The Woodlands Land Development Company, L.P., partially offset by a decrease in average sales price per acre from commercial land sales, which resulted in an increase of $5.9 million in equity in net income to the Company; and (iii) an increase in commercial acreage sales at CRD, partially offset by a decrease in single-family home sales, which resulted in an increase of $0.8 million in equity in net income to the Company; partially offset by (iv) a decrease in commercial land sales at Houston Area Development Corp., which resulted in a decrease of $2.1 million in equity in net income to the Company; and

- an increase in equity in net income of the other unconsolidated companies of $6.5 million, or 127.5%, primarily as a result of (i) the dividend income attributable to the 7.5% per annum cash flow preference of the Company's $85.0 million preferred member interest in Metropolitan, which the Company purchased in May 1999; and (ii) an increase in the equity in earnings from DBL as a result of its investment in G2 Opportunity Fund, L.P. ("G2"), which was made in the third quarter of 1999; partially offset by

- a decrease in equity in net income of the Temperature-Controlled Logistics Partnership of $7.6 million, or 50.7%, resulting primarily from the recognition of a rent receivable valuation allowance for the year ended December 31, 2000 of $6.5 million; and

- a decrease in equity in net income of the unconsolidated office properties of $2.1 million, or 39.6%, primarily attributable to an increase in interest expense as a result of additional financing obtained in July 2000 and an increase in the average rate of debt at The Woodlands Commercial Properties Company, L.P.

The increase in net gain on property sales of $137.5 million for the year ended December 31, 2000, as compared to the same period in 1999, is attributable to net gains primarily recognized on Office, Resort/Hotel and behavioral healthcare property sales.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $36.3 million and $39.0 million at December 31, 2001, and December 31, 2000, respectively. This 6.9% decrease is attributable to $425.5 million used in financing activities, partially offset by $210.0 million and $212.8 million provided by investing and operating activities, respectively.

	December 31, 2001 (in millions)
Cash Provided by Operating Activities	$ 212.8
Cash Provided by Investing Activities	210.0
Cash Used in Financing Activities	(425.5)
Decrease in Cash and Cash Equivalents	$ (2.7)
Cash and Cash Equivalents, Beginning of Period	39.0
Cash and Cash Equivalents, End of Period	$ 36.3

OPERATING ACTIVITIES

The Company's cash provided by operating activities of $212.8 million is attributable to:

- $199.4 million from Property operations; and

- $13.4 million representing distributions received in excess of equity in earnings from unconsolidated companies.

INVESTING ACTIVITIES

The Company's cash provided by investing activities of $210.0 million is primarily attributable to:

- $200.4 million of net sales proceeds primarily attributable to the disposition of the two Washington Harbour Office Properties, three Woodlands Office Properties and 18 behavioral healthcare properties;

- $129.7 million of proceeds from joint venture partners, primarily as a result of the proceeds of $116.7 million from the joint ventures of two existing Office Properties, Bank One Tower in Austin, Texas and Four Westlake Park in Houston, Texas and $12.9 million from the joint venture of 5 Houston Center Office Property, which is currently being developed;

- $107.9 million of proceeds from the sale of marketable securities; and

- $32.0 million from return of investment in unconsolidated office properties, Residential Development Properties and other unconsolidated companies.

The Company's cash provided by investing activities is partially offset by:

- $124.6 million of additional investment in unconsolidated companies, consisting of investments in (i) the upscale Residential Development Properties of $89.0 million, primarily as a result of CRD's investment in Tahoe Mountain Resorts, (ii) Temperature-Controlled Logistics Properties of $10.8 million, (iii) Office Properties of $16.4 million and (iv) other unconsolidated companies of $8.4 million;

- $51.8 million for recurring and non-recurring tenant improvement and leasing costs for the Office Properties;

- $46.4 million for capital expenditures for rental properties, primarily attributable to non-recoverable building improvements for the Office Properties and replacement of furniture, fixtures and equipment for the Resort/Hotel Properties;

- $23.7 million for the development of investment properties, including $12.3 million for development of the 5 Houston Center Office Property and expansions and renovations at the Resort/Hotel Properties;

- a $11.2 million increase in notes receivable, primarily as a result of approximately $10.0 million related to secured loans to AmeriCold Logistics; and

- a $2.2 million increase in restricted cash and cash equivalents, primarily related to the escrow of funds to purchase a parking garage in Denver, Colorado, which was purchased during the first quarter of 2002, partially offset by escrow reimbursements for capital expenditures at the Resort/Hotel Properties and the Office Properties.

FINANCING ACTIVITIES

The Company's use of cash for financing activities of $425.5 million is primarily attributable to:

- net repayment of the UBS Facility of $553.5 million;

- distributions to common shareholders and unitholders of $245.1 million;

- repayment and retirement of the iStar Financial Note of $97.1 million;

- repurchase of the Company's common shares for $77.4 million;

- repayment and retirement of the Deutsche Bank Short-term Loan of $75.0 million;

- net capital distributions to joint venture partners of $25.4 million, primarily due to distributions to joint venture preferred equity partners;

- o debt financing costs of $16.0 million; and

- o distributions to preferred shareholders of $13.5 million.

The use of cash for financing activities is partially offset by:

- o net borrowings under the Fleet Facility of $283.0 million;

- o proceeds from notes payable of $393.3 million, primarily attributable to the debt refinancing; and

- o proceeds from the exercise of common share options of $9.8 million.

COPI

In April 1997, the Company established a new Delaware corporation, Crescent Operating, Inc. or COPI. All of the outstanding common stock of COPI, valued at $0.99 per share, was distributed, effective June 12, 1997, to those persons who were limited partners of the Operating Partnership or shareholders of the Company on May 30, 1997, in a spin-off.

COPI was formed to become a lessee and operator of various assets to be acquired by the Company and to perform the intercompany agreement between COPI and the Company, pursuant to which each agreed to provide the other with rights to participate in certain transactions. The Company was not permitted to operate or lease these assets under the tax laws in effect at that time, applicable to REITs. In connection with the formation and capitalization of COPI, and the subsequent operations and investments of COPI since 1997, the Company made loans to COPI under a line of credit and various term loans.

On January 1, 2001, The REIT Modernization Act became effective. This legislation allows the Company, through its subsidiaries, to operate or lease certain of its investments that had been previously operated or leased by COPI.

COPI and the Company entered into an asset and stock purchase agreement on June 28, 2001, in which the Company agreed to acquire the lessee interests in the eight Resort/Hotel Properties leased to subsidiaries of COPI, the voting interests held by subsidiaries of COPI in three of the Company's Residential Development Corporations and other assets in exchange for $78.4 million. In connection with that agreement, the Company agreed that it would not charge interest on its loans to COPI from May 1, 2001 and that it would allow COPI to defer all principal and interest payments due under the loans until December 31, 2001.

Also on June 28, 2001, the Company entered into an agreement to make a $10.0 million investment in Crescent Machinery Company ("Crescent Machinery"), a wholly owned subsidiary of COPI. This investment, together with capital from a third-party investment firm, was expected to put Crescent Machinery on solid financial footing.

Following the date of the agreements relating to the acquisition of COPI assets and stock and the investment in Crescent Machinery, the results of operations for the COPI hotel operations and the COPI land development interests

declined, due in part to the slowdown in the economy after September 11. In addition, Crescent Machinery's results of operations suffered because of the economic environment and the overall reduction in national construction levels that has affected the equipment rental and sale business, particularly post September 11. As a result, the Company believes that a significant additional investment would have been necessary to adequately capitalize Crescent Machinery and satisfy concerns of Crescent Machinery's lenders.

The Company stopped recording rent from the leases of the eight Resort/Hotel Properties leased to subsidiaries of COPI on October 1, 2001, and recorded impairment and other adjustments related to COPI in the fourth quarter of 2001, based on the estimated fair value of the underlying assets. See "Note 16. COPI" included in "Item 8. Financial Statements and Supplementary Data" for a description of these charges.

On January 22, 2002, the Company terminated the purchase agreement pursuant to which the Company would have acquired the lessee interests in the eight Resort/Hotel Properties leased to subsidiaries of COPI, the voting interests held by subsidiaries of COPI in three of the Residential Development Corporations and other assets. On February 4, 2002, the Company terminated the agreement relating to its planned investment in Crescent Machinery.

On February 6, 2002, Crescent Machinery filed for protection under the federal bankruptcy laws.

On February 12, 2002, the Company delivered default notices to COPI relating to approximately $49.0 million of unpaid rent and approximately $76.2 million of principal and accrued interest due to the Company under certain secured loans.

On February 14, 2002, the Company executed an agreement (the "Agreement") with COPI, pursuant to which COPI transferred to subsidiaries of the Company, in lieu of foreclosure, COPI's lessee interests in the eight Resort/Hotel Properties leased to subsidiaries of COPI and COPI's voting interests in three of the Company's Residential Development Corporations and other assets and the Company agreed to assist and provide funding to COPI for the implementation of a prepackaged bankruptcy of COPI. In connection with the transfer, COPI's rent obligations to the Company were reduced by $23.6 million, and its debt obligations were reduced by $40.1 million. These amounts include $18.3 million of value attributed to the lessee interests transferred by COPI to the Company, however, in accordance with GAAP, the Company assigned no value to these interests for financial reporting purposes.

The Company holds the lessee interests in the eight Resort/Hotel Properties and the voting interests in the three Residential Development Corporations through three newly organized limited liability companies that are wholly owned taxable REIT subsidiaries of the Company. The Company will include these assets in its Resort/Hotel Segment and its Residential Development Segment, and will fully consolidate the operations of the eight Resort/Hotel Properties and the three Residential Development Corporations, beginning on the date of the transfers of these assets.

Under the Agreement, the Company will provide approximately $14.0 million to COPI in the form of cash and common shares of the Company to fund costs, claims and expenses relating to the bankruptcy and related transactions, and to provide for the distribution of the Company's common shares to the COPI stockholders. The Company estimates that the value of the common shares that will be issued to the COPI stockholders will be between approximately $5.0 million and $8.0 million. The Agreement provides that COPI and the Company will seek to have a plan of reorganization for COPI, reflecting the terms of the Agreement and a draft plan of reorganization, approved by the bankruptcy cour