

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q/A
May 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

94-6565852
(I.R.S. Employer
Identification No.)

1603 LBJ Freeway, Suite 800, Dallas, Texas 75234
(Address of principal executive offices)
(Zip Code)

(469) 522-4200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).*
Yes No

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

Large accelerated filer Accelerated filer

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

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

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

Common Stock, \$.01 par value (Class)	8,413,469 (Outstanding at November 5, 2011)
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AMENDMENT NO. 1 TO
QUARTERLY REPORT ON FORM 10-Q FOR
TRANSCONTINENTAL REALTY INVESTORS, INC.

The undersigned Registrant hereby further amends the following items, exhibits, or other portions of its Quarterly Report on Form 10-Q for the period ended September 30, 2011 as set forth below and as reflected in the substituted pages attached hereto which replace the same numbered pages in the original filing:

- Page 6-10, Item 1 “Financial Statements.” The consolidated balance sheets, consolidated statements of operations, consolidated statements of shareholders’ equity, consolidated statements of comprehensive income (loss) and consolidated statements of cash flow have been revised, in the current period, to reflect the written request of the Staff of the Securities and Exchange Commission on March 27, 2012, to correctly adhere to the guidelines presented in paragraphs 250-10-45-22 to 24 of the FASB Accounting Standards Codification. Assets transferred to Transcontinental Realty Investors, Inc. (“TCI”), from its parent, American Realty Investors, Inc. (“ARL”) were originally, and have been historically, recorded at fair value and have been corrected to reflect ARL’s original cost basis. During an eight year period following the consolidation of TCI as of March 2003, ARL sold to TCI a total of 14 properties (most of which were transactions for undeveloped land) for a total purchase price of \$116.0 million. ARL’s cost basis for such transactions was \$60.0 million, resulting in a total step-up in basis for TCI of \$56.0 million. The consideration provided for such acquisitions was through affiliate/intercompany obligations, not cash transfers. Of the \$56.0 million step-up in TCI’s basis from such sales, approximately \$26.6 million related to assets no longer held by TCI which were sold in 2011. To better comply with the accounting literature and requirements, TCI reduced its intercompany obligations to ARL and reversed the income statement effect resulting from the disposition of such assets. This results in an increase in net income of approximately 26.6 million for TCI.
- Page 16, Item 1, Note 2 “Real Estate Activity.” An addition was made to the real estate activity disclosure to describe the correction to the asset values of those assets acquired by TCI from its parent, ARL, at cost basis.
- Page 19, Item 1, Note 6 “Related Party Transactions.” In correcting the cost basis for assets sold from ARL to TCI, the related party obligations between TCI and ARL were reduced and the change was reflected in the footnote disclosure.
- Page 20-22, Item 1, Note 7 “Operating Segments.” The operating segments were adjusted, in the current period, to reflect the changes in the financial statements.
- Page 23-24, Item 1, Note 8 “Discontinued Operations.” The discontinued operations were adjusted, in the current period, to reflect the changes in the financial statements.
- Page 25-34, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” A disclosure was added to describe the correction to the asset values of those assets acquired by TCI from its parent, ARL, at cost basis and the financial results and description of variances were adjusted to reflect the financial statement changes.
- Exhibit 31.1 – Certification by the Principal Executive Officer required by Securities Exchange Act Rules 13a-14 and 15d-14
- Exhibit 31.2 – Certification by the Principal Financial Officer required by Securities Exchange Act Rules 13a-14 and 15d-14
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Exhibit 32.1 – Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: May 1, 2012

By:/s/ Daniel J. Moos
Daniel J. Moos
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 1, 2012

By:/s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2011	December 31, 2010
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$1,009,117	\$1,074,635
Real estate subject to sales contracts at cost, net of depreciation (\$39,606 for 2011 and \$58,579 for 2010)	82,546	232,495
Less accumulated depreciation	(108,435)	(94,016)
Total real estate	983,228	1,213,114
Notes and interest receivable		
Performing (including \$58,450 in 2011 and \$66,011 in 2010 from affiliates and related parties)	58,895	71,766
Non-performing	1,432	-
Less allowance for estimated losses (including \$2,097 in 2011 and \$3,061 in 2010 from affiliates and related parties)	(3,777)	(4,741)
Total notes and interest receivable	56,550	67,025
Cash and cash equivalents	7,741	11,259
Investments in unconsolidated subsidiaries and investees	8,015	8,146
Affiliate receivables	24,268	-
Other assets	68,413	85,217
Total assets	\$1,148,215	\$1,384,761
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$797,400	\$831,322
Notes related to subject to sales contracts	64,412	190,693
Affiliate payables	-	47,261
Deferred gain (from sales to related parties)	81,827	82,841
Accounts payable and other liabilities (including \$1,735 in 2011 and \$1,466 in 2010 from affiliates and related parties)	44,157	49,196
	987,796	1,201,313
Shareholders' equity:		
Preferred stock, Series C: \$.01 par value, authorized 10,000,000 shares, issued and outstanding 30,000 shares in 2011 and 2010 respectively (liquidation preference \$100 per share). Series D: \$.01 par value, authorized, issued and outstanding 100,000 shares in 2011 and 2010 respectively.	1	1
Common stock, \$.01 par value, authorized 10,000,000 shares; issued 8,413,669 and 8,113,669 for 2011 and 2010 and outstanding 8,413,469 and 8,113,469 for 2011 and 2010 respectively.	84	81
Treasury stock at cost; 200 shares in 2011 and 2010	(2)	(2)
Paid-in capital	274,165	271,682

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Retained earnings	(127,167)	(101,914)
Total Transcontinental Realty Investors, Inc. shareholders' equity	147,081	169,848
Non-controlling interest	13,338	13,600
Total equity	160,419	183,448
Total liabilities and equity	\$1,148,215	\$1,384,761

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands, except share and per share amounts)			
Revenues:				
Rental and other property revenues (including \$17 and \$450 for the three months and \$50 and \$1,363 for the nine months ended 2011 and 2010 respectively from affiliates and related parties)	\$31,302	\$28,124	\$89,796	\$85,441
Expenses:				
Property operating expenses (including \$245 and \$331 for the three months and \$882 and \$970 for the nine months ended 2011 and 2010 respectively from affiliates and related parties)	17,206	16,098	48,253	49,062
Depreciation and amortization	5,812	5,817	15,470	17,284
General and administrative (including \$720 and \$471 for the three months and \$2,467 and \$2,148 for the nine months ended 2011 and 2010 respectively from affiliates and related parties)	2,798	1,338	7,452	4,955
Provision on impairment of notes receivable and real estate assets	-	-	5,622	-
Advisory fee to affiliate	2,441	3,054	7,688	9,112
Total operating expenses	28,257	26,307	84,485	80,413
Operating income	3,045	1,817	5,311	5,028
Other income (expense):				
Interest income (including \$483 and \$458 for the three months and \$1,534 and \$1,679 for the nine months ended 2011 and 2010 respectively from affiliates and related parties)	497	669	1,627	2,360
Other income	113	640	1,878	1,554
Mortgage and loan interest (including \$47 and \$698 for the three months and \$1,614 and \$2,419 for the nine months ended 2011 and 2010 respectively from affiliates and related parties)	(12,525)	(13,267)	(39,553)	(42,307)
Loss on the sale of investments	(32)	-	(483)	-
Earnings from unconsolidated subsidiaries and investees	250	(10)	378	(122)

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Total other expenses	(11,697)	(11,968)	(36,153)	(38,515)
Loss before gain on land sales, non-controlling interest, and tax	(8,652)	(10,151)	(30,842)	(33,487)
Gain (loss) on land sales	6,285	(371)	8,366	(6,005)
Loss from continuing operations before tax	(2,367)	(10,522)	(22,476)	(39,492)
Income tax benefit (expense)	(1,007)	(486)	1,152	117
Net loss from continuing operations	(3,374)	(11,008)	(21,324)	(39,375)
Discontinued operations:				
Income (loss) from discontinued operations	6	(2,504)	(2,927)	(3,950)
Gain (loss) on sale of real estate from discontinued operations	2,872	3,893	(365)	3,754
Income tax benefit (expense) from discontinued operations	1,007	486	(1,152)	(69)
Net income (loss) from discontinued operations	3,885	1,875	(4,444)	(265)
Net loss	511	(9,133)	(25,768)	(39,640)
Net loss attributable to non-controlling interest	384	178	515	18
Net loss attributable to Transcontinental Realty Investors, Inc.	895	(8,955)	(25,253)	(39,622)
Preferred dividend requirement	(279)	(269)	(831)	(797)
Net loss applicable to common shares	\$616	\$ (9,224)	\$ (26,084)	\$ (40,419)
Earnings per share - basic				
Loss from continuing operations	\$(0.39)	\$(1.37)	\$(2.59)	\$(4.95)
Income (loss) from discontinued operations	0.46	0.23	(0.53)	(0.03)
Net loss applicable to common shares	\$0.07	\$(1.14)	\$(3.12)	\$(4.98)
Earnings per share - diluted				
Loss from continuing operations	\$(0.39)	\$(1.37)	\$(2.59)	\$(4.95)
Income (loss) from discontinued operations	0.46	0.23	(0.53)	(0.03)
Net loss applicable to common shares	\$0.07	\$(1.14)	\$(3.12)	\$(4.98)
Weighted average common share used in computing earnings per share	8,413,469	8,113,495	8,356,326	8,113,610
Weighted average common share used in computing diluted earnings per share	8,413,469	8,113,495	8,356,326	8,113,610
Amounts attributable to Transcontinental Realty Investors, Inc.				
Loss from continuing operations	\$(2,990)	\$(10,830)	\$(20,809)	\$(39,357)
Income (loss) from discontinued operations	3,885	1,875	(4,444)	(265)
Net loss	\$895	\$(8,955)	\$(25,253)	\$(39,622)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2011
(unaudited)
(dollars in thousands)

	Comprehensive		Preferred	Common Stock	Treasury	Paid-in	Retained	Accumulated	Non-	Controlling
	Total	Loss	Stock	Shares	Amount	Stock		Capital		
Balance, December 31, 2010	\$183,448	\$ (105,122)	\$ 1	8,113,669	\$ 81	\$ (2)	\$271,682	\$(101,914)	\$ -	\$ 13,600
Series C preferred stock dividends (7.0% per year)	(158)	-	-	-	-	-	(158)	-	-	-
Series D preferred stock dividends (8.5% per year)	(673)	-	-	-	-	-	(673)	-	-	-
Net loss	(25,768)	(25,768)	-	-	-	-	-	(25,253)	-	(515)
Issuance of common stock	1,530	-	-	300,000	3	-	1,527	-	-	-
Sale of controlling interest	2,047	-	-	-	-	-	1,787	-	-	260
Distributions to non-controlling interests	(7)	-	-	-	-	-	-	-	-	(7)
Balance, September 30, 2011	\$160,419	\$ (130,890)	\$ 1	8,413,669	\$ 84	\$ (2)	\$274,165	\$(127,167)	\$ -	\$ 13,338

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (unaudited)

	For the Nine Months Ended September 30,	
	2011	2010
	(dollars in thousands)	
Net loss	\$ (25,768)	\$ (39,640)
Other comprehensive income (loss)	-	-
Total other comprehensive income (loss)	-	-
Comprehensive loss	(25,768)	(39,640)
Comprehensive loss attributable to non-controlling interest	515	18
Comprehensive loss attributable to Transcontinental Realty Investors, Inc.	\$ (25,253)	\$ (39,622)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Nine Months Ended September 30, 2011 2010 (dollars in thousands)	
Cash Flow From Operating Activities:		
Net loss	\$(25,768)	\$(39,640)
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:		
(Gain) loss on sale of land	(8,366)	6,005
(Gain) loss on sale of income producing properties	365	(3,754)
Depreciation and amortization	17,292	21,649
Provision on impairment of notes receivable and real estate assets	6,503	-
Amortization of deferred borrowing costs	2,071	1,577
Earnings from unconsolidated subsidiaries and investees	(378)	122
(Increase) decrease in assets:		
Accrued interest receivable	15	(343)
Other assets	(964)	8,561
Prepaid expense	2,312	815
Escrow	7,624	5,537
Earnest money	1,385	900
Rent receivables	3,712	(1,726)
Affiliate receivables	(24,268)	-
Increase (decrease) in liabilities:		
Accrued interest payable	3,786	1,239
Affiliate payables	(47,261)	(2,055)
Other liabilities	(6,790)	(4,324)
Net cash used in operating activities	(68,730)	(5,437)
Cash Flow From Investing Activities:		
Proceeds from notes receivable	12,849	1,443
Originations or advances on notes receivable	(1,425)	(22,339)
Acquisition of land held for development	30,419	(4,937)
Acquisition of income producing properties	13,588	-
Proceeds from sale of income producing properties	106,940	146,131
Proceeds from sale of land	107,365	15,674
Proceeds from sale of investment in unconsolidated real estate entities	(9)	-
Proceeds from sale of investments	592	-
Investment in unconsolidated real estate entities	(306)	395
Improvement of land held for development	(1,270)	(1,820)
Improvement of income producing properties	(2,069)	(2,017)
Sales of controlling interest	2,047	22
Construction and development of new properties	(39,927)	(23,801)
Net cash provided by investing activities	228,794	108,751

Cash Flow From Financing Activities:

Proceeds from notes payable	111,987	122,248
Recurring amortization of principal on notes payable	(11,321)	(9,484)
Payments or debt assumption on maturing notes payable	(116,913)	(115,254)
Debt assumption by buyer	(147,742)	(97,772)
Deferred financing costs	(299)	(2,876)
Distributions to non-controlling interests	7	(7)
Common stock issuance	1,530	-
Preferred stock dividends - Series C	(158)	(159)
Preferred stock dividends - Series D	(673)	(638)
Net cash used in financing activities	(163,582)	(103,942)
Net decrease in cash and cash equivalents	(3,518)	(628)
Cash and cash equivalents, beginning of period	11,259	5,665
Cash and cash equivalents, end of period	\$7,741	\$5,037

Supplemental disclosures of cash flow information:

Cash paid for interest	\$38,651	\$47,339
Cash received for income taxes, net of payments	\$-	\$(48)

Schedule of noncash investing and financing activities:

Notes receivable received from affiliate	\$-	\$21,859
Affiliate payable/receivable for ARL cost basis sales adjustment	\$(57,010)	\$-
Acquisition of land for ARL cost basis sales adjustment	\$30,419	\$-
Acquisition of income producing properties for ARL cost basis sales adjustment	\$26,591	\$-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

As used herein, the terms “TCI”, “the Company”, “we”, “our” or “us” refer to Transcontinental Realty Investors, Inc., a Nevada corporation. TCI is the successor to a California business trust which was organized on September 6, 1983, and commenced operations on January 31, 1984. Effective March 31, 2003, TCI’s financial results were consolidated in American Realty Investors, Inc. (“ARL”) Form 10-K and related consolidated financial statements.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange under the symbol “NYSE: TCI”. Subsidiaries of ARL own approximately 82.7% of the Company’s common stock. TCI is a “C” corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL, whose common stock trades on the New York Stock Exchange under the symbol “NYSE: ARL”.

TCI owns approximately 82.7% of the common stock of Income Opportunity Realty Investors, Inc. (“IOT”). Effective July 17, 2009, IOT’s financial results were consolidated with those of ARL and TCI and their subsidiaries. Shares of IOT are traded on the American Stock Exchange under the symbol “AMEX: IOT”.

TCI invests in real estate through direct ownership, leases and partnerships and it also invests in mortgage loans on real estate. Prior to April 30, 2011, Prime Income Asset Management, LLC (“Prime”) was the Company’s external Advisor and Cash Manager. Prime also served as an Advisor and Cash Manager to ARL and IOT. Effective April 30, 2011, Pillar Income Asset Management, Inc. (“Pillar”) became the Company’s external Advisor and Cash Manager under the same terms as the previous agreement with Prime. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. Prior to December 31, 2010, Triad Realty Services, L.P. (“Triad”) managed the Company’s commercial properties and Regis Realty I, LLC (“Regis Realty”) provided brokerage services. Triad and Regis Realty are affiliates of Prime. Effective January 1, 2011, Regis Realty Prime, LLC (“Regis”), an affiliate of Prime, manages our commercial properties and provides brokerage services under the same terms as the previous agreements with Triad and Regis Realty for a term of five years. TCI engages third-party companies to lease and manage its apartment properties. We have no employees.

Properties

We own or had interests in a total property portfolio of 68 income producing properties as of September 30, 2011. The properties consisted of:

- 19 commercial buildings totaling 3.9 million leasable square feet, consisting of 11 office buildings, five industrial properties, and three retail properties;
- 49 apartment communities totaling 9,027 units; excluding apartments being developed; and
- 1,856 acres of developed and undeveloped land.

We are involved in the construction of one apartment complex as of September 30, 2011. In addition, we invest in several tracts of land and are at various stages of predevelopment on many of these properties. We partner with several third-party developers to construct residential projects. The third-party developer typically takes a general partner and majority limited partner interest in the development partnership while we take a minority limited partner interest. We are required to fund the equity contributions. The third-party developer is responsible for obtaining financing, for

hiring a general contractor and for the overall management and delivery of the project, and is compensated with a fee equal to a certain percentage of the construction costs.

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2011, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The year-end Consolidated Balance Sheet at December 31, 2010, was derived from the audited financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Certain 2010 financial statement amounts have been reclassified to conform to the 2011 presentation, including adjustments for discontinued operations.

Principles of consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company, its subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 "Consolidation", whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force ("EITF") Issue 04-5, Investor's Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights ("EITF 04-5"). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity's financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in consolidated net income. Our investments in ARL and Garden Centura, L.P. are accounted for under the equity method.

During the second quarter of 2011, we evaluated the non-controlling equity interests and made certain reclassifications among equity accounts to correctly reflect non-controlling interest. In connection with that evaluation, we reclassified approximately \$6.3 million of deferred gain to non-controlling interest related to the 2009 acquisition of the controlling interest in IOT, a consolidated entity. These amounts have been reclassified for all periods presented in the consolidated financial.

Real estate, depreciation, and impairment

Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements – 10-40 years; furniture, fixtures and equipment – 5-10 years). The Company continually evaluates the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360, "Property, Plant and Equipment". Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse

changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset's net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Real estate held for sale

We periodically classify real estate assets as “held for sale”. An asset is classified as held for sale after the approval of our board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying Consolidated Balance Sheets. Upon a decision to no longer market as an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying statements of operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

Cost capitalization

Costs related to planning, developing, leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. We capitalize interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, we first use the interest incurred on specific project debt, if any, and next use the weighted average interest rate of non-project specific debt. We capitalize interest, real estate taxes and certain operating expenses until building construction is substantially complete and the building is ready for its intended use, but no later than one year from the cessation of major construction activity.

We capitalize leasing costs which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual tenant leases and amortize them over the related lease term.

Fair value measurement

We apply the guidance in ASC Topic 820, “Fair Value Measurements and Disclosures”, to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity’s own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1—Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2—Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—Unobservable inputs that are significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Newly issued accounting pronouncements

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our consolidated statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operations.

NOTE 2. REAL ESTATE ACTIVITY

The highlights of our significant real estate transactions for the nine months ended September 30, 2011 are listed below:

On January 4, 2011, we recognized the December 23, 2010 sale of 18.84 acres of land known as Archon land located in Las Colinas, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$5.5 million. The buyer assumed the existing mortgage of \$4.0 million secured by the property. We recorded a gain of \$0.1 million when ownership of the property transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group X, LP, a partnership that owned 7.19 acres of land known as Galleria West Lofts land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On January 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

The Company had a 75.0% limited partner interest in Woodmont TCI Group XI, LP, a partnership that owned 1.97 acres of land known as Galleria West Hotel land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On January 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

On January 4, 2011, we recognized the December 23, 2010 sale of 9.96 acres of land known as Limestone Canyon II land located in Austin, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$0.6 million. We recorded a gain on sale of \$0.2 million when ownership of the property transferred to the existing lender.

On January 4, 2011, we recognized the January 3, 2011 sale of 72.14 acres of land known as Manhattan land located in Farmers Branch, Texas to ABCLD Income, LLC, a related party under common control, for a sales price of \$4.1 million. The buyer assumed the existing mortgage of \$2.4 million secured by the property. We recorded the sale when ownership of the property transferred to the existing lender.

On January 4, 2011, we recognized the December 23, 2010 sale of Teleport Blvd., a 6,833 square foot building and 3.70 acres of land located in Irving, Texas, to FRE Real Estate, Inc., a related party under common control, for a sales price of \$0.7 million. We recorded a gain on sale of \$0.4 million when ownership of the property transferred to the existing lender.

On January 4, 2011, we recognized the December 23, 2010 sale of Westgrove Air Plaza, a 79,652 square foot building located in Addison, Texas, to FRE Real Estate, Inc., a related party under common control, for a sales price of \$4.5 million. The buyer assumed the existing mortgage of \$2.3 million secured by the property. When ownership transferred to the existing lender, we recorded a gain on sale of \$3.3 million.

On January 26, 2011, we sold 100% of our common stock in TCI Willowbrook Village, Inc. to TX LTS Investments, Inc., a related party under common control, for a sales price of \$7.8 million. This entity owns a 179,741 square foot retail shopping center located in Coldwater, Michigan known as Willowbrook Village. We provided \$2.2 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on January 26, 2016. The buyer assumed the existing mortgage of \$5.6 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On October 12, 2011, ownership of the property was transferred to the lender for credit against the loan balance. Any impairment necessary related to the inability to recover our original investment has been realized in 2011 and the sale that was deferred will be recognized in the fourth quarter, when ownership transferred to a third party.

The Company had a 75.0% limited partner interest in Woodmont TCI Group XIII, LP, a partnership that owned 8.91 acres of land known as Las Colinas Station land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On February 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

The Company had a 75.0% limited partner interest in Woodmont TCI Group IX, LP, a partnership that owned 15.0 acres of land known as Galleria East Center Retail land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On February 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

On March 23, 2011, we sold 82.20 acres of land known as Denton Coonrod land located in Denton, Texas and 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$2.9 million. We provided \$1.6 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 23, 2016. The

buyer assumed the existing mortgage of \$1.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On March 23, 2011, we sold our membership interest in 1340 Poydras Corp. to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$23.5 million. This entity owns a 378,895 square foot building located in New Orleans, Louisiana known as Amoco. The buyer assumed the existing mortgage of \$19.5 million, secured by the property. This transaction was rescinded as of the original transaction date and ownership transferred back to TCI.

On March 23, 2011, we sold our investment in TCI Courtyard, Inc. to One Realco Corporation, a related party under common control, for a sales price of \$11.2 million. This entity owns Quail Hollow at the Lakes apartments, a 200-unit complex located in Holland, Ohio. The buyer assumed the existing mortgage of \$11.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On April 1, 2011, we purchased 100% of the general and limited partnership interest in Garden Whispering Pines, LP, which owns Whispering Pines apartments, a 320-unit complex located in Topeka, Kansas, from ARL, a related party under common control, for \$11.0 million. We assumed the current mortgage of \$9.5 million.

On April 1, 2011, we purchased 100% of the membership interest in EQK Sesame Square, LLC, which owns Sesame Square, a 20,715 square-foot office building located in Anchorage, Alaska, from ARL, a related party under common control, for \$2.0 million. We assumed the current mortgage of \$1.1 million.

On April 5, 2011, we recognized the July 30, 2009 sale of 13.22 acres of land known as Hackberry land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of \$3.9 million. The buyer assumed the existing mortgage of \$3.9 million secured by the property. We recorded a gain on sale of \$2.4 million when ownership of the property transferred to the existing lender.

On April 5, 2011, we recognized the July 30, 2009 sale of 14.43 acres of land known as Fortune Drive land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of \$1.7 million. The buyer assumed the existing mortgage of \$1.1 million secured by the property. We recorded a loss on sale of \$0.4 million when ownership of the property transferred to the existing lender.

On April 5, 2011, we recognized the December 23, 2010 sale of 10.69 acres of land known as Temple land, located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$0.4 million. We recorded a loss on sale of \$0.1 million when ownership of the property transferred to the existing lender.

On April 5, 2011, we recognized the July 30, 2009 sale of 7.11 acres of land known as Pac Trust land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of \$1.4 million. The buyer assumed the existing mortgage of \$1.4 million secured by the property. We recorded a loss on sale of \$0.2 million when ownership of the property transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group III, LP, a partnership that owned 5.87 acres of land known as Polo Estates at Bent Tree land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On April 5, 2011 the partnership transferred ownership of the property to the existing lender and we recorded a gain on sale of \$3.0 million.

On April 5, 2011, we recognized the March 30, 2011 sale of 87.62 acres of land known as Wilmer 88 land located in Dallas, Texas, 24.91 acres of land known as Crowley land located in Dallas, Texas and 30.07 acres of land known as Creekside land located in Fort Worth, Texas to T Sorrento, Inc., a related party under common control, for a sales price of \$4.4 million. The buyer assumed the existing mortgage of \$2.4 million secured by the property. We recorded a loss on sale of \$2.0 million when ownership of the property transferred to the existing lender.

On April 25, 2011, we sold 100% of our interests in TX Portfolio, LLC to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$24.0 million. This entity owns seven land parcels, comprising approximately 2,713.68 acres of undeveloped land known as Diplomat land, Kaufman Cogen land, Kaufman Stagliano land, Kaufman Taylor land, Payne South land, Senlac VHP land and Valley Ranch land located in Dallas County, Texas. We provided \$15.6 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on April 25, 2016. The buyer assumed the existing mortgage of \$8.5 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On June 7, 2011, we recognized the June 2, 2011 sale of Alpenloan, a 28,594 square foot building and 8.16 acres of land, located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of

\$0.4 million. We recorded a loss on sale of \$0.9 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the June 2, 2011 sale of 5.34 acres of land known as Archon land located in Irving, Texas and 1.31 acres of land known as Ackerley land located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of \$0.7 million. The buyer assumed the existing mortgage of \$0.7 million secured by the property. We recorded a loss on sale of \$0.7 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 22, 2010 sale of Fenton Center, a 707,559 square foot building and 4.70 acres of land, located in Dallas, Texas to ABCLD Properties, LLC, a related party under common control, for a sales price of \$67.0 million. We recorded a loss on sale of \$7.0 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 27.11 acres of land known as Kinwest land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$4.1 million. The buyer assumed the existing mortgage of \$4.0 million secured by the property. We recorded a gain on sale of \$1.1 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 20.85 acres of land known as McKinney Ranch land located in McKinney, Texas to Fenton Real Estate, Inc., a related party under common control, for a sales price of \$5.4 million. The buyer assumed the existing mortgage of \$5.4 million secured by the property. We recorded a gain on sale of \$0.8 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 109.85 acres of land known as Payne North land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$14.1 million. The buyer assumed the existing mortgage of \$12.0 million secured by the property. We recorded a loss on sale of \$1.9 million when ownership of the property transferred to the existing lender.

On July 1, 2011, we sold 12.72 acres of land known as Centurion 12 land located in Fort Worth, Texas for a sales price of \$1.1 million. We recorded a loss on sale of \$0.3 million on the land parcel.

On July 5, 2011, we recognized the September 21, 2010 sale of 13.0 acres of land with a 29,784 square foot storage warehouse known as Eagle Crest located in Farmers Branch, Texas, to Warren Road Farm, Inc., a related party under common control, for a sales price of \$3.8 million. The buyer assumed the existing mortgage of \$2.4 million secured by the property. When ownership transferred to the existing lender, we recorded a gain on sale of \$1.2 million.

On July 5, 2011, we recognized the March 28, 2011 sale of One Hickory Center, a 97,361 square-foot office building and Two Hickory Center, a 96,539 square-foot office building, both located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$19.5 million. The buyer assumed the existing mortgage of \$19.4 million secured by the property. We recorded a loss on sale of \$0.8 million when ownership transferred to the existing lender.

On July 5, 2011, we recognized the December 23, 2010 sale of 6.6 acres of land known as Three Hickory land located in Farmers Branch, Texas, to Fenton Real Estate, Inc., a related party under common control, for a sales price of \$1.3 million. There was no gain or loss recorded when ownership transferred to the existing lender.

On July 5, 2011, we recognized the September 21, 2010 sale of 245.95 acres of land known as Windmill Farms-Harlan land located in Kaufman County, Texas, to Warren Road Farm, a related party under common control, for a sales price of \$6.7 million. The buyer assumed the existing mortgage of \$5.5 million secured by the property. We recorded a loss on sale of \$0.4 million when ownership transferred to the existing lender.

On August 2, 2011, we recognized the March 23, 2011 sale of 10.08 acres of land known as Centura land located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$13.0 million. The buyer assumed the existing mortgage of \$7.2 million secured by the property. We recorded a loss on sale of \$0.1 million when ownership transferred to the existing lender.

On August 2, 2011, we recognized the April 25, 2011 sale of seven land parcels, comprising approximately 2,713.68 acres of undeveloped land known as Diplomat land, Kaufman Cogen land, Kaufman Stagliano land, Kaufman Taylor land, Payne South land, Senlac VHP land and Valley Ranch land located in Dallas County, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$24.0 million. The buyer assumed the existing mortgage of \$8.1 million secured by the property. We recorded a gain on sale of \$0.1 million when ownership transferred to the existing lender.

On August 2, 2011, we recognized the March 23, 2011 sale of Parkway North, a 69,009 square-foot office building located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$4.7 million. The buyer assumed the existing mortgage of \$2.9 million secured by the property. We recorded a loss on sale of \$0.4 million when ownership transferred to the existing lender.

On August 2, 2011, we recognized the December 23, 2010 sale of Signature Athletic Club, a 58,910 square-foot office building located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$2.1 million. The buyer assumed the existing mortgage of \$1.3 million secured by the property. We recorded a gain on sale of \$0.1 million when ownership transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group XII, LP, a partnership that owned 16.18 acres of land known as Las Colinas Village land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On August 2, 2011 the partnership transferred ownership of the property to the existing lender and we recorded a gain on sale of \$11.1 million.

On August 31, 2011, we sold 100% of our membership interests in TCI Luna Ventures, LLC to ABCLD Income, LLC, a related party under common control, for a sales price of \$2.0 million. This entity owns 26.71 acres of undeveloped land located in Dallas, Texas, known as Luna Ventures land. We provided \$0.9 million in seller financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on August 31, 2016. The buyer assumed the existing mortgage of \$1.1 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 1, 2011, we sold seven land parcels, comprising approximately 107.73 acres of undeveloped land located in Austin, Texas, Dallas County, Texas, Denton County, Texas and Tarrant County, Texas, known as Andrew B land, Andrew C land, DeSoto Ranch land, Mansfield land, Pioneer Crossing land, Senlac land and Sheffield land, to TCI Luna Ventures, LLC, a related party under common control, for a sales price of \$10.6 million. We provided \$6.4 million in seller financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 1, 2016. The buyer assumed the existing mortgage of \$4.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 27, 2011, we sold a 256-unit apartment complex known as Spyglass apartments, located in Dallas, Texas, for a sales price of \$21.6 million. We recorded a gain on sale of \$5.7 million on the apartment sale.

In December 2010, TCI sold five properties, which consisted of two commercial buildings comprising an aggregate of 0.6 million square feet and approximately 52.91 acres of undeveloped land to FRE Real Estate, Inc., a related party under common control, for an aggregate sales price of \$37.4 million. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. We have deferred the recognition of the sales in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

We continue to invest in the development of apartment projects. During the nine months ended September 30, 2011, we have expended \$39.9 million on the construction of various apartment complexes and capitalized \$2.4 million of interest costs.

The properties that we have sold to a related party under common control and have deferred the recognition of the sale are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, we are currently in default on these mortgages primarily due to lack of payment although we are actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis.

Acquisitions from our parent, ARL, have previously been reflected at the fair value purchase price. Upon discussion with the SEC and in review of the guidance pursuant to ASC 250-10-45-22 to 24, we have adjusted those assets, in the current year, to reflect a basis equal to ARL's cost basis in the asset at the time of the sale. The affiliate payables to

ARL were reduced for the lower asset price.

NOTE 3. NOTES AND INTEREST RECEIVABLE

A portion of our assets are invested in mortgage notes receivable, principally secured by real estate. We may originate mortgage loans in conjunction with providing purchase money financing of property sales. Notes receivable are generally collateralized by real estate or interests in real estate and personal guarantees of the borrower and, unless noted otherwise, are so secured. Management intends to service and hold for investment the mortgage notes in our portfolio. A majority of the notes receivable provide for principal to be paid at maturity. Our mortgage notes receivable consist of first, wraparound and junior mortgage loans (dollars in thousands):

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
ABC Land & Development, Inc.(1)	10/15	10.00%	\$ 272	Marina Landing (256 Unit Apartment Complex)
Garden Centura, L.P. (1)	N/A	7.00%	3,967	Excess cash flow from partnership
Miscellaneous non-related party notes	Various	Various	389	Various secured interest
Miscellaneous related party notes (1)	Various	Various	393	Various secured interest
Ocean Beach Partners, L.P. (1)	12/11	7.00%	3,279	Folsom Land (36 acres in Farmers Branch, TX)
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/27	5.25%	2,000	Unsecured
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/27	5.25%	6,363	Membership interest in Housing for Seniors of Humble, LLC
Unified Housing Foundation, Inc. (Cliffs of El Dorado) (1)	12/27	5.25%	2,990	100% Interest in Unified Housing of McKinney, LLC
Unified Housing Foundation, Inc. (Echo Station) (1)	12/27	5.25%	1,481	100% Interest in Unified Housing of Temple, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) (1)	12/27	5.25%	4,663	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) (1)	07/15	5.25%	3,057	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/27	5.25%	6,000	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	07/15	5.25%	2,250	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Parkside Crossing) (1)	12/27	5.25%	1,936	100% Interest in Unified Housing of Parkside Crossing, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) (1)	12/27	5.25%	4,812	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) (1)	07/15	5.25%	5,174	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Timbers of Terrell) (1)	12/27	5.25%	1,323	100% Interest in Unified Housing of Terrell, LLC
Unified Housing Foundation, Inc. (Tivoli) (1)	12/27	5.25%	7,966	100% Interest in Unified Housing of Tivoli, LLC
Accrued interest			580	
Total Performing			\$ 58,895	

(1) Related party notes

(2) Note matured and an allowance was taken for estimated losses at full value of note

NOTE 4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES

Investments in unconsolidated subsidiaries, jointly owned companies and other investees in which we have a 20% to 50% interest or otherwise exercise significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses, via the equity method of accounting. ARL is our parent company and is considered as an unconsolidated subsidiary.

Investments accounted for via the equity method consists of the following:

	Percentage Ownership			
	at September 30, 2011		at September 30, 2010	
American Realty Investors, Inc.(1)	2.07	%	2.47	%
Garden Centura, L.P.(2)	5.00	%	5.00	%

(1) Unconsolidated subsidiary
 (2) Other investees

Our interest in the common stock of ARL and our partnership interest in Garden Centura, L.P., in the amount of 2.07% and 5.0%, respectively, are accounted for under the equity method because we exercise significant influence over the operations and financial activities. Accordingly, the investments are carried at cost, adjusted for the companies' proportionate share of earnings or losses. The following is a summary of the financial position and results of operations from our unconsolidated subsidiaries and investees (dollars in thousands):

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	Unconsolidated	Other	
For the Nine Months Ended September 30, 2011	Subsidiaries	Investees	Total
Real estate, net of accumulated depreciation	\$ 155,462	\$72,622	\$228,084
Notes receivable	23,239	-	23,239
Other assets	192,185	4,755	196,940
Notes payable	(168,746)	(47,578)	(216,324)
Other liabilities	(121,964)	(2,543)	(124,507)
Shareholders' equity/partners capital	(80,176)	(27,256)	(107,432)
Revenue	\$ 11,356	\$5,465	\$16,821
Depreciation	(640)	(2,352)	(2,992)
Operating expenses	(1,459)	(2,944)	(4,403)
Gain on land sales	23,465	-	23,465
Gain on sale of investment	91	-	91
Interest expense	(7,902)	(1,745)	(9,647)
Gain (loss) from continuing operations	\$ 24,911	\$(1,576)	\$23,335
Income from discontinued operations	9,699	-	9,699
Net income (loss)	\$ 34,610	\$(1,576)	\$33,034
Company's proportionate share of earnings	\$ 473	\$(79)	\$394

	Unconsolidated	Other	
For the Nine Months Ended September 30, 2010	Subsidiaries	Investees	Total
Real estate, net of accumulated depreciation	\$ 243,090	\$75,240	\$318,330
Notes Receivable	45,032	-	45,032
Other assets	163,231	6,213	169,444
Notes payable	(231,901)	(48,366)	(280,267)
Other liabilities	(120,424)	(2,408)	(122,832)
Shareholders equity/partners capital	(99,028)	(30,679)	(129,707)
Rents and interest and other income	\$ 24,277	\$5,992	\$30,269
Depreciation	(1,933)	(2,324)	(4,257)
Operating expenses	(22,706)	(2,906)	(25,612)
Gain on land sales	1,519	-	1,519
Interest expense	(12,635)	(2,706)	(15,341)
Loss from continuing operations	(11,478)	(1,944)	(13,422)
Income from discontinued operations	8,206	-	8,206
Net loss	\$ (3,272)	\$(1,944)	\$(5,216)
Company's proportionate share of earnings	\$ (81)	\$(97)	\$(178)

NOTE 5. NOTES PAYABLE

On February 28, 2011, we refinanced the existing mortgage on Vistas of Vance Jackson apartments, a 240-unit complex located in San Antonio, Texas, for a new mortgage of \$16.1 million. We received \$0.1 million in cash after paying off the existing mortgage of \$15.4 million and \$0.6 million in closing costs. The note accrues interest at 4.80% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2051.

On February 28, 2011, a loan with a commercial lender in the amount of \$1.3 million was taken out to fund real estate property taxes. The loan accrues interest at 12.50%, payable monthly as interest only, until August 1, 2013. Thereafter, payments of interest and principal are due monthly based upon an 8-year amortization schedule, maturing on July 1, 2021.

On April 28, 2011, we refinanced the existing mortgage on Mariposa Villas apartments, a 216-unit complex located in Dallas, Texas, for a new mortgage of \$12.4 million. We paid off the existing mortgage of \$11.8 million and \$0.6 million in closing costs. The note accrues interest at 3.90% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on May 1, 2051.

On April 28, 2011, we refinanced the existing mortgage on Verandas at City View apartments, a 314-unit complex located in Fort Worth, Texas, for a new mortgage of \$18.5 million. We paid off the existing mortgage of \$17.3 million and \$1.2 million in closing costs. The note accrues interest at 4.20% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on May 1, 2051.

On May 31, 2011, we refinanced the existing mortgage on Stonebridge at City Park apartments, a 240-unit complex located in Houston, Texas, for a new mortgage of \$14.6 million. We paid off the existing mortgage of \$13.9 million and \$0.7 million in closing costs. The note accrues interest at 3.90% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on June 1, 2051.

In conjunction with the development of various apartment projects and other developments, we drew down \$38.3 million in construction loans during the nine months ended September 30, 2011.

The properties that we have sold to a related party under common control and have deferred the recognition of the sale are treated as “subject to sales contract” on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, we are currently in default on these mortgages primarily due to lack of payment although we are actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis.

NOTE 6. RELATED PARTY TRANSACTIONS

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to affiliates as of September 30, 2011 (dollars in thousands):

	Prime	Pillar	ARL	Total
Balance, December 31, 2010	\$-	\$-	\$(47,261)	\$(47,261)
Cash transfers	3,588	7,536	-	11,124
Advisory fees	(3,528)	(4,382)	-	(7,910)
Cost reimbursements	(1,658)	(99)	-	(1,757)
Interest to advisor	(926)	(878)	-	(1,804)
POA fees	(10)	(42)	-	(52)
Expenses paid by advisor	(1,240)	2,233	-	993
Financing (mortgage payments)	(382)	(5,041)	-	(5,423)
Note receivable with affiliate	8,016	2,825	-	10,841
Sales/Purchases transactions	888	(5,307)	57,010	52,591
Intercompany property transfers	8,543	4,383	-	12,926

Purchase of obligations	(13,291)	(1,228)	14,519	-
Balance, September 30, 2011	\$-	\$-	\$24,268	\$24,268

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

Acquisitions from our parent, ARL, have previously been reflected at the fair value purchase price. Upon discussion with the SEC and in review of the guidance pursuant to ASC 250-10-45-22 to 24, we have adjusted those assets, in the current year, to reflect a basis equal to ARL's cost basis in the asset at the time of the sale. The affiliate payables to ARL were reduced for the lower asset price.

NOTE 7. OPERATING SEGMENTS

Our segments are based on our method of internal reporting which classifies our operations by property type. Our property types are grouped into commercial, apartments, land and other operating segments. Significant differences between and among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. We evaluate the performance of each of the operating segments and allocate resources to them based on their operating income and cash flow.

Items of income that are not reflected in the segments are interest, other income, gain on debt extinguishment, gain on condemnation award, equity in partnerships, and gains on sale of real estate. Expenses that are not reflected in the segments are provision for losses, advisory fees, net income and incentive fees, general and administrative, non-controlling interests and net loss from discontinued operations before gains on sale of real estate.

Presented below is our reportable segments' operating income for the three and nine months ended September 30, 2011 and 2010, including segment assets and expenditures (dollars in thousands):

For the Three Months Ended September 30, 2011	Commercial				Total
	Properties	Apartments	Land	Other	
Operating revenue	\$9,364	\$21,731	\$7	\$200	\$31,302
Operating expenses	5,590	11,244	344	28	17,206
Depreciation and amortization	1,799	4,013	-	-	5,812
Mortgage and loan interest	3,154	6,891	1,416	1,064	12,525
Interest income	-	-	-	497	497
Gain on land sales	-	-	6,285	-	6,285
Segment operating income (loss)	\$(1,179)	\$(417)	\$4,532	\$(395)	\$2,541
Capital expenditures	1,636	10	-	-	1,646
Assets	200,052	604,001	179,175	-	983,228
Property Sales					
Sales price	\$30,200	\$21,590	\$52,437	\$-	\$104,227
Cost of sale	33,021	15,897	52,762	-	101,680
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	-	-	4,951	-	4,951
Gain (loss) on sale	\$(2,821)	\$5,693	\$4,626	\$-	\$7,498

For the Three Months Ended September 30, 2010	Commercial				Total
	Properties	Apartments	Land	Other	
Operating revenue	\$10,033	\$17,970	\$120	\$1	\$28,124
Operating expenses	5,826	9,864	445	(37)	16,098
Depreciation and amortization	2,114	3,703	-	-	5,817
Mortgage and loan interest	3,006	7,432	1,868	961	13,267
Interest income	-	-	-	669	669
Loss on land sales	-	-	(371)	-	(371)
Segment operating loss	\$(913)	\$(3,029)	\$(2,564)	\$(254)	\$(6,760)
Capital expenditures	144	316	-	-	460
Assets	314,521	616,400	375,730	(400)	1,306,251

Property Sales					
Sales price	\$-	\$33,491	\$8,709	\$-	\$42,200
Cost of sale	-	29,598	9,080	-	38,678
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	\$-	\$3,893	\$(371)) \$-	\$3,522

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

	For Three Months Ended September 30,	
	2011	2010
Segment operating income (loss)	\$ 2,541	\$ (6,760)
Other non-segment items of income (expense)		
General and administrative	(2,798)	(1,338)
Advisory fees	(2,441)	(3,054)
Provision on impairment of notes receivable and real estate assets	-	-
Other income	113	640
Loss on sale of investments	(32)	-
Equity in earnings of investees	250	(10)
Deferred tax expense	(1,007)	(486)
Loss from continuing operations	\$ (3,374)	\$ (11,008)

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets:

	Commercial				
For the Nine Months Ended September 30, 2011	Properties	Apartments	Land	Other	Total
Operating revenue	\$30,212	\$59,086	\$289	\$209	\$89,796
Operating expenses	16,867	30,038	1,225	123	48,253
Depreciation and amortization	4,151	11,319	-	-	15,470
Mortgage and loan interest	7,853	22,212	6,316	3,172	39,553
Interest income	-	-	-	1,627	1,627
Gain on land sales	-	-	8,366	-	8,366
Segment operating loss	\$1,341	\$(4,483)	\$1,114	\$(1,459)	\$(3,487)
Capital expenditures	1,862	164	(868)	-	1,158
Assets	200,052	604,001	179,175	-	983,228
Property Sales					
Sales price	\$102,765	\$21,590	\$135,717	\$-	\$260,072
Cost of sale	111,077	15,897	137,336	-	264,310
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	1,291	963	8,326	-	10,580
Gain (loss) on sale	\$(7,021)	\$6,656	\$6,707	\$-	\$6,342

	Commercial				
For the Nine Months Ended September 30, 2010	Properties	Apartments	Land	Other	Total
Operating revenue	\$31,601	\$53,590	\$279	\$(29)	\$85,441
Operating expenses	17,420	29,444	2,178	20	49,062
Depreciation and amortization	6,309	10,975	-	-	17,284
Mortgage and loan interest	9,095	23,313	6,944	2,955	42,307
Interest income	-	-	-	2,360	2,360
Loss on land sales	-	-	(6,005)	-	(6,005)
Segment operating loss	\$(1,223)	\$(10,142)	\$(14,848)	\$(644)	\$(26,857)
Capital expenditures	412	622	148	-	1,182

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Assets	314,521	616,400	375,730	(400)	1,306,251
Property Sales					
Sales price	\$28,740	\$58,583	\$18,963	\$-	\$106,286
Cost of sale	28,954	51,016	24,968	-	104,938
Deferred current gain	-	3,599	-	-	3,599
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	\$(214)	\$3,968	\$(6,005)	\$-	\$(2,251)

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

	For Nine Months Ended September 30,	
	2011	2010
Segment operating loss	\$ (3,487)	\$ (26,857)
Other non-segment items of income (expense)		
General and administrative	(7,452)	(4,955)
Advisory fees	(7,688)	(9,112)
Provision on impairment of notes receivable and real estate assets	(5,622)	-
Other income	1,878	1,554
Loss on sale of investments	(483)	-
Equity in earnings of investees	378	(122)
Deferred tax benefit	1,152	117
Loss from continuing operations	\$ (21,324)	\$ (39,375)

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets:

	September 30,	
	2011	2010
Segment assets	\$ 983,228	\$ 1,306,251
Investments in real estate partnerships	8,015	8,745
Other assets	156,972	159,863
Assets held for sale	-	16,251
Total assets	\$ 1,148,215	\$ 1,491,110

NOTE 8. DISCONTINUED OPERATIONS

We apply the provisions of ASC Topic 360 "Property, Plant and Equipment". ASC Topic 360 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

Discontinued operations relates to properties that were either sold or held for sale as of the period ended September 30, 2011. Included in discontinued operations are a total of ten and 22 properties for 2011 and 2010, respectively. Properties sold in 2011 have been reclassified to discontinued operations for current and prior year reporting periods. In 2011, we sold eight commercial properties (Alpenloan, Fenton Center, One Hickory, Parkway North, Signature, Teleport Blvd, Two Hickory and Westgrove Air Plaza), one apartment complex (Spyglass), and 13 acres of land with a storage warehouse (Eagle Crest). In 2010, we sold 11 apartment complexes (Baywalk, Foxwood, Island Bay, Kingsland Ranch, Limestone Canyon, Limestone Ranch, Longfellow Arms, Marina Landing, Mason Park, Sendero Ridge and Tivoli), one commercial building (217 Rampart) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Rental	\$968	\$6,109	\$7,789	\$22,764
Property operations	587	4,127	5,007	13,203
	\$381	\$1,982	2,782	9,561
Expenses				
Other income	-	50	-	50
Interest	(103)	(3,141)	(2,546)	(9,087)
General and administrative	(170)	(55)	(457)	(101)
Depreciation	(102)	(1,340)	(1,825)	(4,373)
Provision on impairment of real estate assets	-	-	(881)	-
	(375)	(4,486)	(5,709)	(13,511)
Net income (loss) from discontinued operations before gains on sale of real estate, taxes, and fees	6	(2,504)	(2,927)	(3,950)
Gain (loss) on sale of discontinued operations	2,872	3,893	(365)	3,754
Income (loss) from discontinued operations	\$2,878	\$1,389	(3,292)	(196)
Tax benefit (expense)	1,007	486	(1,152)	(69)
Net income (loss) from discontinued operations	\$3,885	\$1,875	\$(4,444)	\$(265)

Our application of ASC Topic 360 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2011 as income from discontinued operations. This does not have an impact on net income available to common shareholders and only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 9. COMMITMENTS AND CONTINGENCIES AND LIQUIDITY

Liquidity. Management believes that TCI will generate excess cash from property operations in 2011; such excess, however, will not be sufficient to discharge all of TCI's obligations as they become due. Management intends to sell income producing assets, refinance real estate and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

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

Other Litigation. The ownership of property and provision of services to the public as tenants entails an inherent risk of liability. Although the Company and its subsidiaries are involved in various items of litigation incidental to and in the ordinary course of its business, in the opinion of Management, the outcome of such litigation will not have a material adverse impact upon the Company's financial condition, results of operation or liquidity.

NOTE 10. EARNINGS PER SHARE

Earnings per share (“EPS”) have been computed pursuant to the provisions of ASC Topic 260 “Earnings Per Share”. The computation of basic EPS is calculated by dividing income available to common shareholders from continuing operations, adjusted for preferred dividends, by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding. As of September 30, 2011, we have 10,000 shares of stock options outstanding, 5,000 of which will expire on January 12, 2012, and 5,000 of which will expire on January 1, 2015 if not exercised. These options are considered in the computation of diluted earnings per share if the effect of applying the “treasury stock” method is dilutive. We have 30,000 shares of Series C Cumulative Convertible Preferred Stock issued and outstanding. The stock has a liquidation preference of \$100.00 per share. After September 30, 2006, the stock may be converted into common stock at 90% of the daily average closing price of the common stock for the prior five trading days. The effects of the Series C Cumulative Convertible Preferred Stock are included in the dilutive earnings per share if applying the if-converted method is dilutive. As of September 30, 2011, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation.

NOTE 11. SUBSEQUENT EVENTS

Subsequent to the period ending September 30, 2011, several properties that were sold to a related party and treated on the books as “subject to sales contract” have been transferred back to the lender for credit against the loan balance. Any impairment necessary related to the inability to recover our original investment has been recorded in 2010 and 2011 and the sales that were deferred will be recognized in 2011 when ownership transferred to a third party.

On October 12, 2011, Willowbrook Village, a retail shopping center located in Coldwater, Michigan, which was sold on January 26, 2011 to a related party and treated on the books as “subject to sales contract”, was transferred to the lender for credit against the loan balance. Any impairment necessary related to the inability to recover our original investment has been realized in 2011 and the sale that was deferred will be recognized in the fourth quarter, when ownership transferred to a third party.

On October 20, 2011, we sold 7.4 acres of land known as Keller Springs Lofts land located in Addison, Texas, for a sales price of \$4.2 million. This land parcel is owned by TCI Woodmont Group VIII, LP, which the Company has a 75% limited partner interest.

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

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

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

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;
- demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;
- the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;
- risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;
 - risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
 -

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

- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
 - potential liability for uninsured losses and environmental contamination;
- risks associated with our dependence on key personnel whose continued service is not guaranteed; and
- the other risk factors identified in this Form 10-Q, including those described under the caption “Risk Factors.”

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Part I, Item 1A. “Risk Factors” in the Company’s Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company’s Form 10-K for the fiscal year ended December 31, 2010.

Other sections of this report may also include suggested factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time-to-time and it is not possible for management to predict all such matters: nor can we assess the impact of all such matters on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these uncertainties, investors should not place undue reliance on forward-looking statements as prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise as we file them with the SEC.

Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings, and other commercial properties. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during the nine months ended September 30, 2011, we acquired \$13.0 million of income producing properties and sold \$274.3 million of land and income producing properties. As of September 30, 2011, we owned 9,027 units in 49 residential apartment communities and 19 commercial properties of approximately 3.9 million rentable square feet. In addition, we owned 1,856 acres of land held for development and have one apartment complex currently in development.

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

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

Prior to April 30, 2011, Prime Income Asset Management, LLC ("Prime") was the Company's external Advisor and Cash Manager. Prime also served as an Advisor and Cash Manager to ARL and IOT. Effective April 30, 2011, Pillar Income Asset Management, Inc. ("Pillar") became the Company's external Advisor and Cash Manager under the same terms as the previous agreement with Prime. Pillar also serves as an Advisor and Cash Manager to ARL and IOT.

Prior to December 31, 2010, Triad Realty Services, L.P. ("Triad"), managed the Company's commercial properties and Regis Realty I, LLC ("Regis Realty"), provided brokerage services. Triad and Regis Realty are affiliates of Prime. Effective January 1, 2011, Regis Realty Prime, LLC ("Regis"), an affiliate of Prime, manages our commercial properties and provides brokerage services under the same terms as the previous agreements with Triad and Regis Realty, for a term of five years. We engage third-party companies to lease and manage our apartment properties.

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). In June 2009, the Financial Accounting Standards Board ("FASB") completed its accounting guidance codification project. The FASB Accounting Standards Codification ("ASC") became effective for our financial statements issued subsequent to June 30, 2009 and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating our accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC guidance

as the sole source of authoritative literature.

The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (“VIE”), in accordance with the provisions and guidance of ASC Topic 810 “Consolidation”, whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force (“EITF”) Issue 04-5, Investor’s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (“EITF 04-5”). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity’s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities are included in consolidated net income. Our investments in ARL and Garden Centura, L.P. are accounted for under the equity method.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, "above-market" and "below-market" leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with ASC Topic 805 "Business Combinations", and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

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

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

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

Acquisitions from our parent, ARL, have previously been reflected at the fair value purchase price. Upon discussion with the SEC and in review of the guidance pursuant to ASC 250-10-45-22 to 24, we have adjusted those assets, in the current year, to reflect a basis equal to ARL's cost basis in the asset at the time of the sale. The affiliate payables to ARL were reduced for the lower asset price.

Depreciation and Impairment

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

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

ASC Topic 360 “Property, Plant and Equipment” requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property’s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 “Interest – Capitalization of Interest” and ASC Topic 970 “Real Estate - General”. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We cease capitalization when a building is considered substantially complete and ready for its intended use, but no later than one year from the cessation of major construction activity.

Investments in Unconsolidated Real Estate Ventures

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

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with ASC Topic 805 “Business Combinations”, we recognize rental revenue of acquired in-place “above-market” and “below-market” leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

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

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less. An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

Sales and the associated gains or losses of real estate are recognized in accordance with the provisions of ASC Topic 360-20, “Property, Plant and Equipment – Real Estate Sale”. The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Non-performing Notes Receivable

We consider a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments in accordance with the terms of the agreement.

Interest Recognition on Notes Receivable

For notes other than surplus cash notes, we record interest income as earned in accordance with the terms of the related loan agreements. On cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income is only recognized to the extent that cash is received.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership’s real estate that represents the primary source of loan repayment. See Note 3 “Notes and Interest Receivable” for details on our notes receivable.

Fair Value of Financial Instruments

We apply the guidance in ASC Topic 820, “Fair Value Measurements and Disclosures,” to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1

measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1—Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2—Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—Unobservable inputs that are significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Results of Operations

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

The following discussion is based on our Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010 as included in Part I, Item 1. "Financial Statements" of this report. The prior year's property portfolios have been adjusted for subsequent sales. Continued operations relates to income producing properties that were held during those years as adjusted for sales in the subsequent years.

At September 30, 2011 and 2010, we owned or had interests in a portfolio of 68 and 75 income producing properties, respectively. For discussion purposes, we broke this out between continued operations and discontinued operations. The total property portfolio represents all income producing properties held as of September 30 for the period presented. Sales subsequent to quarter end represent properties that were held as of period end for the periods presented, but sold in the next quarter. Continuing operations represents all properties that have not been reclassified to discontinued operations as of September 30, 2011 for the periods presented. The table below shows the number of income producing properties held at the quarter ended:

	September 30,	
	2011	2010
Continuing operations	67	62
Sales subsequent to period end	1	-
Discontinued operations	-	13
Total property portfolio	68	75

Comparison of the three months ended September 30, 2011 to the same period ended 2010

For the three months ended September 30, 2011, we reported a net gain applicable to common shares of \$0.6 million or \$0.07 per diluted earnings per share, as compared to a net loss applicable to common shares of \$9.2 million or \$1.14 per diluted earnings per share for the same period ended 2010.

Revenues

Rental and other property revenues were \$31.3 million for the three months ended September 30, 2011. This represents an increase of \$3.2 million, as compared to the prior period revenues of \$28.1 million. The change, by segment, is an increase in the apartment portfolio of \$3.8 million and a decrease in the commercial portfolio of \$0.6 million. Within the apartment portfolio, there was an increase of \$2.2 million due to the developed properties in the lease-up phase and an increase of \$1.6 million in the same property portfolio. Our apartment portfolio continues to thrive in the current economic conditions with occupancies averaging over 95%. Within the commercial portfolio, the same properties decreased by \$0.6 million. As a whole, the commercial portfolio decreased due to an increase in vacancy which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are also continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were \$17.2 million for the three months ended September 30, 2011. This represents an increase of \$1.1 million, as compared to the prior period operating expenses of \$16.1 million. This change, by segment, is an increase in the apartment portfolio of \$1.3 million and a decrease in the commercial portfolio of \$0.2 million. Within the apartment portfolio, there was an increase of \$1.2 million due to the developed properties in the lease-up phase and an increase of \$0.1 million in the same properties. Within the commercial portfolio, the same properties decreased by \$0.2 million.

General and administrative expenses were \$2.8 million for the three months ended September 30, 2011. This represents an increase of \$1.5 million, as compared to the prior period general and administrative expenses of \$1.3 million. This change is primarily due to an increase in professional services and losses due to investment write offs in the current period related to potential deals not realized.

Mortgage and loan interest was \$12.5 million for the three months ended September 30, 2011. This represents a decrease of \$.8 million, as compared to the prior period interest expense of \$13.3 million. This change, by segment, is an increase in the commercial portfolio of \$0.1 million, an increase in the other portfolio of \$0.1 million, a decrease in the apartment portfolio of \$0.5 million, and a decrease in the land portfolio of \$0.5 million. The decrease in the apartment portfolio is primarily due to loans that were refinanced in 2010 and 2011 at a lower interest rate. These lower rate mortgages have terms of 35-40 years.

There was no additional provision for impairment recorded for the three months ended September 30, 2011.

Other income (expense)

Gain on land sales increased for the three months ended September 30, 2011 as compared to the prior period. In the current period we sold 2,999.28 acres of land in six separate transactions for an aggregate sales price of \$52.4 million and recorded a gain of \$6.3 million. In the prior period, we sold 38.62 acres of land in four separate transactions for an aggregate sales price of \$4.7 million and recorded a loss of \$0.4 million.

Included in discontinued operations are a total of ten and 22 properties for 2011 and 2010, respectively. Properties sold in 2011 have been reclassified to discontinued operations for current and prior year reporting periods. In 2011, we sold eight commercial properties (Alpenloan, Fenton Center, One Hickory, Parkway North, Signature, Teleport Blvd, Two Hickory and Westgrove Air Plaza), one apartment complex (Spyglass) and 13 acres of land with a storage warehouse (Eagle Crest). In 2010, we sold 11 apartment complexes (Baywalk, Foxwood, Island Bay, Kingsland Ranch, Limestone Canyon, Limestone Ranch, Longfellow Arms, Marina Landing, Mason Park, Sendero Ridge and Tivoli), one commercial building (217 Rampart) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for these properties sold and held for sale (dollars in thousands):

	For the Three Months Ended	
	September 30,	
	2011	2010
Revenue		
Rental	\$ 968	\$ 6,109
Property operations	587	4,127
	381	1,982
Expenses		
Other income	-	50
Interest	(103)	(3,141)
General and administrative	(170)	(55)
Depreciation	(102)	(1,340)
	(375)	(4,486)
Net income (loss) from discontinued operations before gains on sale of real estate, taxes, and fees	6	(2,504)
Gain on sale of discontinued operations	2,872	3,893
Income from discontinued operations	2,878	1,389
Tax benefit	1,007	486
Net income from discontinued operations	\$ 3,885	\$ 1,875

Comparison of the nine months ended September 30, 2011 to the same period ended 2010

For the nine months ended September 30, 2011, we reported a net loss applicable to common shares of \$26.1 million or \$3.12 per diluted earnings per share, as compared to a net loss applicable to common shares of \$40.4 million or \$4.98 per diluted earnings per share for the same period ended 2010.

Revenues

Rental and other property revenues were \$89.8 million for the nine months ended September 30, 2011. This represents an increase of \$4.4 million, as compared to the prior period revenues of \$85.4 million. The change, by segment, is an increase in the apartment portfolio of \$5.5 million, an increase in the land and other portfolios of \$0.2 million, offset by a decrease in the commercial portfolio of \$1.3 million. Within the apartment portfolio, there was an increase of \$2.7 million due to the developed properties in the lease-up phase and an increase of \$2.8 million in the same property portfolio. Our apartment portfolio continues to thrive in the current economic conditions with occupancies averaging over 95%. Within the commercial portfolio, the same property portfolio decreased by \$1.3 million due to an increase in vacancy, which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are also continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were \$48.3 million for the nine months ended September 30, 2011. This represents a decrease of \$0.8 million, as compared to the prior period operating expenses of \$49.1 million. This change, by segment, is a decrease in the commercial portfolio of \$0.5 million, a decrease in the land and other portfolios of \$0.9 million, offset by an increase in the apartment portfolio of \$0.6 million. Within the commercial portfolio, the same properties portfolio decreased by \$0.5 million. Within the apartment portfolio, the same properties decreased by \$1.1 million due to a decrease in overall costs and additional repairs and maintenance, offset by a \$1.7 million increase in developed properties in the lease-up phase.

Depreciation and amortization was \$15.5 million for the nine months ended September 30, 2011. This represents a decrease of \$1.8 million, as compared to the prior period depreciation and amortization of \$17.3 million. This change is primarily due to the adjustment in the current period, to reflect the cost basis for acquisitions from our parent, ARL. This adjustment reduced depreciation and amortization for \$1.6 million.

Mortgage and loan interest was \$39.6 million for the nine months ended September 30, 2011. This represents a decrease of \$2.7 million, as compared to the prior period interest expense of \$42.3 million. This change, by segment is a decrease in the commercial portfolio of \$1.2 million, a decrease in the apartment portfolio of \$1.1 million and a decrease in the land portfolio of \$0.6 million, offset by an increase in the other portfolio of \$0.2 million. The decrease in the apartment portfolio is primarily due to loans that were refinanced in 2010 and 2011 at a lower interest rate. These lower rate mortgages have terms of 35-40 years.

General and administrative expenses were \$7.5 million for the nine months ended September 30, 2011. This represents an increase of \$2.5 million, as compared to the prior period general and administrative expenses of \$5.0 million. This change is primarily due to an increase in professional services and losses due to investment write offs in the current period related to potential deals not realized.

Provision for impairment was \$5.6 million for the nine months ended September 30, 2011. Impairment was recorded as an additional loss of \$5.2 million in the apartment properties we currently hold and \$0.4 million related to an investment held.

Other income (expense)

Interest income was \$1.6 million for the nine months ended September 30, 2011. This represents a decrease of \$0.8 million, as compared to the prior period interest income of \$2.4 million. The majority of this decrease is due to the accrued interest recognition on the cash flow notes from Unified Housing Foundation, Inc., two notes considered paid or satisfied and one note where interest income is no longer recognized due to collectability concerns. On the cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income is only recognized to the extent that cash is received. Less cash was received in the current period as compared to the prior period.

Other income was \$1.9 million for the nine months ended September 30, 2011. This represents an increase of \$0.3 million as compared to the prior year income of \$1.6 million. This increase was due to revenue received from a consulting agreement with EurEnergy Resources Poland Sp.zoo.o.

Loss on the sale of investments relates to the sale of ARL stock. The acquisition price was higher than the current sale price and a loss was recorded.

Gain on land sales increased for the nine months ended September 30, 2011 as compared to the prior period. In the current period we sold 3,761.81 acres of land in 31 separate transactions for an aggregate sales price of \$135.7 million and recorded a gain of \$8.4 million. In the prior period, we sold 62.18 acres of land in six separate transactions for an aggregate sales price of \$22.3 million and recorded a loss of \$6.0 million.

Included in discontinued operations are a total of ten and 22 properties for 2011 and 2010, respectively. Properties sold in 2011 have been reclassified to discontinued operations for current and prior year reporting periods. In 2011, we sold eight commercial properties (Alpenloan, Fenton Center, One Hickory, Parkway North, Signature, Teleport Blvd, Two Hickory and Westgrove Air Plaza), one apartment complex (Spyglass) and 13 acres of land with a storage warehouse (Eagle Crest). In 2010, we sold 11 apartment complexes (Baywalk, Foxwood, Island Bay, Kingsland Ranch, Limestone Canyon, Limestone Ranch, Longfellow Arms, Marina Landing, Mason Park, Sendero Ridge and Tivoli), one commercial building (217 Rampart) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for these properties sold and held for sale (dollars in thousands):

	For the Nine Months Ended September 30,	
	2011	2010
Revenue		
Rental	\$ 7,789	\$ 22,764
Property operations	5,007	13,203
	2,782	9,561
Expenses		
Other income	-	50
Interest	(2,546)	(9,087)
General and administrative	(457)	(101)
Depreciation	(1,825)	(4,373)
Provision on impairment of real estate assets	(881)	-
	(5,709)	(13,511)
Net loss from discontinued operations before gains on sale of real estate	(2,927)	(3,950)
Gain (loss) on sale of discontinued operations	(365)	3,754
Loss from discontinued operations	(3,292)	(196)
Tax expense	(1,152)	(69)
Net loss from discontinued operations	\$ (4,444)	\$ (265)
Liquidity and Capital Resources		

Our principal liquidity needs are:

- fund normal recurring expenses;
- meet debt service and principal repayment obligations including balloon payments on maturing debt;
- fund capital expenditures, including tenant improvements and leasing costs;
- fund development costs not covered under construction loans; and
- fund possible property acquisitions.

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

- property operations;
- proceeds from land and income-producing property sales;
- collection of mortgage notes receivable;
- collection of receivables from affiliated companies;
- refinancing of existing debt; and
- additional borrowing, including mortgage notes payable and lines of credit.

We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans. Management anticipates that our available cash from property operations may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowing secured by real estate to meet its liquidity requirements. Although the past cannot predict the future, historically, management has been successful at extending a portion of our current maturity obligations and selling assets as necessary to meet current obligations.

Cash flow summary

The following summary discussion of our cash flows is based on the statements of cash flows as presented in Part I, Item 1. "Financial Statements" and is not meant to be an all-inclusive discussion of the changes in our cash flow (dollars in thousands):

	September 30,		
	2011	2010	Variance
Net cash used in operating activities	\$ (68,730)	\$ (5,437)	\$ (63,293)
Net cash provided by investing activities	\$ 228,794	\$ 108,751	\$ 120,043
Net cash used in financing activities	\$ (163,582)	\$ (103,942)	\$ (59,640)

Our primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have an affiliated account in which excess cash is transferred to or from. The majority of the overall decrease in cash used in operating activities is due to the repayment of affiliate payables in the current period. The adjustment made in the current period to reflect the cost basis of ARL acquisitions reduced the affiliate payables by approximately \$57.0 million. Obligations to affiliates were further reduced during the year by other related party transactions.

Our cash from investing activities increased as compared to the prior period. The increase is primarily attributable to the sale of income producing properties and land in the current period offset by an increase in cash used for the construction and development of new properties than in the prior period. The majority of the proceeds from sales were used for payment on loans associated with those projects. The adjustment to reflect the cost basis of real estate acquisitions from ARL, reduced the acquisition costs and related party obligations related to the acquisition of those assets.

Our cash used in financing activities consists of payments on recurring debt obligations and maturing notes payable. There was an increase in cash used in financing activities due to payoff or assumption of debt related to the sales of income producing properties and land in the current period.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, we may be potentially liable for removal or remediation costs, as well as certain other potential costs, relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

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

Inflation

The effects of inflation on our operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also

affect sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments, the cost of new financings and the cost of variable interest rate debt will be affected.

Tax Matters

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. TCI had a loss for federal income tax purposes after the use of net operating loss carry forwards in the first nine months of 2011, and a loss in 2010 and 2009; therefore, it recorded no provision for income taxes.

At September 30, 2011, TCI had a net deferred tax asset of \$60.5 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that TCI will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

At September 30, 2011, our exposure to a change in interest rates on our debt is as follows (dollars in thousands, except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	\$189,918	5.15	% \$ 1,899
Total decrease in TCI's annual net income			1,899
Per share			\$ 0.23

ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation by our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In December 1989, the Board of Directors approved a share repurchase program, authorizing the repurchase of a total of 687,000 shares of TCI's Common Stock. In June 2000, the Board increased this authorization to 1,387,000 shares. On August 10, 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,637,000 shares of our common stock. This repurchase program has no termination date. The following table represents shares repurchased on a monthly basis during the third quarter of 2011:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance at June 30, 2011			1,230,535	406,465
July 31, 2011	-	-	1,230,535	406,465
August 31, 2011	-	-	1,230,535	406,465
September 30, 2011	-	-	1,230,535	406,465
Total	-	-		

ITEM 6.

EXHIBITS

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

Exhibit

Number Description

- 3.0 Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
- 3.1 Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
- 3.2 Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
- 3.3 Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
- 3.4 Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, References, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
- 3.5 Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- 3.6 Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- 3.7 By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).

- 3.8 Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrant's Current Report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).
- 10.1 Advisory Agreement dated as of April 30, 2011, between Transcontinental Realty Investors, Inc., and Pillar Income Asset Management, Inc. (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K for event occurring May 2, 2011).
- 31.1* Certification of the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
- 31.2* Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
- 32.1* Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T.

* Filed herewith.

SIGNATURE PAGE

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: May 1, 2012

By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 1, 2012

By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)

TRANSCONTINENTAL REALTY INVESTORS, INC.

EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q

For the Period Ended September 30, 2011

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

* Filed herewith

