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CRESCENT REAL ESTATE EQUITIES CO

Form 10-Q

November 07, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 2003
COMMISSION FILE NO. 1-13038

CRESCENT REAL ESTATE EQUITIES COMPANY

(Exact name of registrant as specified in its charter)

TEXAS

52-1862813

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices) (Zip code)

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

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

YES NO

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

YES NO

Number of shares outstanding of each of the registrant's classes of preferred and common shares, as of November 3, 2003.

Series A Convertible Cumulative Preferred Shares, par value \$0.01 per share:	10,800,000
Series B Cumulative Redeemable Preferred Shares, par value \$0.01 per share:	3,400,000
Common Shares, par value \$0.01 per share:	99,249,899

CRESCENT REAL ESTATE EQUITIES COMPANY
FORM 10-Q
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PART I

ITEM 1. FINANCIAL STATEMENTS

CRESCENT REAL ESTATE EQUITIES COMPANY
 CONSOLIDATED BALANCE SHEETS
 (in thousands, except share data)
 (unaudited)

	SEPTEMBER 30 2003

ASSETS:	
Investments in real estate:	
Land	\$ 315,4
Building and improvements, net of accumulated depreciation of \$734,370 and \$655,168 at September 30, 2003 and December 31, 2002, respectively	2,201,6
Furniture, fixtures and equipment, net of accumulated depreciation of \$69,487 and \$58,468 at September 30, 2003 and December 31, 2002, respectively	62,6
Land held for investment or development	470,8
Properties held for disposition, net	87,7

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Net investment in real estate	\$ 3,138,3
Cash and cash equivalents	\$ 63,4
Restricted cash and cash equivalents	106,6
Accounts receivable, net	39,9
Deferred rent receivable	62,4
Investments in unconsolidated companies	543,2
Notes receivable, net	108,9
Income tax asset-current and deferred, net	54,4
Other assets, net	180,2

Total assets	\$ 4,297,9
	=====
LIABILITIES:	
Borrowings under Credit Facility	\$ 314,5
Notes payable	2,261,9
Accounts payable, accrued expenses and other liabilities	351,2

Total liabilities	\$ 2,927,7

COMMITMENTS AND CONTINGENCIES:	
MINORITY INTERESTS:	
Operating partnership, 8,873,347 and 8,878,342 units, at September 30, 2003 and December 31, 2002, respectively	\$ 109,1
Consolidated real estate partnerships	37,6

Total minority interests	\$ 146,8

SHAREHOLDERS' EQUITY:	
Preferred shares, \$0.01 par value, authorized 100,000,000 shares:	
Series A Convertible Cumulative Preferred Shares, liquidation preference of \$25.00 per share, 10,800,000 shares issued and outstanding at September 30, 2003 and December 31, 2002	\$ 248,1
Series B Cumulative Preferred Shares, liquidation preference of \$25.00 per share, 3,400,000 shares issued and outstanding at September 30, 2003 and December 31, 2002	81,9
Common shares, \$0.01 par value, authorized 250,000,000 shares, 124,298,763 and 124,280,867 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	1,2
Additional paid-in capital	2,243,3
Deferred compensation on restricted shares	(5,2)
Accumulated deficit	(868,3)
Accumulated other comprehensive income (loss)	(17,4)

	\$ 1,683,5
Less - shares held in treasury, at cost, 25,127,388 and 25,068,759 common shares at September 30, 2003 and December 31, 2002, respectively	(460,2)

Total shareholders' equity	\$ 1,223,3

Total liabilities and shareholders' equity	\$ 4,297,9
	=====

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

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CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)
(unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2003	2002
REVENUE:		
Office Property	\$ 127,044	\$ 140,840
Resort/Hotel Property	54,769	56,110
Residential Development Property	29,808	41,832
Total Property revenue	211,621	238,782
EXPENSE:		
Office Property real estate taxes	15,523	17,229
Office Property operating expenses	43,976	42,624
Resort/Hotel Property expense	44,926	44,599
Residential Development Property expense	29,723	39,306
Total Property expense	134,148	143,758
Income from Property Operations	77,473	95,024
OTHER INCOME (EXPENSE):		
Income from investment land sales, net	11,334	5,452
Gain on joint venture of properties, net	-	17,710
Interest and other income	1,319	1,775
Corporate general and administrative	(7,926)	(8,121)
Interest expense	(43,044)	(47,121)
Amortization of deferred financing costs	(2,783)	(2,701)
Depreciation and amortization	(37,728)	(36,726)
Impairment charges related to real estate assets	-	-
Other expenses	(130)	-
Equity in net income (loss) of unconsolidated companies:		
Office Properties	5,475	874
Resort/Hotel Properties	(89)	(91)
Residential Development Properties	1,725	4,272
Temperature-Controlled Logistics Properties	(949)	(3,101)
Other	(864)	(755)
Total Other Income (Expense)	(73,660)	(68,533)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY		

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INTERESTS AND INCOME TAXES	3,813	26,491
Minority interests	(1,582)	(4,235)
Income tax benefit	4,940	2,534
	-----	-----
INCOME BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	7,171	24,790
Net (loss) income from discontinued operations, net of minority interests	(1,884)	1,511
(Loss) gain on real estate from discontinued operations, net of minority interests	(2,017)	1,448
Cumulative effect of a change in accounting principle	-	-
	-----	-----
NET INCOME (LOSS)	3,270	27,749
Series A Preferred Share distributions	(4,556)	(4,556)
Series B Preferred Share distributions	(2,019)	(2,019)
	-----	-----
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ (3,305)	\$ 21,174
	=====	=====
BASIC EARNINGS PER SHARE DATA:		
Net income (loss) before discontinued operations and cumulative effect of a change in accounting principle	\$ 0.01	\$ 0.18
Net (loss) income from discontinued operations, net of minority interests	(0.02)	0.01
(Loss) gain on real estate from discontinued operations, net of minority interests	(0.02)	0.01
Cumulative effect of a change in accounting principle	-	-
	-----	-----
Net (loss) income- basic	\$ (0.03)	\$ 0.20
	=====	=====
DILUTED EARNINGS PER SHARE DATA:		
Net income (loss) before discontinued operations and cumulative effect of a change in accounting principle	\$ 0.01	\$ 0.18
Net (loss) income from discontinued operations, net of minority interests	(0.02)	0.01
(Loss) gain on real estate from discontinued operations, net of minority interests	(0.02)	0.01
Cumulative effect of a change in accounting principle	-	-
	-----	-----
Net (loss) income - diluted	\$ (0.03)	\$ 0.20
	=====	=====

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

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	Series A Preferred Shares		Series B Preferred Shares	
	Shares	Net Value	Shares	Net Value
SHAREHOLDERS' EQUITY, December 31, 2002	10,800,000	\$ 248,160	3,400,000	\$ 81,923
Issuance of Common Shares	-	-	-	-
Accretion of Discount on Employee Stock Option Notes	-	-	-	-
Issuance of Shares in Exchange for Operating Partnership Units	-	-	-	-
Stock Option Grants	-	-	-	-
Share Purchase under Compensation Plan	-	-	-	-
Dividends Paid	-	-	-	-
Net (Loss) Income Available to Common Shareholders	-	-	-	-
Unrealized Gain on Marketable Securities	-	-	-	-
Unrealized Net Gain on Cash Flow Hedges	-	-	-	-
SHAREHOLDERS' EQUITY, September 30, 2003	10,800,000	\$ 248,160	3,400,000	\$ 81,923

	Common Shares		Additional Paid-in Capital	Defe Compen on Res Sha
	Shares	Par Value		
SHAREHOLDERS' EQUITY, December 31, 2002	124,280,867	\$ 1,236	\$ 2,243,419	\$ (5)
Issuance of Common Shares	7,906	-	126	
Accretion of Discount on Employee Stock Option Notes	-	-	(189)	
Issuance of Shares in Exchange for Operating Partnership Units	9,990	-	8	
Stock Option Grants	-	-	20	
Share Purchase under Compensation Plan	-	-	-	
Dividends Paid	-	-	-	
Net (Loss) Income Available to Common Shareholders	-	-	-	
Unrealized Gain on Marketable Securities	-	-	-	
Unrealized Net Gain on Cash Flow Hedges	-	-	-	

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SHAREHOLDERS' EQUITY, September 30, 2003	----- 124,298,763 =====	----- \$ 1,236 =====	----- \$ 2,243,384 =====	----- \$ (5) =====
	----- Total -----			
SHAREHOLDERS' EQUITY, December 31, 2002	\$ 1,354,813			
Issuance of Common Shares	126			
Accretion of Discount on Employee Stock Option Notes	(189)			
Issuance of Shares in Exchange for Operating Partnership Units	8			
Stock Option Grants	20			
Share Purchase under Compensation Plan	(880)			
Dividends Paid	(111,649)			
Net (Loss) Income Available to Common Shareholders	(28,688)			
Unrealized Gain on Marketable Securities	3,761			
Unrealized Net Gain on Cash Flow Hedges	5,999			
SHAREHOLDERS' EQUITY, September 30, 2003	----- \$ 1,223,321 =====			

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

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CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	FOR THE 2003 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss) income	\$ (8,
Adjustments to reconcile net (loss) income to net cash provided by operating activities:	
Depreciation and amortization	118,
Residential Development cost of sales	66,
Residential Development capital expenditures	(98,
Discontinued operations - (loss) gain on real estate, net of minority interests	16,
Discontinued operations - depreciation and minority interests	6,

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Impairment charges related to real estate assets	1,
Income from investment in land sales, net	(12,
Gain on joint venture of properties, net	(
Minority interests	1,
Cumulative effect of a change in accounting principle	
Non-cash compensation	
Distributions received in excess of earnings from unconsolidated companies:	
Office Properties	
Resort/Hotel Properties	
Temperature-Controlled Logistics Properties	
Other	2,
Equity in (earnings) loss net of distributions received from unconsolidated companies:	
Office Properties	
Resort/Hotel Properties	(2,
Residential Development Properties	(4,
Temperature-Controlled Logistics Properties	(
Change in assets and liabilities, net of consolidations and acquisitions:	
Restricted cash and cash equivalents	
Accounts receivable	4,
Deferred rent receivable	(1,
Income tax asset - current and deferred	(11,
Other assets	4,
Accounts payable, accrued expenses and other liabilities	(29,
Net cash provided by operating activities	\$ 55,
<hr style="border-top: 1px dashed black;"/>	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net cash impact of DBL consolidation/COPI transaction	\$ 11,
Proceeds from property sales	16,
Proceeds from joint venture partner	
Acquisition of rental properties	(14,
Development of investment properties	(3,
Property improvements - Office Properties	(11,
Property improvements - Resort/Hotel Properties	(7,
Tenant improvement and leasing costs - Office Properties	(51,
Residential Development Properties Investments	(28,
(Increase) decrease in restricted cash and cash equivalents	(
Return of investment in unconsolidated companies:	
Office Properties	7,
Residential Development Properties	
Temperature-Controlled Logistics Properties	3,
Other	5,
Investment in unconsolidated companies:	
Office Properties	
Residential Development Properties	(4,
Temperature-Controlled Logistics Properties	(
Other	(1,
Decrease (increase) in notes receivable	19,
Net cash (used in) provided by investing activities	\$ (61,
<hr style="border-top: 1px dashed black;"/>	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Debt financing costs	\$ (2,
Borrowings under Credit Facility	284,
Payments under Credit Facility	(134,
Notes payable proceeds	100,
Notes payable payments	(97,
Residential Development Properties notes payable borrowings	57,
Residential Development Properties notes payable payments	(56,
Purchase of GMAC preferred interest	
Capital distributions - joint venture partner	(9,

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Capital distributions - joint venture preferred equity	
Proceeds from exercise of share options	
Treasury shares purchase under compensation plan	
Common share repurchases held in Treasury	
Issuance of preferred shares - Series A	
Issuance of preferred shares - Series B	
Series A Preferred Share distributions	(13,
Series B Preferred Share distributions	6,
Dividends and unitholder distributions	(131,

Net cash used in financing activities	\$ (9,

(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (14,
CASH AND CASH EQUIVALENTS,	
Beginning of period	78,

CASH AND CASH EQUIVALENTS,	
End of Period	\$ 63,
	=====

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

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

The direct and indirect subsidiaries of Crescent Equities at September 30, 2003 included:

- CRESCENT REAL ESTATE EQUITIES LIMITED PARTNERSHIP
The "Operating Partnership."
- CRESCENT REAL ESTATE EQUITIES, LTD.
The "General Partner" of the Operating Partnership.
- SUBSIDIARIES OF THE OPERATING PARTNERSHIP AND THE
GENERAL PARTNER

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

The following table shows the consolidated subsidiaries of the Company that owned or had an interest in real estate assets and the real estate assets that each subsidiary owned or had an interest in as of September 30, 2003.

Operating Partnership	Wholly-owned assets - The Avallon IV,
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Datran Center (two office properties), Houston Center (three office properties and the Houston Center Shops). These properties are included in the Company's Office Segment.

Joint Venture assets, consolidated - 301 Congress Avenue (50% interest) and The Woodlands Office Properties (85.6% interest) (four office properties). These properties are included in the Company's Office Segment. Sonoma Mission Inn & Spa (80.1% interest), included in the Company's Resort/Hotel Segment.

Non wholly-owned assets, unconsolidated - Bank One Center (50% interest), Bank One Tower (20% interest), Three Westlake Park (20% interest), Four Westlake Park (20% interest), Miami Center (40% interest), 5 Houston Center (25% interest) and Five Post Oak Park (30% interest). These properties are included in the Company's Office Segment. Ritz Carlton Palm Beach (50% interest), included in the Company's Resort/Hotel Segment. The temperature-controlled logistics properties (40% interest in 87 properties). These properties are included in the Company's Temperature-Controlled Logistics Segment.

Crescent Real Estate
Funding I, L.P. ("Funding
I")

Wholly-owned assets - The Aberdeen, The Avallon I, II & III, Carter Burgess Plaza, The Citadel, The Crescent Atrium, The Crescent Office Towers, Regency Plaza One, Waterside Commons and 125 E. John Carpenter Freeway. These properties are included in the Company's Office Segment.

Crescent Real Estate
Funding II, L.P. ("Funding
II")

Wholly-owned assets - Albuquerque Plaza, Barton Oaks Plaza One, Briargate Office and Research Center, Las Colinas Plaza, Liberty Plaza I & II, MacArthur Center I & II, Ptarmigan Place, Stanford Corporate Centre, Two Renaissance Square and 12404 Park Central. These properties are included in the Company's Office Segment. The Hyatt Regency Albuquerque and the Park Hyatt Beaver Creek Resort & Spa. These properties are included in the Company's Resort/Hotel Segment.

Crescent Real Estate
Funding III, IV and V,
L.P. ("Funding III, IV
and V") (1)

Wholly-owned assets - Greenway Plaza Office Properties (ten office properties). These properties are included in the Company's Office Segment. Renaissance Houston Hotel is included in the Company's Resort/Hotel Segment.

Crescent Real Estate
Funding VI, L.P.
("Funding VI")

Wholly-owned asset - Canyon Ranch - Lenox, included in the Company's Resort/Hotel Segment.

Crescent Real Estate

Wholly-owned assets - Four behavioral

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Funding VII, L.P.
("Funding VII")

healthcare properties.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Crescent Real Estate Funding VIII, L.P. ("Funding VIII")	Wholly-owned assets - The Addison, Addison Tower, Austin Centre, The Avallon V, Chancellor Park, Frost Bank Plaza, Greenway I and IA (two office properties), Greenway II, Johns Manville Plaza, Palisades Central I, Palisades Central II, Stemmons Place, Trammell Crow Center(2), 3333 Lee Parkway, 1800 West Loop South, 5050 Quorum, 44 Cook and 55 Madison. These properties are included in the Company's Office Segment. The Canyon Ranch - Tucson, Omni Austin Hotel, and Ventana Inn & Spa, all of which are included in the Company's Resort/Hotel Segment.
Crescent 707 17th Street, L.L.C.	Wholly-owned assets - 707 17th Street, included in the Company's Office Segment, and The Denver Marriott City Center, included in the Company's Resort/Hotel Segment.
Crescent Real Estate Funding X, L.P. ("Funding X")	Wholly-owned assets - Fountain Place and Post Oak Central (three office properties), all of which are included in the Company's Office Segment.
Crescent Spectrum Center, L.P.	Wholly-owned asset - Spectrum Center, included in the Company's Office Segment.
Crescent Colonnade, L.L.C.	Wholly-owned asset - The BAC-Colonnade Building ("The Colonnade"), included in the Company's Office Segment.
Mira Vista Development Corp. ("MVDC")	Non wholly-owned asset, consolidated - Mira Vista (98% interest), included in the Company's Residential Development Segment.
Houston Area Development Corp. ("HADDC")	Non wholly-owned assets, consolidated - Falcon Point (98% interest), Falcon Landing (98% interest) and Spring Lakes (98% interest). These properties are included in the Company's Residential Development Segment.
Desert Mountain Development Corporation ("DMDC")	Non wholly-owned asset, consolidated - Desert Mountain (93% interest), included in the Company's Residential Development Segment.
The Woodlands Land Company ("TWLC")	Non wholly-owned asset, unconsolidated - The Woodlands (42.5% interest)(3), included in the Company's Residential Development Segment.
Crescent Resort	Non wholly-owned assets, consolidated - Eagle

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Development Inc.
("CRDI")

Ranch (60% interest), Main Street Junction (30% interest), Main Street Station (30% interest), Main Street Station Vacation Club (30% interest), Riverbend (60% interest), Park Place at Riverfront (64% interest), Park Tower at Riverfront (64% interest), Delgany Lofts (64% interest), Promenade Lofts at Riverfront (64% interest), Creekside at Riverfront (64% interest), Cresta (60% interest), Snow Cloud (64% interest), Horizon Pass Lodge (64% interest), One Vendue Range (62% interest), Old Greenwood (71.2% interest), Tahoe Mountain Resorts (57% - 71.2% interest). These properties are included in the Company's Residential Development Segment.

Non wholly-owned assets, unconsolidated - Blue River Land Company, L.L.C. - Three Peaks (30% interest), included in the Company's Residential Development Segment.

Crescent TRS Holdings
Corp.

Non wholly-owned assets, unconsolidated - two quarries (56% interest). These properties are included in the Company's Temperature-Controlled Logistics Segment.

- (1) Funding III owns nine of the ten office properties in the Greenway Plaza office portfolio and the Renaissance Houston Hotel; Funding IV owns the central heated and chilled water plant building located at Greenway Plaza; and Funding V owns 9 Greenway, the remaining office property in the Greenway Plaza office portfolio.
- (2) The Company owns the principal economic interest in Trammell Crow Center through its ownership of fee simple title to the property (subject to a ground lease and a leasehold estate regarding the building) and two mortgage notes encumbering the leasehold interests in the land and the building.
- (3) Distributions are made to partners based on specified payout percentages. During the nine months ended September 30, 2003, the Company's payout percentage and economic interest were 52.5%.

See Note 8, "Investments in Unconsolidated Companies," for a table that lists the Company's ownership in significant unconsolidated joint ventures and investments as of September 30, 2003.

See Note 9, "Notes Payable and Borrowings Under Credit Facility," for a list of certain other subsidiaries of the Company, all of which are consolidated in the Company's financial statements and were formed primarily for the purpose of obtaining secured debt or joint venture financing.

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The assets and operations of the Company were divided into four investment segments at September 30, 2003, as follows:

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

Within these segments, the Company owned in whole or in part the following real estate assets (the "Properties") as of September 30, 2003:

- OFFICE SEGMENT consisted of 74 office properties, including three retail properties (collectively referred to as the "Office Properties"), located in 26 metropolitan submarkets in six states, with an aggregate of approximately 29.7 million net rentable square feet. 62 of the Office Properties are wholly-owned and 12 are owned through joint ventures, five of which are consolidated and seven of which are unconsolidated.
- RESORT/HOTEL SEGMENT consisted of six luxury and destination fitness resorts and spas with a total of 1,306 rooms/guest nights and four upscale business-class hotel properties with a total of 1,771 rooms (collectively referred to as the "Resort/Hotel Properties"). Eight of the Resort/Hotel Properties are wholly-owned, one is owned through a joint venture that is consolidated, and one is owned through a joint venture that is unconsolidated.
- RESIDENTIAL DEVELOPMENT SEGMENT consisted of the Company's ownership of real estate mortgages and voting and non-voting common stock representing interests of 98% to 100% in five residential development corporations (collectively referred to as the "Residential Development Corporations"), which in turn, through partnership arrangements, owned in whole or in part 23 upscale residential development properties, 21 of which are consolidated and two of which are unconsolidated (collectively referred to as the "Residential Development Properties").
- TEMPERATURE-CONTROLLED LOGISTICS SEGMENT consisted of the Company's 40% interest in Vornado Crescent Portland Partnership (the "Temperature-Controlled Logistics Partnership") and a 56% interest in the Vornado Crescent Carthage and KC Quarry L.L.C. The Temperature-Controlled Logistics Partnership owns all of the common stock, representing substantially all of the economic interest, of AmeriCold Corporation (the "Temperature-Controlled Logistics Corporation"), a REIT. As of September 30, 2003, the Temperature-Controlled Logistics Corporation directly or indirectly owned 87 temperature-controlled logistics properties (collectively referred to as the "Temperature-Controlled Logistics Properties") with an aggregate of approximately 440.7 million cubic feet (17.5 million square feet) of warehouse space. As of September 30, 2003, the Vornado Crescent Carthage and KC Quarry, L.L.C. owned two quarries and the related land. The Company accounts for its interests in the Temperature-Controlled Logistics Partnership and in the Vornado Crescent Carthage and KC Quarry L.L.C. as unconsolidated equity investments.

See Note 3, "Segment Reporting," for a table showing income from

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property operations, total other income and expenses, equity in net income (loss) of unconsolidated companies and funds from operations for each of these investment segments for the three and nine months ended September 30, 2003 and 2002, and total assets, consolidated property level financing, consolidated other liabilities, and minority interests for each of these investment segments at September 30, 2003 and December 31, 2002.

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

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP") for interim financial information, as well as in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the information and footnotes required by GAAP for complete financial statements are not included. In management's opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the unaudited interim financial statements are included. Operating results for interim periods reflected do not necessarily indicate the results that may be expected for a full fiscal year. You should read these financial statements in conjunction with the financial statements and the accompanying notes included in the Company's Form 10-K for the year ended December 31, 2002.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This section should be read in conjunction with the more detailed information regarding the Company's significant accounting policies contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

ADOPTION OF NEW ACCOUNTING STANDARDS

SFAS NO. 145. In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires the reporting of gains and losses from early extinguishment of debt be included in the determination of net income unless criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations," which allows for extraordinary item classification, are met. The provisions of this Statement related to the rescission of Statement No. 4 are to be applied in

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fiscal years beginning after May 15, 2002. The Company adopted this Statement for fiscal year 2003 and expects no impact in 2003 beyond the classification of costs related to early extinguishments of debt, which were shown in the Company's 2001 Consolidated Statements of Operations as an extraordinary item.

SFAS NOS. 148 AND 123. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," effective for fiscal years ending after December 15, 2002, to amend the transition and disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." In addition to the prospective transition method of accounting for Stock-Based Employee Compensation using the fair value method provided in SFAS No. 123, SFAS No. 148 permits two additional transition methods, both of which avoid the ramp-up effect arising from prospective application of the fair value method. The Retroactive Restatement Method requires companies to restate all periods presented to reflect the Stock-Based Employee Compensation under the fair value method for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. The Modified Prospective Method requires companies to recognize Stock-Based Employee Compensation from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value method in SFAS No. 123 had been used to account for employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. Also, in the absence of a single accounting method for Stock-Based Employee Compensation, SFAS No. 148 expands disclosure requirements from those existing in SFAS No. 123, and requires disclosure of whether, when, and how an entity adopted the preferable, fair value method of accounting.

Effective January 1, 2003, the Company adopted the fair value expense recognition provisions of SFAS No. 123 on a prospective basis as permitted, which requires that the value of stock options at the date of grant be amortized ratably into expense over the appropriate vesting period. During the nine months ended September 30, 2003, the Company granted stock options and recognized compensation expense that was not significant to its results of operations. With respect to the Company's stock options which were granted prior to 2003, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25"). Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the Company's common shares at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. During the nine months ended September 30, 2003, no compensation cost was recognized for grants of stock options made prior to 2003 under the Company stock option plans ("the Plans") because the Company's policy is to grant stock options with an exercise price equal to the quoted closing market price of the Company's common shares on the grant date. Had compensation cost for the Plans been determined based on the fair value at the grant dates for awards under the Plans consistent with SFAS No. 123, the Company's net (loss) income and (loss) earnings per share would have been reduced to the following pro forma amounts:

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	FOR THE NINE SEPTEMBER
	-----	-----
(in thousands, except per share amounts)	2003	2002
		2003

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Net (loss) income available to common shareholders, as reported	\$ (3,305)	\$ 21,174	\$ (28,688)
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(700)	(1,011)	(2,301)
Pro forma net (loss) income	\$ (4,005)	\$ 20,163	\$ (30,989)
(Loss) earnings per share:			
Basic - as reported	\$ (0.03)	\$ 0.20	\$ (0.29)
Basic - pro forma	\$ (0.04)	\$ 0.19	\$ (0.31)
Diluted - as reported	\$ (0.03)	\$ 0.20	\$ (0.29)
Diluted - pro forma	\$ (0.04)	\$ 0.19	\$ (0.31)

SFAS NO. 149. In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company adopted SFAS 149 effective July 1, 2003. The adoption of this Statement did not have a material impact on the Company's financial condition or its results of operations.

SFAS NO. 150. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer should classify and measure certain financial instruments that have both liability and equity characteristics. Most provisions of this Statement were to be applied to financial instruments entered into or modified after May 31, 2003 and to existing instruments as of the beginning of the first interim financial reporting period after June 15, 2003. On October 29, 2003, the FASB agreed to defer indefinitely the application of the provisions of SFAS No. 150 to noncontrolling interests in limited life subsidiaries.

FASB INTERPRETATION 45. In November 2002, the FASB issued Interpretation 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued, and liability-recognition requirements for a guarantor of certain types of debt. The new guidance requires a guarantor to recognize a liability at the inception of a guarantee which is covered by the new requirements whether or not payment is probable, creating the new concept of a "stand-ready" obligation. Initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. See Note 11, "Commitments and Contingencies," for disclosure of the Company's guarantees at September 30, 2003. The Company adopted FIN 45 effective January 1, 2003.

FASB INTERPRETATION 46. On January 15, 2003, the FASB approved the issuance of Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"), an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Under FIN 46, consolidation requirements are effective immediately for new Variable Interest Entities ("VIEs") created after January 31, 2003. The consolidation requirements apply to previously existing VIEs for financial periods ending after December 15, 2003. VIEs are generally a legal structure used for business enterprises that either do not

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have equity investors with voting rights, or have equity investors that do not provide sufficient financial resources for the entity to support its activities. The objective of the new guidance is to improve reporting by addressing when a company should include in its financial statements the assets, liabilities and activities of other entities such as VIEs. FIN 46 requires VIEs to be consolidated by a company if the company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about VIEs that the company is not required to consolidate but in which it has a significant variable interest. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the VIEs were established. These disclosure requirements are as follows: (a) the nature, purpose, size, and activities of the VIE; and, (b) the enterprise's maximum exposure to loss as a result of its involvement with the VIEs. FIN 46 may be

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

applied prospectively with a cumulative effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative effect adjustment as of the beginning of the first year restated. The Company is assessing the impact of this Interpretation, if any, on its existing entities and does not believe the impact will be significant on its liquidity, financial position, and results of operations. The Company did not create any VIEs subsequent to January 31, 2003.

SIGNIFICANT ACCOUNTING POLICIES

ACQUISITION OF OPERATING PROPERTIES. The Company allocates the purchase price of acquired properties to tangible and identified intangible assets acquired based on their fair values in accordance with SFAS No. 141, "Business Combinations."

In making estimates of fair value for purposes of allocating purchase price, management utilizes sources, including, but not limited to, independent value consulting services, independent appraisals that may be obtained in connection with financing the respective property, and other market data. Management also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

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

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

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expenses), in-place lease values and customer relationship values.

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

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

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

EARNINGS PER SHARE. SFAS No. 128, "Earnings Per Share," ("EPS") specifies the computation, presentation and disclosure requirements for earnings per share.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount. The Company presents both basic and diluted earnings per share.

The following tables present reconciliations for the three and nine months ended September 30, 2003 and 2002 of basic and diluted earnings per share from "Income before discontinued operations and cumulative effect of a change in accounting principle" to "Net (loss) income available to common shareholders." The table also includes weighted average shares on a basic and diluted basis.

FOR THE THREE MONTHS ENDED SEPTEMBER 30,

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	2003			2002	
	Income (Loss)	Wtd. Avg. Shares	Per Share Amount	Income (Loss)	Wtd. Avg. Shares
(in thousands, except per share amounts)					

BASIC EPS -					
Income before discontinued operations	\$ 7,171	99,172		\$24,790	103,76
Series A Preferred Share distributions	(4,556)			(4,556)	
Series B Preferred Share distributions	(2,019)			(2,019)	

Net income available to common shareholders before discontinued operations	\$ 596	99,172	\$ 0.01	\$18,215	103,76
Net (loss) income from discontinued operations, net of minority interests	(1,884)		(0.02)	1,511	
(Loss) gain on real estate from discontinued operations, net of minority interests	(2,017)		(0.02)	1,448	

Net (loss) income available to common shareholders	\$ (3,305)	99,172	\$ (0.03)	\$21,174	103,76
=====					

FOR THE THREE MONTHS ENDED SEPTEMBER 30,

	2003			2002	
	Income (Loss)	Wtd. Avg. Shares	Per Share Amount	Income (Loss)	Wtd. Avg. Shares
(in thousands, except per share amounts)					

DILUTED EPS -					
Income before discontinued operations	\$ 7,171	99,172		\$24,790	103,76
Series A Preferred Share distributions	(4,556)			(4,556)	
Series B Preferred Share distributions	(2,019)			(2,019)	

Effect of dilutive securities:					
Additional common shares relating to share and unit options		10			12
Net income available to common shareholders before discontinued operations	\$ 596	99,182	\$ 0.01	\$18,215	103,88
Net (loss) income from discontinued operations, net of minority interests	(1,884)		(0.02)	1,511	
(Loss) gain on real estate from discontinued operations, net of minority interests	(2,017)		(0.02)	1,448	

Net (loss) income available to common shareholders	\$ (3,305)	99,182	\$ (0.03)	\$21,174	103,88
=====					

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)	FOR THE NINE MONTHS ENDED SEPTEMBER 30				
	2003			2002	
	Income (Loss)	Wtd. Avg. Shares	Per Share Amount	Income (Loss)	Wtd. Avg. Shares
BASIC EPS -					
Income before discontinued operations and cumulative effect of a change in accounting principle	\$ 6,569	99,186		\$ 53,245	104,52
Series A Preferred Share distributions	(13,668)			(12,146)	
Series B Preferred Share distributions	(6,057)			(3,028)	
Net (loss) income available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	\$ (13,156)	99,186	\$ (0.13)	\$ 38,071	104,52
Net income from discontinued operations, net of minority interests	1,080		0.01	4,542	
(Loss) gain on real estate from discontinued operations, net of minority interests	(16,612)		(0.17)	5,046	
Cumulative effect of a change in accounting principle	-		-	(9,172)	
Net (loss) income available to common shareholders	\$ (28,688)	99,186	\$ (0.29)	\$ 38,487	104,52

(in thousands, except per share amounts)	FOR THE NINE MONTHS ENDED SEPTEMBER 30				
	2003			2002	
	Income (Loss)	Wtd. Avg. Shares	Per Share Amount	Income (Loss)	Wtd. Avg. Shares
DILUTED EPS -					
Income before discontinued operations and cumulative effect of a change in accounting principle	\$ 6,569	99,186		\$ 53,245	104,52
Series A Preferred Share distributions	(13,668)			(12,146)	
Series B Preferred Share distributions	(6,057)			(3,028)	
Effect of dilutive securities:					
Additional common shares relating to share and unit options			-		51
Net (loss) income available to common shareholders before discontinued					

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operations and cumulative effect of a change in accounting principle	\$ (13,156)	99,186	\$ (0.13)	\$ 38,071	105,04
Net income from discontinued operations, net of minority interests	1,080		0.01	4,542	
(Loss) gain on real estate from discontinued operations, net of minority interests	(16,612)		(0.17)	5,046	
Cumulative effect of a change in accounting principle	-		-	(9,172)	
Net (loss) income available to common shareholders	\$ (28,688)	99,186	\$ (0.29)	\$ 38,487	105,04

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

This table presents supplemental cash flows disclosures for the nine months ended September 30, 2003 and 2002.

SUPPLEMENTAL DISCLOSURE TO STATEMENTS OF CASH FLOWS

	FOR THE NINE MONTHS SEPTEMBER 30	
	2003	2002
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: (in thousands)		
Interest paid on debt	\$ 110,670	\$
Interest capitalized - Office Properties	-	
Interest capitalized - Residential Development Properties	13,896	
Additional interest paid in conjunction with cash flow hedges	15,472	
Total interest paid	\$ 140,038	\$
Cash paid for income taxes	\$ 1,954	\$

SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES:

Conversion of Operating Partnership units to common shares with resulting reduction in minority interest and increases in common shares and additional paid-in capital	\$ 8	\$
Unrealized gain (loss) on marketable securities	3,761	
Impairment charges related to real estate assets	20,374	
Assumption of debt in conjunction with acquisition of an Office Property	38,000	
Unrealized net gain on cash flow hedges	5,999	
Non-cash compensation	147	
Financed sale of land parcel	11,800	

SUPPLEMENTAL SCHEDULE OF 2003 CONSOLIDATION OF DBL, MVDC AND HADC AND THE 2002 TRANSFER OF ASSETS AND ASSUMPTION OF LIABILITIES PURSUANT TO THE

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Net investment in real estate	\$ (9,692)	\$ (
Restricted cash and cash equivalents	-	
Accounts receivable, net	(3,057)	
Investments in unconsolidated companies	13,552	
Notes receivable, net	(25)	
Income tax asset - current and deferred, net	(3,564)	
Other assets, net	(820)	
Notes payable	312	
Accounts payable, accrued expenses and other liabilities	12,696	
Minority interest - consolidated real estate partnerships	1,972	
	-----	-----
Increase in cash	\$ 11,374	\$
	=====	=====

3. SEGMENT REPORTING

For purposes of segment reporting as defined in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company currently has four major investment segments based on property type: the Office Segment; the Resort/Hotel Segment; the Residential Development Segment; and the Temperature-Controlled Logistics Segment. Management utilizes this segment structure for making operating decisions and assessing performance.

The Company uses funds from operations ("FFO") as the measure of segment profit or loss. FFO, as used in this document, is based on the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") and means:

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

The Company calculates FFO available to common shareholders in the same manner, except that Net Income (Loss) is replaced by Net Income (Loss) Available to Common Shareholders.

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NAREIT developed FFO as a relative measure of performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. The Company considers FFO available to common shareholders an appropriate measure of performance for an equity REIT and FFO an appropriate measure of performance for its investment segments. However, FFO available to common shareholders and FFO should not be

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considered as alternatives to net income determined in accordance with GAAP as an indication of the Company's operating performance.

The Company's measures of FFO available to common shareholders and FFO may not be comparable to similarly titled measures of other REITs if those REITs apply the definition of FFO in a different manner than the Company.

Selected financial information related to each segment for the three and nine months ended September 30, 2003 and 2002, and total assets, consolidated property level financing, consolidated other liabilities, and minority interests for each of the segments at September 30, 2003 and December 31, 2002, are presented below:

SELECTED FINANCIAL INFORMATION	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003				
(in thousands)	OFFICE SEGMENT	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT	TEMPERATURE-CONTROLLED LOGISTICS SEGMENT	CORPORATE AND OTHER
Property revenue	\$127,044 (1)	\$ 54,769	\$ 29,808	\$ -	\$ -
Property expense	(59,499)	(44,926)	(29,723)	-	-
Income from property operations	\$ 67,545	\$ 9,843	\$ 85	\$ -	\$ -
Other income	\$ -	\$ -	\$ -	\$ -	\$ 12
Other expense	-	-	-	-	(91)
Total other income (expense)	\$ -	\$ -	\$ -	\$ -	\$ (78)
Equity in net income (loss) of unconsolidated companies	\$ 5,475	\$ (89)	\$ 1,725	\$ (949)	\$ -
Funds from operations before impairment charges related to real estate assets	\$ 73,855	\$ 11,471	\$ 2,773	\$ 4,198	\$ (48)
Impairment charges related to real estate assets	\$ -	\$ -	\$ -	\$ -	\$ (2)
Funds from operations after impairment charges related to real estate assets	\$ 73,855	\$ 11,471	\$ 2,773	\$ 4,198	\$ (51)

SELECTED FINANCIAL INFORMATION	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002				
(in thousands)	OFFICE SEGMENT	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT	TEMPERATURE-CONTROLLED LOGISTICS SEGMENT	CORPORATE AND OTHER

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(in thousands)	OFFICE SEGMENT	RESORT/HOTEL SEGMENT	DEVELOPMENT SEGMENT	LOGISTICS SEGMENT	AN OTH
Property revenue	\$140,840 (1)	\$ 56,110	\$ 41,832	\$ -	\$
Property expense	(59,853)	(44,599)	(39,306)	-	
Income from property operations	\$ 80,987	\$ 11,511	\$ 2,526	\$ -	\$
Other income	\$ -	\$ -	\$ -	\$ -	\$ 24
Other expense	-	-	-	-	(94)
Total other income (expense)	\$ -	\$ -	\$ -	\$ -	\$ (69)
Equity in net income (loss) of unconsolidated companies	\$ 874	\$ (91)	\$ 4,272	\$ (3,101)	\$
Funds from operations before and after impairment charges related to real estate assets	\$ 88,045	\$ 13,593	\$ 4,319	\$ 3,675	\$ (59)

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL INFORMATION	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003				
	OFFICE SEGMENT	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT	TEMPERATURE- CONTROLLED LOGISTICS SEGMENT	
(in thousands)					
Property revenue	\$ 375,996 (1)	\$ 170,122	\$ 119,380	\$ -	\$
Property expense	(179,779)	(137,325)	(110,483)	-	
Income from property operations	\$ 196,217	\$ 32,797	\$ 8,897	\$ -	\$
Other income	\$ -	\$ -	\$ -	\$ -	\$
Other expense	-	-	-	-	-
Total other income (expense)	\$ -	\$ -	\$ -	\$ -	\$
Equity in net income (loss) of unconsolidated companies	\$ 8,797	\$ 2,036	\$ 4,235	\$ 152	\$

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Funds from operations before impairment charges related to real estate assets	\$ 216,126	\$ 39,458	\$ 13,766	\$ 16,294	\$
Impairment charges related to real estate assets	\$ -	\$ -	\$ -	\$ -	\$
Funds from operations after impairment charges related to real estate assets	\$ 216,126	\$ 39,458	\$ 13,766	\$ 16,294	\$

SELECTED FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 20

(in thousands)	OFFICE SEGMENT	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT	TEMPERATURE-CONTROLLED LOGISTICS SEGMENT	
Property revenue	\$ 411,067 (1)	\$ 148,157	\$ 168,372	\$ -	\$
Property expense	(181,303)	(110,701)	(152,983)	-	
Income from property operations	\$ 229,764	\$ 37,456	\$ 15,389	\$ -	\$
Other income	\$ -	\$ -	\$ -	\$ -	\$
Other expense	-	-	-	-	
Total other income (expense)	\$ -	\$ -	\$ -	\$ -	\$
Equity in net income (loss) of unconsolidated companies	\$ 3,655	\$ (91)	\$ 22,934	\$ (3,828)	\$
Funds from operations before impairment charges related to real estate assets	\$ 249,119	\$ 47,140	\$ 32,354	\$ 14,450	\$
Impairment charges related to real estate assets	\$ -	\$ -	\$ -	\$ -	\$
Funds from operations after impairment charges related to real estate assets	\$ 249,119	\$ 47,140	\$ 32,354	\$ 14,450	\$

See footnotes to the following table.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions)	OFFICE SEGMENT	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT	TEMPERATURE CONTROLLED LOGISTICS SEGMENT
TOTAL ASSETS BY SEGMENT: (3)				
Balance at September 30, 2003	\$ 2,583	\$ 492	\$ 801	\$ 302
Balance at December 31, 2002	2,624	492	729	305
CONSOLIDATED PROPERTY LEVEL FINANCING:				
Balance at September 30, 2003	\$ (1,402)	\$ (132)	\$ (95)	\$ -
Balance at December 31, 2002	(1,371)	(130)	(93)	-
CONSOLIDATED OTHER LIABILITIES:				
Balance at September 30, 2003	\$ (107)	\$ (40)	\$ (138)	\$ -
Balance at December 31, 2002	(135)	(44)	(125)	-
MINORITY INTERESTS:				
Balance at September 30, 2003	\$ (8)	\$ (7)	\$ (23)	\$ -
Balance at December 31, 2002	(11)	(8)	(25)	-

- (1) Includes lease termination fees (net of the write-off of deferred rent receivables) of approximately \$5.3 million and \$3.0 million for the three months ended September 30, 2003 and 2002, respectively and \$8.3 million and \$4.8 million for the nine months ended September 30, 2003 and 2002, respectively.
- (2) For purposes of this Note, Corporate and Other includes income from investment land sales, net, gain on joint venture of properties, net, interest and other income, corporate general and administrative, interest expense, depreciation and amortization, amortization of deferred financing costs, preferred return paid to GMAC Commercial Mortgage Corporation ("GMACCM") for 2002, preferred distributions, impairment charges and other expenses.
- (3) Total assets by segment is inclusive of investments in unconsolidated companies, net of unconsolidated debt.
- (4) Inclusive of Corporate bonds and credit facility.
- (5) Total funds from operations represents funds from operations available to common shareholders. The following table presents a reconciliation of Consolidated Funds from Operations Available to Common Shareholders to Net Income (Loss).

RECONCILIATION OF CONSOLIDATED FUNDS FROM OPERATIONS AVAILABLE TO COMMON SHAREHOLDERS

(in thousands)	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002

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Consolidated Funds From Operations				
Available to Common Shareholders After				
Impairment Charges Related to Real				
Estate Assets	\$ 41,107	\$ 50,012	\$ 100,947	\$ 165,000
Impairment charges related to real				
estate assets	2,356	-	20,374	2,000
	-----	-----	-----	-----
Consolidated Funds from Operations				
Available to Common Shareholders Before				
Impairment Charges Related to Real				
Estate Assets	43,463	50,012	121,321	167,000
	-----	-----	-----	-----
Adjustments to reconcile Consolidated				
Funds from Operations Available to Common				
Shareholders Before Impairment Charges				
Related to Real Estate Assets to Net				
Income (Loss):				
Depreciation and amortization of				
real estate assets	(39,617)	(36,419)	(109,017)	(102,000)
(Loss) gain on property sales, net	(14)	19,646	(719)	25,000
Impairment charges related to real				
estate assets	(2,356)	-	(20,374)	(2,000)
Cumulative effect of a change in				
accounting principle	-	-	-	(9,000)
Adjustment for investments in				
unconsolidated companies:				
Office Properties	1,613	(1,946)	(3,805)	(5,000)
Resort/Hotel Properties	(394)	(370)	(1,143)	(1,000)
Residential Development				
Properties	(8)	615	(235)	(2,000)
Temperature-Controlled				
Logistics Properties	(5,147)	(6,777)	(16,143)	(18,000)
Other	(260)	(96)	(178)	(5,000)
Unitholder minority interest	(585)	(3,491)	1,605	(8,000)
Series A Preferred share				
distributions	4,556	4,556	13,668	12,000
Series B Preferred share				
distributions	2,019	2,019	6,057	3,000
	-----	-----	-----	-----
Net Income (Loss)	\$ 3,270	\$ 27,749	\$ (8,963)	\$ 53,000
	=====	=====	=====	=====

CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ASSET ACQUISITIONS

OFFICE PROPERTIES

On August 26, 2003, the Company acquired The Colonnade, an 11-story, 216,000 square foot Class A office tower, located in the Coral Gables submarket of Miami, Florida. The Company acquired the Office Property for approximately \$51.4 million, funded by the Company's assumption of a \$38 million loan from Bank of America and a draw on the Company's credit facility. The Office Property is wholly-owned and included in the Company's Office Segment.

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JOINT VENTURES

On October 8, 2003, the Company entered into a joint venture, Crescent One Briar Lake L.P., with affiliates of J.P. Morgan Fleming Asset Management, Inc. The joint venture purchased One Briar Lake Plaza, located in the Westchase submarket of Houston, Texas, for approximately \$74.4 million. The Property is a 20 story, 502,000 square foot Class A office building. The affiliates of J.P. Morgan Fleming Asset Management, Inc. own a 70% interest, and the Company owns a 30% interest, in the joint venture. The initial cash equity contribution to the joint venture was \$24.4 million, of which the Company's portion was \$7.3 million. The Company's equity contribution and an additional working capital contribution of \$0.5 million were funded primarily through a draw under the Company's credit facility. The remainder of the purchase price of the Property was funded by a secured loan to the joint venture in the amount of \$50.0 million. None of the mortgage financing at the joint venture level is guaranteed by the Company. The Company manages and leases the Office Property on a fee basis. The Office Property is an unconsolidated investment and will be included in the Company's Office Segment.

RESIDENTIAL DEVELOPMENT PROPERTIES

On August 14, 2003, CRDI, a consolidated subsidiary of the Company, completed the purchase of a tract of undeveloped land in Eagle County, Colorado for approximately \$15.5 million, funded by a draw on the Company's credit facility.

5. DISCONTINUED OPERATIONS

In August 2001, the FASB issued SFAS No. 144, which requires that the results of operations of assets sold or held for sale, and any gains or losses recognized on assets sold and held for sale, be disclosed separately in the Company's Consolidated Statements of Operations. The Company adopted SFAS No. 144 on January 1, 2002. In accordance with SFAS No. 144, the results of operations of the assets sold or held for sale have been presented as "Net (loss) income from discontinued operations, net of minority interests," and gain or loss and impairments in the assets sold or held for sale have been presented as "(Loss) gain on real estate from discontinued operations, net of minority interests" in the accompanying Consolidated Statements of Operations for the three and nine months ended September 30, 2003 and 2002. The impairment charges represent the difference between the carrying value of assets sold or held for sale and the actual or estimated sales price, less costs of sale. The carrying value of the assets held for sale has been reflected as "Properties held for disposition, net" in the accompanying Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002.

ASSETS HELD FOR SALE

OFFICE SEGMENT

As of September 30, 2003, the 1800 West Loop South Office Property located in the West Loop/Galleria submarket in Houston, Texas was held for sale. During the first quarter of 2003, the Company recognized an approximately \$12.7 million impairment charge, net of minority interests, on the 1800 West Loop South Office Property.

In addition, as of September 30, 2003, the Las Colinas Plaza retail property, located in the Las Colinas submarket in Dallas, Texas, the Liberty Plaza Office Property located in the Far North Dallas submarket in Dallas, Texas, the 12404 Park Central Office Property located in the LBJ Freeway submarket in Dallas, Texas and the four Woodlands Office Properties located in The Woodlands submarket in Houston, Texas were held for sale.

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BEHAVIORAL HEALTHCARE PROPERTIES

On February 27, 2003, the Company sold a behavioral healthcare property for \$2.0 million, consisting of \$1.3 million in cash and a \$0.7 million note receivable. The Company recognized a loss on the sale of this property of

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

approximately \$0.3 million. A \$2.3 million impairment charge, net of minority interest, had been recognized during 2002 related to this property.

On May 2, 2003, the Company sold a behavioral healthcare property for \$2.1 million. The Company recognized a loss on the sale of this property of approximately \$0.1 million. A \$0.7 million impairment charge, net of minority interest, was recognized during the first quarter of 2003 related to this property.

On July 10, 2003, the Company sold a behavioral healthcare property for \$2.3 million and recognized a minimal gain on the sale. A \$0.8 million impairment charge, net of minority interest, was recognized during the second quarter of 2003 related to this property.

As of September 30, 2003, the Company owned four behavioral healthcare properties. Impairment charges of approximately \$2.0 million, net of minority interests, were recognized during the third quarter related to three of these four remaining properties. Two of these properties were sold on October 15, 2003.

SUMMARY OF ASSETS HELD FOR SALE

The following table indicates the major classes of assets of the Properties held for sale.

(in thousands)	SEPTEMBER 30, 2003(1)	DECEMBER 31, 2002
Land	\$ 18,507	\$ 24,151
Buildings and improvements	101,007	119,881
Furniture, fixture and equipment	548	1,713
Accumulated depreciation	(32,361)	(29,409)
Net investment in real estate	\$ 87,701	\$ 116,336

(1) Includes seven office properties, one retail property and four behavioral healthcare properties.

The following tables present rental revenues, operating and other expenses, depreciation and amortization, minority interests, net income, and impairments for the nine months ended September 30, 2003 and 2002, for properties included in discontinued operations as of September 30, 2003.

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(in thousands)	FOR THE NINE MONTHS EN SEPTEMBER 30,	
	2003	2002
Total revenues	14,486	31,111
Operating and other expenses	(6,811)	(19,111)
Depreciation and amortization	(6,402)	(6,402)
Unitholder minority interests	(193)	(193)
Net income from discontinued operations, net of minority interests	1,080	4,903

(in thousands)	FOR THE NINE MONTHS EN SEPTEMBER 30,	
	2003	2002
Loss on impairment of real estate	(19,174)	(1,174)
Realized (loss) gain on sale of properties	(411)	7,411
Unitholder minority interests	2,973	(2,973)
(Loss) gain on real estate from discontinued operations, net of minority interests	(16,612)	5,264

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER ASSET DISPOSITIONS

INVESTMENT LAND DISPOSITIONS

On April 24, 2003, the Company completed the sale of approximately one-half acre of undeveloped land located in Dallas, Texas. The sale generated net proceeds and a net gain of approximately \$0.3 million. This land was wholly-owned by the Company.

On May 15, 2003, the Company completed the sale of approximately 24.8 acres of undeveloped land located in Coppell, Texas. The sale generated net proceeds of \$3.0 million and a net gain of approximately \$1.1 million. This land was wholly-owned by the Company.

On June 27, 2003, the Company sold approximately 3.5 acres of undeveloped land located in Houston, Texas. The sale generated proceeds of \$2.1 million, net of closing costs, and a note receivable in the amount of \$11.8 million, with annual installments of principal and interest payments beginning June 27, 2004, through maturity on June 27, 2010. The principal payment amounts are calculated based upon a 20-year amortization and the interest rate is 4% for the first two years and thereafter the prime rate, as defined in the note, through maturity. Due to a modification of the sales agreement after June 30, 2003, the Company recognized a net gain on the sale of this land of approximately \$8.9 million in the third quarter of 2003. This land was

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wholly-owned by the Company.

On September 30, 2003, the Company completed the sale of approximately 3.1 acres of undeveloped land located in the Greenway Plaza office complex of Houston, Texas. The sale generated net proceeds of approximately \$5.3 million and a net gain of approximately \$2.4 million. This land was wholly-owned by the Company.

7. TEMPERATURE-CONTROLLED LOGISTICS SEGMENT

TEMPERATURE-CONTROLLED LOGISTICS PROPERTIES

As of September 30, 2003, the Company held a 40% interest in the Temperature-Controlled Logistics Partnership, which owns the Temperature-Controlled Logistics Corporation, which directly or indirectly owns the 87 Temperature-Controlled Logistics Properties, with an aggregate of approximately 440.7 million cubic feet (17.5 million square feet) of warehouse space.

The Temperature-Controlled Logistics Corporation leases the Temperature-Controlled Logistics Properties to AmeriCold Logistics, a limited liability company owned 60% by Vornado Operating L.P. and 40% by a subsidiary of Crescent Operating, Inc. ("COPI"). The Company has no economic interest in AmeriCold Logistics. See Note 16, "COPI," for information on the proposed acquisition of COPI's 40% interest in AmeriCold Logistics by a new entity to be owned by the Company's shareholders.

AmeriCold Logistics, as sole lessee of the Temperature-Controlled Logistics Properties, leases the Temperature-Controlled Logistics Properties from the Temperature-Controlled Logistics Corporation under three triple-net master leases, as amended. On February 22, 2001, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics agreed to restructure certain financial terms of the leases, including a reduction of the rental obligation for 2001 and 2002, the increase of the Temperature-Controlled Logistics Corporation's share of capital expenditures for the maintenance of the properties (effective January 1, 2000) and the extension of the date on which deferred rent is required to be paid to December 31, 2003. On March 7, 2003, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics amended the leases to further extend the date on which deferred rent is required to be paid to December 31, 2004.

AmeriCold Logistics deferred \$32.5 million of the total \$115.1 million of rent payable for the nine months ended September 30, 2003. The Company's share of the deferred rent was \$13.0 million. The Company recognizes rental income from the Temperature-Controlled Logistics Properties when earned and collected and has not recognized the \$13.0 million of deferred rent in equity in net income of the Temperature-Controlled Logistics Properties for the nine months ended September 30, 2003. As of September 30, 2003, the Temperature-Controlled Logistics Corporation's deferred rent and valuation allowance from AmeriCold Logistics were \$73.1 million and \$66.8 million, respectively, of which the Company's portions were \$29.2 million and \$26.7 million, respectively.

The Company and Vornado Realty Trust, L.P. have engaged underwriters to explore additional debt financing alternatives for the Temperature-Controlled Logistics Corporation. It is anticipated that this financing will be a non-recourse,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

secured term loan in an amount in excess of \$200 million. If this financing is obtained, the expected use of proceeds will allow the Company to make a reduction in its investment in this business and will provide the business with additional financing for expansion.

VORNADO CRESCENT CARTHAGE AND KC QUARRY, L.L.C.

As of September 30, 2003, the Company held a 56% interest in Vornado Crescent Carthage and KC Quarry, L.L.C. ("VCQ"). The assets of VCQ include two quarries and the related land. The Company accounts for this investment as an unconsolidated equity investment.

On December 31, 2002, VCQ purchased \$5.7 million of trade receivables from AmeriCold Logistics at a 2% discount. The Company contributed approximately \$3.1 million to VCQ for the purchase of the trade receivables. The receivables were collected during the three months ended March 31, 2003.

On March 28, 2003, VCQ purchased \$6.6 million of trade receivables from AmeriCold Logistics at a 2% discount. VCQ used cash from collection of trade receivables previously purchased from AmeriCold Logistics and a \$2.0 million contribution from its owners, of which approximately \$0.8 million represented the Company's contribution, for the purchase of the trade receivables. The receivables were collected during the second quarter of 2003.

On May 22, 2003, VCQ distributed cash of \$3.2 million to the Company.

8. INVESTMENTS IN UNCONSOLIDATED COMPANIES

The Company has investments of 20% to 50% in seven unconsolidated joint ventures that own seven Office Properties. These investments are accounted for using the equity method of accounting.

The Company, through ownership interests of 50% or less, or ownership of non-voting interests only, has other unconsolidated investments. These investments are accounted for using the equity method of accounting.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the Company's ownership in significant unconsolidated joint ventures and investments as of September 30, 2003.

ENTITY	CLASSIFICATION
Main Street Partners, L.P.	Office (Bank One Center-Dallas)
Crescent Miami Center, L.L.C.	Office (Miami Center - Miami)
Crescent 5 Houston Center, L.P.	Office (5 Houston Center-Houston)
Austin PT BK One Tower Office Limited Partnership	Office (Bank One Tower-Austin)
Houston PT Four Westlake Park Office Limited Partnership	Office (Four Westlake Park-Houston)

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Houston PT Three Westlake Park Office Limited Partnership	Office (Three Westlake Park - Houston)
Crescent Five Post Oak Park L.P.	Office (Five Post Oak - Houston)
The Woodlands Commercial Properties Company, L.P.	Office
The Woodlands Land Development Company, L.P.	Residential Development
Blue River Land Company, L.L.C.	Residential Development
EW Deer Valley, L.L.C.	Residential Development
Manalapan Hotel Partners, L.L.C.	Resort/Hotel (Ritz Carlton Palm Beach)
Vornado Crescent Portland Partnership	Temperature-Controlled Logistics
Vornado Crescent Carthage and KC Quarry, L.L.C.	Temperature-Controlled Logistics
CR License, L.L.C.	Other
The Woodlands Operating Company, L.P.	Other
Canyon Ranch Las Vegas, L.L.C.	Other
SunTx Fulcrum Fund, L.P.	Other
G2 Opportunity Fund, L.P.	Other

- (1) The remaining 50% interest in Main Street Partners, L.P. is owned by Trizec Properties, Inc.
- (2) The remaining 60% interest in Crescent Miami Center, L.L.C. is owned by an affiliate of a fund managed by JP Morgan Fleming Asset Management, Inc.
- (3) The remaining 75% interest in Crescent 5 Houston Center, L.P. is owned by a pension fund advised by JP Morgan Fleming Asset Management, Inc.
- (4) The remaining 80% interest in each of Austin PT BK One Tower Office Limited Partnership, Houston PT Three Westlake Park Office Limited Partnership and Houston PT Four Westlake Park Office Limited Partnership is owned by an affiliate of General Electric Pension Trust.
- (5) The remaining 70% interest in Crescent Five Post Oak Park L.P. is owned by an affiliate of General Electric Pension Trust.
- (6) The remaining 57.5% interest in each of the Woodlands Land Development Company, L.P. ("WLDC"), The Woodlands Commercial Properties Company, L.P. ("Woodlands CPC") and The Woodlands Operating Company, L.P. is owned by an affiliate of Morgan Stanley.
- (7) Distributions are made to partners based on specified payout percentages. During the nine months ended September 30, 2003, the payout percentage to the Company was 52.5%.
- (8) The remaining 50% interest in Blue River Land Company, L.L.C. is owned by parties unrelated to the Company.

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- (9) The remaining 58.3% interest in EW Deer Valley, L.L.C. is owned by parties unrelated to the Company.
- (10) The remaining 50% interest in Manalapan Hotel Partners, L.L.C. ("Manalapan") is owned by WB Palm Beach Investors, L.L.C. In October 2003, Manalapan entered into a contract to sell the Ritz Carlton Palm Beach Resort/Hotel Property. The sale is anticipated to close November 2003. The Company's equity interest in Manalapan is 50%.
- (11) The remaining 60% interest in Vornado Crescent Portland Partnership is owned by Vornado Realty Trust, L.P.
- (12) The remaining 44% in Vornado Crescent Carthage and KC Quarry, L.L.C. is owned by Vornado Realty Trust, L.P.
- (13) The remaining 70% interest in CR License, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties.
- (14) The remaining 35% interest in Canyon Ranch Las Vegas, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties.
- (15) The SunTx Fulcrum Fund, L.P.'s ("SunTx") objective is to invest in a portfolio of acquisitions that offer the potential for substantial capital appreciation. The remaining 71.9% of SunTx is owned by a group of individuals unrelated to the Company. The Company's ownership percentage will decline by the closing date of SunTx as capital commitments from third parties are secured. The Company's projected ownership interest at the closing of SunTx is approximately 7.5% based on SunTx's manager's expectations for the final SunTx capitalization. The Company accounts for its investment in SunTx under the cost method. The Company's investment at September 30, 2003 was \$6.9 million.
- (16) G2 Opportunity Fund, L.P. ("G2") was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments. Goff-Moore Strategic Partners, L.P. ("GMSP") and GMACCM each own 21.875% of G2, with the remaining 43.75% owned by parties unrelated to the Company. See Note 15, "Related Party Transactions," for information regarding the ownership interests of trust managers and officers of the Company in GMSP.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY FINANCIAL INFORMATION

The Company reports its share of income and losses based on its ownership interest in its respective equity investments, adjusted for any preference payments. As a result of the Company's transaction with COPI on February 14, 2002, certain entities that were reported as unconsolidated entities in 2002 prior to February 14, 2002 are consolidated in the September 30, 2003 financial statements. Additionally, certain unconsolidated subsidiaries of the newly consolidated entities are now shown separately as unconsolidated entities of the Company. As a result of the Company's January 2, 2003 purchase of the remaining 2.56% economic interest, representing 100% of the voting stock, in DBL Holdings, Inc. ("DBL"), DBL is consolidated in the September 30, 2003 financial statements. Because DBL owns a majority of the voting stock of MVDC and HADC, these two Residential Development Corporations are consolidated in the

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September 30, 2003 financial statements.

The unconsolidated entities that are included under the headings on the following tables are summarized below.

Balance Sheets as of September 30, 2003:

- WLDC;
- Other Residential Development - This includes the Blue River Land Company, L.L.C. and EW Deer Valley, L.L.C.;
- Resort/Hotel - This includes Manalapan;
- Temperature-Controlled Logistics - This includes the Temperature-Controlled Logistics Partnership and VCQ;
- Office - This includes Main Street Partners, L.P., Houston PT Three Westlake Park Office Limited Partnership, Houston PT Four Westlake Park Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent 5 Houston Center, L.P., Crescent Miami Center, L.L.C., Crescent Five Post Oak Park L.P. and Woodlands CPC; and
- Other - This includes CR License, L.L.C., The Woodlands Operating Company, L.P., Canyon Ranch Las Vegas, L.L.C., SunTx and G2.

Balance Sheets as of December 31, 2002:

- WLDC;
- Other Residential Development - This includes the Blue River Land Company, L.L.C., MVDC and HADC;
- Resort/Hotel - This includes Manalapan;
- Temperature-Controlled Logistics - This includes the Temperature-Controlled Logistics Partnership and VCQ;
- Office - This includes Main Street Partners, L.P., Houston PT Three Westlake Park Office Limited Partnership, Houston PT Four Westlake Park Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent 5 Houston Center, L.P., Crescent Miami Center, L.L.C., Crescent Five Post Oak Park L.P. and Woodlands CPC; and
- Other - This includes DBL, CR License, L.L.C., The Woodlands Operating Company, L.P., Canyon Ranch Las Vegas, L.L.C. and SunTx.

Summary Statements of Operations for the nine months ended September 30, 2003:

- WLDC;
- Other Residential Development - This includes the operating results for Blue River Land Company, L.L.C. and EW Deer Valley, L.L.C.;
- Resort/Hotel - This includes the operating results for Manalapan;

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- Temperature-Controlled Logistics - This includes the operating results for the Temperature-Controlled Logistics Partnership and VCQ;
- Office - This includes the operating results for Main Street Partners, L.P., Houston PT Three Westlake Park Office Limited Partnership, Houston PT Four Westlake Park Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent 5 Houston Center, L.P., Crescent Miami Center L.L.C., Crescent Five Post Oak Park L.P. and Woodlands CPC; and
- Other - This includes the operating results for CR License, L.L.C., The Woodlands Operating Company, L.P. and Canyon Ranch Las Vegas, L.L.C. and G2.

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary Statements of Operations for the nine months ended September 30, 2002:

- WLDC - This includes WLDC's operating results for the period February 15 through September 30, 2002 and TWLC's operating results for the period January 1 through February 14, 2002;
- Other Residential Development - This includes the operating results for DMDC and CRDI for the period January 1 through February 14, 2002, the operating results of Blue River Land Company, L.L.C. and Manalapan for the period February 15 through September 30, 2002, and the operating results of MVDC and HADC;
- Temperature-Controlled Logistics - This includes the operating results for the Temperature-Controlled Logistics Partnership and VCQ;
- Office - This includes the operating results for Main Street Partners, L.P., Houston PT Three Westlake Park Office Limited Partnership for the period August 21 through September 30, 2002, Houston PT Four Westlake Park Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent 5 Houston Center, L.P., Woodlands CPC and Crescent Miami Center, L.L.C. for the period September 25 through September 30, 2002; and
- Other - This includes the operating results for DBL, CR License, L.L.C., The Woodlands Operating Company and Canyon Ranch Las Vegas, L.L.C.

AS OF SEPTEMBER 30, 2003

BALANCE SHEETS:

(in thousands)

THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P.	OTHER RESIDENTIAL DEVELOPMENT CORPORATIONS	RESORT/ HOTEL
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Real estate, net	\$	391,960	\$	58,177	\$	80,079	\$
Cash		12,685		1,837		4,636	
Other assets		51,395		1,147		3,978	
Total assets	\$	456,040	\$	61,161	\$	88,693	\$
Notes payable	\$	288,280	\$	7,650	\$	52,300	\$
Notes payable to the Company		11,538		-		-	
Other liabilities		61,538		4,966		5,376	
Equity		94,684		48,545		31,017	
Total liabilities and equity	\$	456,040	\$	61,161	\$	88,693	\$
Company's share of unconsolidated debt	\$	122,519	\$	3,825	\$	26,150	\$
Company's investments in unconsolidated companies	\$	38,309	\$	30,609	\$	15,508	\$

BALANCE SHEETS:

AS OF SEPTEMBER 30, 2003

(in thousands)	OFFICE	OTHER	TOTAL
Real estate, net	\$	808,111	
Cash		36,470	
Other assets		54,850	
Total assets	\$	899,431	
Notes payable	\$	523,778	
Notes payable to the Company		-	
Other liabilities		37,848	
Equity		337,805	
Total liabilities and equity	\$	899,431	
Company's share of unconsolidated debt	\$	182,317	\$
			-
			\$
			560,116
Company's investments in unconsolidated companies	\$	125,655	\$
			30,786
			\$
			543,259

AS OF DECEMBER 31, 2002

BALANCE SHEETS:

(in thousands)	THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P.	OTHER RESIDENTIAL DEVELOPMENT CORPORATIONS	RESORT/ HOTEL
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Real estate, net	\$	388,587	\$	68,235	\$	81,510	\$
Cash		15,289		7,112		3,022	
Other assets		46,934		3,303		4,415	
		-----		-----		-----	
Total assets	\$	450,810	\$	78,650	\$	88,947	\$
		=====		=====		=====	
Notes payable	\$	284,547	\$	-	\$	56,000	\$
Notes payable to the Company		10,625		-		-	
Other liabilities		70,053		19,125		5,996	
Equity		85,585		59,525		26,951	
		-----		-----		-----	
Total liabilities and equity	\$	450,810	\$	78,650	\$	88,947	\$
		=====		=====		=====	
Company's share of unconsolidated debt	\$	120,933	\$	-	\$	28,000	\$
		=====		=====		=====	
Company's investments in unconsolidated companies	\$	33,960	\$	39,187	\$	13,473	\$
		=====		=====		=====	

BALANCE SHEETS:

AS OF DECEMBER 31, 2002

(in thousands)		OFFICE	OTHER	TOTAL
		-----	-----	-----
Real estate, net	\$	845,019		
Cash		43,296		
Other assets		35,609		

Total assets	\$	923,924		
		=====		
Notes payable	\$	507,679		
Notes payable to the Company		-		
Other liabilities		53,312		
Equity		362,933		

Total liabilities and equity	\$	923,924		
		=====		
Company's share of unconsolidated debt	\$	180,132	\$	-
		=====		=====
Company's investments in unconsolidated companies	\$	133,530	\$	37,948
		=====		=====

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY STATEMENTS OF OPERATIONS:

FOR THE NINE MONTHS ENDED SEPTEMBER 30,

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(in thousands)	THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P.	OTHER RESIDENTIAL DEVELOPMENT CORPORATIONS	RESORT/ HOTEL	TEMPERATURE- CONTROLLED LOGISTICS	OF
Total revenues	\$ 82,644	\$ 397	\$ 31,495	\$ 90,722	\$ 1
Expenses:					
Operating expense	63,950	319	22,794	18,322	(1)
Interest expense	5,174	-	2,405	30,853	
Depreciation and amortization	5,235	-	2,205	43,963	
Tax expense	-	-	25	642	
Other (income) expense	-	-	-	(2,031)	
Total expenses	\$ 74,359	\$ 319	\$ 27,429	\$ 91,749	\$
Gain on sale of properties	-	-	-	1,452	
Net income	\$ 8,285	\$ 78	\$ 4,066	\$ 425	(1) \$
Company's equity in net income (loss) of unconsolidated companies	\$ 4,350	\$ (115)	\$ 2,036	\$ 152	\$

SUMMARY STATEMENTS OF OPERATIONS:

FOR THE NINE MONTHS ENDED SEPTEMBER 30,

(in thousands)	THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P.	OTHER RESIDENTIAL DEVELOPMENT CORPORATIONS	RESORT/ HOTEL	TEMPERATURE- CONTROLLED LOGISTICS	O
Total revenues	\$ 98,128	\$ 82,944	\$ 26,599	\$ 81,762	\$
Expenses:					
Operating expense	54,919	76,798	22,534	12,492	(1)
Interest expense	3,578	399	4,080	32,324	
Depreciation and amortization	2,591	1,268	2,667	44,140	
Tax expense	406	(78)	-	-	
Other (income) expense	-	-	-	2,377	
Total expenses	\$ 61,494	\$ 78,387	\$ 29,281	\$ 91,333	\$
Net income	\$ 36,634	\$ 4,557	\$ (2,682)	\$ (9,571)	(1) (2) \$
Company's equity in net income (loss) of unconsolidated companies	\$ 19,018	\$ 3,916	\$ (91)	\$ (3,828)	\$

(1) Inclusive of the preferred return paid to Vornado Realty Trust (1% per annum of the total combined assets).

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- (2) Excludes the goodwill write-off for the Temperature-Controlled Logistics Properties, which was recorded as a cumulative change in accounting principle in the accompanying financial statements.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNCONSOLIDATED DEBT ANALYSIS

The significant terms of the Company's share of unconsolidated debt financing arrangements existing as of September 30, 2003 are shown below.

DESCRIPTION	BALANCE OUTSTANDING AT SEPT. 30, 2003	COMPANY'S SHARE OF BALANCE AT SEPT. 30, 2003
TEMPERATURE CONTROLLED LOGISTICS SEGMENT:		
Vornado Crescent Portland Partnership - 40% Company		
Goldman Sachs Notes (1)	\$ 499,199	\$ 199,679
Various Capital Leases	36,641	14,657
Various Mortgage Notes	27,423	10,969
	\$ 563,263	\$ 225,305
OFFICE SEGMENT:		
Main Street Partners, L.P. - 50% Company (2) (3) (4) (5)		
	\$ 131,147	\$ 65,574
Crescent 5 Houston Center L.P. - 25% Company (6)		
	90,000	22,500
Crescent Miami Center, L.L.C. - 40% Company		
	81,000	32,400
Houston PT Four Westlake Park Office Limited Partnership - 20% Company		
	48,250	9,650
Crescent Five Post Oak Park, L.P. - 30% Company		
	45,000	13,500
Austin PT Bank One Tower Office Limited Partnership - 20% Company		
	37,527	7,505
Houston PT Three Westlake Park Office Limited Partnership - 20% Company		
	33,000	6,600
The Woodlands Commercial Properties Co. - 42.5% Company		
Fleet National Bank credit facility (7)	55,000	23,375
Fleet National Bank (3) (8)	2,854	1,213
	\$ 523,778	\$ 182,317
RESIDENTIAL DEVELOPMENT SEGMENT:		
The Woodlands Land Development Co. - 42.5% Company		
Fleet National Bank credit facility (7)	\$ 230,000	\$ 97,750
Fleet National Bank (9)	37,587	15,974
Fleet National Bank (3) (8)	5,854	2,488
Various Mortgage Notes	14,839	6,307
Blue River Land Company, L.L.C. - 50% Company (10)		
	7,650	3,825
	\$ 295,930	\$ 126,344

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RESORT/HOTEL SEGMENT:

Manalapan Hotel Partners, L.L.C. - 50% Company	52,300	26,150
Corus Bank (3) (11)	-----	-----

TOTAL UNCONSOLIDATED DEBT	\$1,435,271	\$ 560,116
	=====	=====

FIXED RATE/WEIGHTED AVERAGE
 VARIABLE RATE/WEIGHTED AVERAGE

TOTAL WEIGHTED AVERAGE

DESCRIPTION	MATURITY DATE
-----	-----

TEMPERATURE CONTROLLED LOGISTICS SEGMENT:

Vornado Crescent Portland Partnership - 40% Company	
Goldman Sachs Notes (1)	5/11/2023
Various Capital Leases	6/1/2006 to 4/1/2017
Various Mortgage Notes	12/1/2003 to 4/1/2009

OFFICE SEGMENT:

Main Street Partners, L.P. - 50% Company (2) (3) (4) (5)	12/1/2004
Crescent 5 Houston Center L.P. - 25% Company (6)	10/1/2008
Crescent Miami Center, L.L.C. - 40% Company	9/25/2007
Houston PT Four Westlake Park Office Limited Partnership - 20% Company	8/1/2006
Crescent Five Post Oak Park, L.P. - 30% Company	1/1/2008
Austin PT Bank One Tower Office Limited Partnership - 20% Company	8/1/2006
Houston PT Three Westlake Park Office Limited Partnership - 20% Company	9/1/2007

The Woodlands Commercial Properties Co. - 42.5% Company	
Fleet National Bank credit facility (7)	11/27/2005
Fleet National Bank (3) (8)	10/31/2003

RESIDENTIAL DEVELOPMENT SEGMENT:

The Woodlands Land Development Co. - 42.5% Company	
Fleet National Bank credit facility (7)	11/27/2005
Fleet National Bank (9)	12/31/2005
Fleet National Bank (3) (8)	10/31/2003
Various Mortgage Notes	7/1/2005 to 12/31/2008
Blue River Land Company, L.L.C. - 50% Company (10)	6/30/2004

RESORT/HOTEL SEGMENT:

Manalapan Hotel Partners, L.L.C. - 50% Company	
Corus Bank (3) (11)	10/21/2005

TOTAL UNCONSOLIDATED DEBT

FIXED RATE/WEIGHTED AVERAGE	14.1 years
VARIABLE RATE/WEIGHTED AVERAGE	1.9 years

TOTAL WEIGHTED AVERAGE	----- 8.9 years
------------------------	--------------------

-
- (1) URS Real Estate, L.P. and Americold Real Estate, L.P., subsidiaries of the Temperature-Controlled Logistics Corporation, expect to repay the notes on the Optional Prepayment Date of April 11, 2008.
 - (2) Senior Note - Note A: \$82.5 million at variable interest rate, LIBOR + 189 basis points, \$4.9 million at variable interest rate, LIBOR + 250 basis points with a LIBOR floor of 2.50%. Note B: \$24.3 million at variable interest rate, LIBOR + 650 basis points with a LIBOR floor of 2.50%. Mezzanine Note - \$19.4 million at variable interest rate, LIBOR + 890 basis points with a LIBOR floor of 3.0%. An interest-rate cap agreement which limits interest rate exposure to a maximum LIBOR of 4.52% is in place on all notes. All notes amortized based on a 25-year schedule.
 - (3) This facility has two one-year extension options.
 - (4) The Company and its joint venture partner each obtained a separate letter of credit to guarantee the repayment of up to \$4.3 million each of the Main Street Partners, L.P. loan.
 - (5) Under the terms of this loan, the Property must maintain certain coverage ratios in order for the Partnership to distribute cash. As of September 30, 2003, the Property income was not sufficient to provide the minimum coverage. While this situation does not constitute a default under the loan, the Partnership will not be permitted to distribute cash during the period of non-compliance.
 - (6) The construction loan for 5 Houston Center was refinanced and converted to a mortgage loan on September 8, 2003.
 - (7) Woodlands CPC and WLDC entered into two \$50 million interest rate swap agreements, which limit interest rate exposure on the combined notional amount of \$100 million to a LIBOR rate of 1.735% plus 300 basis points spread over LIBOR.
 - (8) Woodlands CPC and WLDC entered into an interest rate cap agreement which limits interest rate exposure on the notional amount of \$33.8 million to a maximum LIBOR rate of 9.0% plus 200 basis points spread over LIBOR.
 - (9) WLDC entered into an interest rate cap agreement which limits interest rate exposure on the notional amount of \$19.5 million to a maximum LIBOR rate of 8.5% plus 275 basis points spread over LIBOR.
 - (10) The variable rate loan has an interest rate of LIBOR + 300 basis points. A fully consolidated entity of CRDI, of which CRDI owns 88.3%, provides a guarantee of up to 70% of the outstanding balance of up to a \$9.0 million loan to Blue River Land Company, L.L.C. There was approximately \$7.7 million outstanding at September 30, 2003 and the amount guaranteed was \$5.4 million.
 - (11) The Company and its joint venture partner each obtained a separate letter of credit to guarantee repayment of up to \$3.0 million each of this facility.
 - (12) The overall weighted average interest rate does not include the effect of the Company's cash flow hedge agreements. Including the effect of these agreements, the overall weighted average interest rate would have been 5.87%.

CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table shows, as of September 30, 2003, information about the Company's share of unconsolidated fixed and variable rate debt and does not take into account any extension options, hedge arrangements or the entities' anticipated pay-off dates.

(in thousands)	BALANCE	PERCENTAGE OF DEBT (1)	WEIGHTED AVERAGE RATE	WEIGHTED AVERAGE MATURITY
-----	-----	-----	-----	-----
Fixed Rate Debt	\$ 323,767	57.8%	6.72%	14.1 years
Variable Rate Debt	236,349	42.2	4.59	1.9 years
	-----	-----	-----	-----
Total Debt	\$ 560,116	100.0%	5.82%	8.9 years
	=====	=====	=====	=====

(1) Balance excludes hedges. The percentages for fixed rate debt and variable rate debt, including the \$42.5 million of hedged variable rate debt, are 65% and 35%, respectively.

Listed below is the Company's share of aggregate principal payments, by year, required as of September 30, 2003, related to the Company's unconsolidated debt. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	SECURED DEBT (1)
-----	-----
2003	\$ 12,027
2004	86,910
2005	162,286
2006	23,977
2007	48,384
Thereafter	226,532

	\$ 560,116
	=====

(1) These amounts do not reflect the effect of extension options.

CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. NOTES PAYABLE AND BORROWINGS UNDER CREDIT FACILITY

The following is a summary of the Company's debt financing at September

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30, 2003:

Secured Debt

Fleet Fund I and II Term Loan (1) due May 2005, bears interest at LIBOR plus 325 basis points (at September 30, 2003, the interest rate was 4.38%), with a four-year interest-only term, secured by equity interests in Funding I and II Properties.....

AEGON Partnership Note (2) due July 2009, bears interest at 7.53% with monthly principal and interest payments based on a 25-year amortization schedule, secured by the Funding III, IV and V Properties.....

LaSalle Note I(3) due August 2027, bears interest at 7.83% with monthly principal and interest payments based on a 25-year amortization schedule through maturity in August 2027, secured by the Funding I Properties.....

Deutsche Bank-CMBS Loan(4) due May 2004, bears interest at the 30-day LIBOR rate plus 234 basis points (at September 30, 2003, the interest rate was 5.84%), with a three-year interest-only term and two one-year extension options, secured by the Funding X Properties and Spectrum Center.....

JP Morgan Mortgage Note(5) bears interest at 8.31% with monthly principal and interest payments based on a 25-year amortization schedule through maturity in October 2016, secured by the Houston Center mixed-use Office Property Complex.....

LaSalle Note II(6) bears interest at 7.79% with an initial seven-year interest-only term (through March 2003), followed by monthly principal and interest payments based on a 25-year amortization schedule through maturity in March 2028, secured by the Funding II Properties.....

Cigna Note(7) due June 2010, bears interest at 5.22% with an interest-only term, secured by the 707 17th Street Office Property.....

National Bank of Arizona Revolving Line of Credit(8) with maturities ranging from November 2004 to December 2005, bears interest ranging from 4.00% to 5.00%, secured by certain DMDC assets.....

Bank of America Note(9) due May 2013, bears interest at 5.53% with an initial 2.5-year interest-only term (through November 2005), followed by monthly principal and interest payments based on a 30-year amortization schedule, secured by The Colonnade Office Property.....

Metropolitan Life Note V(10) due December 2005, bears interest at 8.49% with monthly principal and interest payments based on a 25-year amortization schedule, secured by the Datran Center Office Property.....

Northwestern Life Note(11) due January 2004, bears interest at 7.66% with an interest-only term, secured by the 301 Congress Avenue Office Property.....

Woodmen of the World Note(12) due April 2009, bears interest at 8.20% with an initial five-year interest-only term (through November 2006), followed by monthly principal and interest payments based on a 25-year amortization schedule, secured by the Avallon IV Office Property.....

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Nomura Funding VI Note(13) bears interest at 10.07% with monthly principal and interest payments based on a 25-year amortization schedule through maturity in July 2020, secured by the Funding VI Property.....

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Secured Debt (Continued)

Mitchell Mortgage Note due December 2003, bears interest at 7.0% with an interest-only term, secured by one of The Woodlands Office Properties.....

FHI Finance Loan bears interest at LIBOR plus 450 basis points (at September 30, 2003, the interest rate was 5.62%), with an initial interest only term until the Net Operating Income Hurdle Date(14), followed by monthly principal and interest payments based on a 20-year amortization schedule through maturity in September 2009, secured by the Sonoma Mission Inn & Spa.....

Construction, acquisition and other obligations, bearing fixed and variable interest rates ranging from 2.9% to 11.25% at September 30, 2003, with maturities ranging between October 2003 and September 2008, secured by various CRDI and MVDC projects(15).....

Unsecured Debt

2009(16) Notes bear interest at a fixed rate of 9.25% with a seven-year interest-only term, due April 2009 with a call date of April 2006.....

2007(16) Notes bear interest at a fixed rate of 7.50% with a ten-year interest-only term, due September 2007.....

Credit Facility(17) interest only due May 2004, bears interest at LIBOR plus 187.5 basis points (at September 30, 2003, the interest rate was 3.00%), with a one-year extension option.....

JP Morgan Loan Sales Facility(18), bears interest at the federal funds rate plus 150 basis points (at September 30, 2003, the interest rate was 2.50%).....

Total Notes Payable

- (1) In October 2003, the Company received approval from the lending group to modify key financial and other covenants in the Fleet I and II Term Loan. In connection with these modifications, the Company agreed to increase the interest rate on this loan to LIBOR plus 350 basis points.
- (2) The outstanding balance of this note at maturity will be approximately \$224.1 million.

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- (3) In August 2007, the interest rate will increase, and the Company is required to remit, in addition to the monthly debt service payment, excess property cash flow, as defined, to be applied first against principal and thereafter against accrued excess interest, as defined. It is the Company's intention to repay the note in full at such time (August 2007) by making a final payment of approximately \$221.7 million.
- (4) This includes both a Deutsche Bank-CMBS note and a Fleet-Mezzanine note. The notes are due May 2004 and bear interest at the 30-day LIBOR rate plus a spread of (i) 164.7 basis points for the CMBS note (at September 30, 2003, the interest rate was 5.147%), and (ii) 600 basis points for the Mezzanine note (at September 30, 2003, the interest rate was 9.5%). The blended rate at September 30, 2003 for the two notes was 5.84%. Both notes have a LIBOR floor of 3.5%. The notes have three-year interest only terms and two one-year extension options. The Fleet-Mezzanine note is secured by the Company's interests in Funding X and Crescent Spectrum Center, L.P. and the Company's interest in their general partner.
- (5) In October 2006, the interest rate will adjust based on current interest rates at that time. It is the Company's intention to repay the note in full at such time (October 2006) by making a final payment of approximately \$177.8 million.
- (6) In March 2006, the interest rate will increase, and the Company is required to remit, in addition to the monthly debt service payment, excess property cash flow, as defined, to be applied first against principal and thereafter, against accrued excess interest, as defined. It is the Company's intention to repay the note in full at such time (March 2006) by making a final payment of approximately \$154.5 million.
- (7) During the first quarter of 2003, the Company paid the \$63.5 million Cigna Note, bearing interest at 7.47%, which matured in March 2003, in full with a draw under the Company's credit facility.
- (8) This facility is a \$51.8 million line of credit secured by certain DMDC land and improvements ("vertical facility"), club facilities ("club loan"), notes receivable ("warehouse facility") and additional land ("short-term facility"). The line restricts the vertical facility and club loan to a maximum outstanding amount of \$40.0 million and is subject to certain borrowing base limitations and bears interest at prime (at September 30, 2003, the interest rate was 4.0%). The warehouse facility bears interest at prime plus 100 basis points (at September 30, 2003, the interest rate was 5.0%) and is limited to \$10.0 million. The short-term facility bears interest at prime plus 50 basis points (at September 30, 2003, the interest rate was 4.5%) and is limited to \$1.8 million. The blended rate at September 30, 2003 for the vertical facility and club loan, the warehouse facility and the short-term facility was 4.2%.
- (9) The outstanding principal balance of this loan at maturity will be approximately \$33.4 million.
- (10) The outstanding principal balance of this loan at maturity will be approximately \$36.1 million.
- (11) The Company has extended the loan maturity to November 2008 with Northwestern Mutual. The new loan has an interest rate of 4.94%.
- (12) The outstanding principal balance of this loan at maturity will be approximately \$8.2 million.
- (13) In July 2010, the interest rate will adjust based on current interest rates

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at that time. It is the Company's intention to repay the note in full at such time (July 2010) by making a final payment of approximately \$6.1 million.

- (14) The Company's joint venture partner, which owns a 19.9% interest in the Sonoma Mission Inn & Spa, has a commitment to fund \$10.0 million of future renovations at the Sonoma Mission Inn & Spa through a mezzanine loan. The Net Operating Income Hurdle Date, as defined in the loan

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

agreement, is the date as of which the Sonoma Mission Inn & Spa has achieved an aggregate Adjusted Net Operating Income, as defined in the loan agreement, of \$12 million for a period of 12 consecutive calendar months.

- (15) In June 2003, CRDI entered into an interest rate cap agreement with Bank of America with an initial notional amount of \$0.8 million, increasing monthly to up to \$28.3 million in September 2004, based on the amount of the loan. The agreement limits the interest rate exposure on the notional amount to a maximum prime rate, as defined in the agreement, of 4.1%.
- (16) The Notes were issued in offerings registered with the Securities and Exchange Commission.
- (17) The \$400.0 million Credit Facility with Fleet is an unsecured revolving line of credit to Funding VIII and guaranteed by the Operating Partnership. Availability under the line of credit is subject to certain covenants including limitations on total leverage, fixed charge ratio, debt service coverage, minimum tangible net worth, and specific mix of office and hotel assets and average occupancy of Office Properties. At September 30, 2003, the maximum borrowing capacity under the credit facility was \$383.6 million. The outstanding balance excludes letters of credit issued under the Company's credit facility of \$15.2 million which reduce the Company's maximum borrowing capacity. In October 2003, the Company received approval from the lending group to modify key financial and other covenants in the Credit Facility. In connection with these modifications, the Company agreed to increase the interest rate on this facility to LIBOR plus 212.5 basis points.
- (18) The JP Morgan Loan Sales Facility is an uncommitted \$50.0 million unsecured credit facility. The Operating Partnership maintains sufficient availability under the Fleet Facility to repay this loan at any time due to lack of obligation by the lender to fund the loan.

The following table shows information about the Company's consolidated fixed and variable rate debt and does not take into account any extension options, hedging arrangements or the Company's anticipated payoff dates.

(in thousands)	BALANCE	PERCENTAGE OF DEBT (1)	WEIGHTED AVERAGE RATE	WEIGHTED AVERAGE MATURITY
-----	-----	-----	-----	-----
Fixed Rate Debt	\$ 1,677,547	65.1%	7.95%	10.6 years
Variable Rate Debt	898,922	34.9	4.09	1.0 years
	-----	-----	-----	-----
Total Debt	\$ 2,576,469	100.0%	6.65% (2)	6.9 years

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- (1) Balance excludes hedges. The percentages for fixed rate debt and variable rate debt, including the \$500.0 million of hedged variable rate debt, are 85% and 15%, respectively.
- (2) Including the effect of hedge arrangements, the overall weighted average interest rate would have been 6.73%.

Listed below are the aggregate principal payments by year required as of September 30, 2003 under indebtedness of the Company. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	SECURED DEBT	UNSECURED DEBT	UNSECURED DEBT LINE OF CREDIT	TOTAL (1)
-----	-----	-----	-----	-----
2003	\$ 17,643	\$ 7,000	\$ -	\$ 24,643
2004	285,554	-	314,500	600,054
2005	381,903	-	-	381,903
2006	18,920	-	-	18,920
2007	26,892	250,000	-	276,892
Thereafter	899,057	375,000	-	1,274,057
	-----	-----	-----	-----
	\$ 1,629,969	\$ 632,000	\$ 314,500	\$ 2,576,469
	=====	=====	=====	=====

-
- (1) These amounts do not reflect the effect of a one-year extension option on the credit facility and two one-year extension options on the Deutsche Bank-CMBS Loan.

The Company has \$24.6 million of debt maturing through December 31, 2003, consisting primarily of debt related to the Residential Development Segment. The Company plans to meet these maturing debt obligations, primarily through cash from operations, construction loan refinancings, and additional borrowings under the Company's credit facility or additional debt facilities.

The Company is generally obligated by its debt agreements to comply with financial covenants, affirmative covenants and negative covenants, or some combination of these types of covenants. Failure to comply with covenants under the Credit Facility or other debt instruments could result in an event of default under one or more of the Company's debt instruments. Any uncured or unwaived events of default under the Company's loans can trigger an increase in interest rates, an acceleration of payment on the loan in default or, for the Company's secured debt, foreclosure on the Property securing the debt. In addition, an event of default by the Company or any of its subsidiaries with respect to any indebtedness in excess of \$5.0 million generally will result in an event of default under the Credit Facility and the Fleet Fund I and II Term Loan after the notice and cure periods for the other indebtedness have passed. As of September 30, 2003, no event of default had occurred, and the Company was in compliance with all of its covenants related to its outstanding debt. The Company's debt facilities generally prohibit loan prepayment for

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

an initial period, allow prepayment with a penalty during a following specified period and allow prepayment without penalty after the expiration of that period. During the nine months ended September 30, 2003, there were no circumstances that required prepayment or increased collateral related to the Company's existing debt.

In addition to the subsidiaries listed in Note 1, "Organization and Basis of Presentation," certain other subsidiaries of the Company were formed primarily for the purpose of obtaining secured and unsecured debt or joint venture financings. These entities, all of which are consolidated and are grouped based on the Properties to which they relate, are: Funding I and Funding II Properties (CREM Holdings, LLC, Crescent Capital Funding, LLC, Crescent Funding Interest, LLC, CRE Management I Corp., CRE Management II Corp.); Funding III Properties (CRE Management III Corp.); Funding IV Properties (CRE Management IV Corp.); Funding V Properties (CRE Management V Corp.); Funding VI Properties (CRE Management VI Corp.); Funding VIII Properties (CRE Management VIII, LLC); 707 17th Street Property (CRE Management IX, LLC); Funding X Properties (CRE X Holdings Management, LLC, CRE X Holdings, L.P., CRE Management X, LLC); Spectrum Center (Spectrum Mortgage Associates, L.P., CSC Holdings Management, LLC, Crescent SC Holdings, L.P., CSC Management, LLC), The BAC-Colonnade (CEI Colonnade Holdings, LLC), and Crescent Finance Company.

10. CASH FLOW HEDGES

The Company uses derivative financial instruments to convert a portion of its variable rate debt to fixed rate debt and to manage its fixed to variable rate debt ratio. As of September 30, 2003, the Company had four cash flow hedge agreements which are accounted for in conformity with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133."

The following table shows information regarding the Company's cash flow hedge agreements during the nine months ended September 30, 2003, and additional interest expense and unrealized gains (losses) recorded in Accumulated Other Comprehensive Income ("OCI").

EFFECTIVE DATE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FAIR MARKET VALUE	ADDITIONAL INTEREST EXPENSE	CHA UNREALI (LOSSE
-----	-----	-----	-----	-----	-----	-----
(in thousands)						

9/01/99	\$ 200,000	9/02/03	6.18%	\$ -	\$ 6,562	\$ 6
5/15/01	200,000	2/03/03	7.11%	-	1,048	1
4/18/00	100,000	4/18/04	6.76%	(3,346)	4,179	3
2/15/03	100,000	2/15/06	3.26%	(3,280)	1,286	
2/15/03	100,000	2/15/06	3.25%	(3,273)	1,285	
9/02/03	200,000	9/01/06	3.72%	(9,094)	419	(3
				-----	-----	-----
				\$ (18,993)	\$ 14,779	\$ 5
				=====	=====	=====

The Company has designated its four cash flow hedge agreements as cash

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flow hedges of LIBOR-based monthly interest payments on a designated pool of variable rate LIBOR indexed debt that re-prices closest to the reset dates of each cash flow hedge agreement. For retrospective effectiveness testing, the Company uses the cumulative dollar offset approach as described in DIG Issue E8. The DIG is a task force designed to assist the FASB in answering questions that companies have resulting from implementation of SFAS No. 133 and SFAS No. 138. The Company uses the change in variable cash flows method as described in DIG Issue G7 for prospective testing as well as for the actual recording of ineffectiveness, if any. Under this method, the Company will compare the changes in the floating rate portion of each cash flow hedge to the floating rate of the hedged items. The cash flow hedges have been and are expected to remain highly effective. Changes in the fair value of these highly effective hedging instruments are recorded in OCI. The effective portion that has been deferred in OCI will be reclassified to earnings as interest expense when the hedged items impact earnings. If a cash flow hedge falls outside 80%-125% effectiveness for a quarter, all changes in the fair value of the cash flow hedge for the quarter will be recognized in earnings during the current period. If it is determined based on prospective testing that it is no longer likely a hedge will be highly effective on a prospective basis, the hedge will no longer be designated as a cash flow hedge and no longer qualify for accounting in conformity with SFAS Nos. 133 and 138.

CRDI, a consolidated subsidiary of the Company, also uses derivative financial instruments to convert a portion of its variable rate debt to fixed rate debt.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table shows information regarding CRDI's cash flow hedge agreements and additional capitalized interest during the nine months ended September 30, 2003. Unlike the additional interest on the Company's cash flow hedges, which was expensed, the additional interest on CRDI's cash flow hedges was capitalized, as it is related to debt incurred for projects that are currently under development. Also presented are the unrealized gains in OCI for the nine months ended September 30, 2003.

ISSUE DATE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FAIR MARKET VALUE	ADDITIONAL CAPITALIZED INTEREST	C U GA
----	-----	----	----	-----	-----	--
(in thousands)						
9/4/01	\$ 4,650	9/4/03	4.12%	\$ -	\$ 91	\$
9/4/01	3,700	9/4/03	4.12%	-	72	-
				-----	-----	--
				\$ -	\$ 163	\$
				=====	=====	==

In June 2003, CRDI entered into an interest rate cap agreement with Bank of America with an initial notional amount of \$0.8 million, increasing monthly to up to \$28.3 million in September 2004, based on the amount of the loan. The agreement limits the interest rate on the notional amount to a maximum prime rate, as defined in the agreement, of 4.1%.

CRDI uses the shortcut method described in SFAS No. 133, which

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eliminates the need to consider ineffectiveness of the hedges, and instead assumes that the hedges are highly effective.

11. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

GUARANTEE COMMITMENTS

The FASB issued Interpretation 45 requiring a guarantor to disclose its guarantees. The Company's guarantees in place as of September 30, 2003 are listed in the table below. For the guarantees on indebtedness, no triggering events or conditions are anticipated to occur that would require payment under the guarantees and management believes the assets associated with the loans that are guaranteed are sufficient to cover the maximum potential amount of future payments and therefore, would not require the Company to provide additional collateral to support the guarantees.

DEBTOR	GUARANTEED AMOUNT OUTSTANDING AT SEPTEMBER 30, 2003
	(in thousands)
CRDI - Eagle Ranch Metropolitan District - Letter of Credit (1)	\$ 15,197
Blue River Land Company, L.L.C. (2) (3)	5,355
Main Street Partners, L.P. - Letter of Credit (2) (4)	4,250
Manalapan Hotel Partners, L.L.C. - Letter of Credit (2) (5)	3,000

Total Guarantees	\$ 27,802
	=====

-
- (1) The Company provides a \$15.2 million letter of credit to support the payment of interest and principal of the Eagle Ranch Metropolitan District Revenue Development Bonds and Limited Tax Bonds.
 - (2) See Note 8, "Investments in Unconsolidated Companies - Unconsolidated Debt Analysis," for a description of the terms of this debt.
 - (3) A fully consolidated entity of CRDI, of which CRDI owns 88.3%, provides a guarantee of 70% of the outstanding balance of up to a \$9.0 million loan to Blue River Land Company, L.L.C. There was approximately \$7.7 million outstanding at September 30, 2003 and the amount guaranteed was \$5.4 million.
 - (4) The Company and its joint venture partner each provide a \$4.3 million letter of credit to guarantee repayment of up to \$8.5 million of the loan to Main Street Partners, L.P.
 - (5) The Company and its joint venture partner each provide a \$3.0 million letter of credit to guarantee repayment of up to \$6.0 million of the Manalapan debt with Corus Bank.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OTHER COMMITMENTS

On September 23, 2003, the Company entered into a one year option agreement for the future sale of approximately 1.5 acres of undeveloped investment land located in Houston, Texas for approximately \$7.8 million. The Company received \$0.01 million of consideration in September 2003. The option agreement may be extended up to four years on a yearly basis at the option of the prospective purchaser for additional consideration.

See Note 16, "COPI," for a description of the Company's commitments related to the agreement with COPI, executed on February 14, 2002.

CONTINGENCIES

ENVIRONMENTAL MATTERS

All of the Properties have been subjected to Phase I environmental assessments, and some Properties have been subjected to Phase II soil and ground water sampling as part of the Phase I assessments. Such assessments have not revealed, nor is management aware of, any environmental liabilities that management believes would have a material adverse effect on the financial position or results of operations of the Company.

LITIGATION

The Company is involved from time to time in various claims and legal actions in the ordinary course of business. Management does not believe that the impact of such matters will have a material adverse effect on the Company's financial position or its results of operations when resolved.

12. MINORITY INTEREST

Minority interest in the Operating Partnership represents the proportionate share of the equity in the Operating Partnership of limited partners other than the Company. The ownership share of limited partners other than the Company is evidenced by Operating Partnership units. The Operating Partnership pays a regular quarterly distribution to the holders of Operating Partnership units.

Each Operating Partnership unit may be exchanged for either two common shares of the Company or, at the election of the Company, cash equal to the fair market value of two common shares at the time of the exchange. When a unitholder exchanges a unit, the Company's percentage interest in the Operating Partnership increases. During the nine months ended September 30, 2003, there were 4,995 units exchanged for 9,990 common shares of the Company.

Minority interest in real estate partnerships represents joint venture or preferred equity partners' proportionate share of the equity in certain real estate partnerships. The Company holds a controlling interest in the real estate partnerships and consolidates the real estate partnerships into the financial statements of the Company. Income in the real estate partnerships is allocated to minority interest based on weighted average percentage ownership during the year.

The following table summarizes the minority interest liability as of September 30, 2003 and December 31, 2002:

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(in thousands) -----	2003 -----	2002 -----
Limited partners in the Operating Partnership	\$ 109,181	\$ 130,802
Development joint venture partners - Residential Development Segment	22,822	24,937
Joint venture partners - Office Segment	7,466	11,202
Joint venture partners - Resort/Hotel Segment	7,406	7,833
	-----	-----
	\$ 146,875	\$ 174,774
	=====	=====

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the minority interests' share of net income (loss) for the nine months ended September 30, 2003 and 2002:

(in thousands) -----	2003 -----	2002 -----
Limited partners in the Operating Partnership	\$ (1,175)	\$ (6,7
Development joint venture partners - Residential Development Segment	(1,628)	(2,6
Joint venture partners - Office Segment	383	(1,0
Joint venture partners - Resort/Hotel Segment	523	
Subsidiary preferred equity	-	(5,7
	-----	-----
	\$ (1,897)	\$ (16,2
	=====	=====

13. SHAREHOLDERS' EQUITY

DISTRIBUTIONS

The following table summarizes the distributions paid or declared to common shareholders, unitholders and preferred shareholders during the nine months ended September 30, 2003 (dollars in thousands, except per share amounts).

SECURITY -----	DIVIDEND/ DISTRIBUTION -----	TOTAL AMOUNT -----	RECORD DATE -----	PAYMEN DATE -----
Common Shares/Units (1)	\$ 0.375	\$ 43,871	01/31/03	02/14/
Common Shares/Units (1)	\$ 0.375	\$ 43,872	04/30/03	05/15/
Common Shares/Units (1)	\$ 0.375	\$ 43,873	07/31/03	08/15/
Common Shares/Units (1)	\$ 0.375	\$ 43,873	10/31/03	11/14/
Series A Preferred Shares	\$ 0.422	\$ 4,556	01/31/03	02/14/
Series A Preferred Shares	\$ 0.422	\$ 4,556	04/30/03	05/15/
Series A Preferred Shares	\$ 0.422	\$ 4,556	07/31/03	08/15/
Series A Preferred Shares	\$ 0.422	\$ 4,556	10/31/03	11/14/
Series B Preferred Shares	\$ 0.594	\$ 2,019	01/31/03	02/14/

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Series B Preferred Shares	\$	0.594	\$	2,019	04/30/03	05/15/03
Series B Preferred Shares	\$	0.594	\$	2,019	07/31/03	08/15/03
Series B Preferred Shares	\$	0.594	\$	2,019	10/31/03	11/14/03

 (1) Represents one-half the amount of the distribution per unit because each unit is exchangeable for two common shares.

14. INCOME TAXES

TAXABLE CONSOLIDATED ENTITIES

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities of taxable consolidated entities for financial reporting purposes and the amounts used for income tax purposes. For the nine months ended September 30, 2003, the taxable consolidated entities were comprised of the taxable REIT subsidiaries of the Company.

The Company intends to maintain its qualification as a REIT under Section 856 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company generally will not be subject to federal corporate income taxes as long as it satisfies certain technical requirements of the Code, including the requirement to distribute 90% of REIT taxable income to its shareholders. Accordingly, the Company does not believe that it will be liable for current income taxes on its REIT taxable income at the federal level or in most of the states in which it operates. The Company consolidates certain taxable REIT subsidiaries, which are subject to federal and state income tax. For the nine months ended September 30, 2003 and 2002, the Company's federal income tax benefit was \$10.5 million and \$6.5 million, respectively. The Company's \$10.5 million income tax benefit at September 30, 2003 consists primarily of \$6.3 million for the Residential Development Segment and \$3.7 million for the Resort/Hotel Segment.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's total net tax asset of approximately \$54.5 million at September 30, 2003, includes \$32.5 million of net deferred tax assets. SFAS No. 109, "Accounting for Income Taxes," requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. There was no change in the valuation allowance during the nine months ended September 30, 2003.

15. RELATED PARTY TRANSACTIONS

DBL HOLDINGS, INC.

Since June 1999, the Company contributed approximately \$23.8 million to DBL. The contribution was used by DBL to make an equity contribution to DBL-ABC, Inc., which committed to purchase a limited partnership interest representing a 12.5% interest in G2. G2 was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments and is managed and controlled by an entity that is owned equally by GMSP and GMACCM. The G2 general partner is entitled to an annual asset management fee. The ownership structure of GMSP consists of an approximately 86% limited partnership interest owned directly and indirectly by Richard E. Rainwater, Chairman of the

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Board of Trust Managers of the Company, and an approximately 14% general partnership interest, of which approximately 6% is owned by Darla Moore, who is married to Mr. Rainwater, and approximately 6% is owned by John C. Goff, Vice-Chairman of the Company's Board of Trust Managers and Chief Executive Officer of the Company. The remaining approximately 2% general partnership interest is owned by parties unrelated to the Company. At September 30, 2003, DBL had an approximately \$13.4 million investment in G2.

On January 2, 2003, the Company purchased the remaining 2.56% economic interest, representing 100% of the voting stock, in DBL from Mr. Goff. Total consideration paid for Mr. Goff's interest was \$0.4 million. The Board of Trust Managers of the Company, including all the independent trust managers, approved the transaction based in part on an appraisal of the assets of DBL by an independent appraisal firm. As a result of this transaction, DBL is wholly-owned by the Company and is consolidated in the Residential Development Segment as of and for the nine months ended September 30, 2003. Also, because DBL owns a majority of the voting stock in MVDC and HADC, the Company consolidated these two Residential Development Corporations as of and for the nine months ended September 30, 2003.

LOANS TO EMPLOYEES AND TRUST MANAGERS OF THE COMPANY FOR EXERCISE OF STOCK OPTIONS AND UNIT OPTIONS

As of September 30, 2003, the Company had approximately \$37.8 million of loans outstanding to certain employees and trust managers of the Company on a recourse basis pursuant to the Company's stock incentive plans and unit incentive plans pursuant to an agreement approved by the Board of Trust Managers and the Executive Compensation Committee of the Company. The proceeds of these loans were used by the employees and the trust managers to acquire common shares of the Company pursuant to the exercise of vested stock and unit options. Pursuant to the loan agreements, these loans may be repaid in full or in part at any time without premium or penalty. Mr. Goff had a loan representing \$26.3 million of the \$37.8 million total outstanding loans at September 30, 2003. Approximately \$0.3 million of interest was outstanding related to these loans as of September 30, 2003. No conditions exist at September 30, 2003 which would cause any of the loans to be in default. Effective July 29, 2002, the Company ceased offering to its employees and trust managers the option to obtain loans pursuant to the Company's stock and unit incentive plans.

OTHER

On June 28, 2002, the Company purchased, and is holding for sale, the home of an executive officer of the Company for approximately \$2.7 million, which approximates fair market value of the home. This purchase was part of the officer's relocation agreement with the Company.

16. COPI

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

COPI was formed to become a lessee and operator of various assets to be acquired by the Company and to perform the intercompany agreement between COPI and the Company, pursuant to which each party agreed to provide the other with rights to participate in certain transactions. The Company was not permitted to operate or lease these assets under the tax

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

laws in effect and applicable to REITs at that time. In connection with the formation and capitalization of COPI, and the subsequent operations and investments of COPI since 1997, the Company made loans to COPI under a line of credit and various term loans.

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

On February 14, 2002, the Company executed an agreement (the "Agreement") with COPI, pursuant to which COPI transferred to subsidiaries of the Company, in lieu of foreclosure, COPI's lessee interests in the eight Resort/Hotel Properties leased to subsidiaries of COPI and, pursuant to a strict foreclosure, all of COPI's voting interests in three of the Company's Residential Development Corporations and other assets. The Company agreed to assist and provide funding to COPI for the implementation of a pre-packaged bankruptcy of COPI. In connection with the transfer, COPI's rent and debt obligations to the Company were reduced.

The Company holds the lessee interests in the eight Resort/Hotel Properties and the voting interests in the three Residential Development Corporations through three newly organized entities that are wholly-owned taxable REIT subsidiaries of the Company. The Company has included these assets in its Resort/Hotel Segment and its Residential Development Segment, and fully consolidated the operations of the eight Resort/Hotel Properties and the three Residential Development Corporations, beginning on the dates of the transfers of the assets.

The Agreement provides that COPI and the Company will jointly seek to have a pre-packaged bankruptcy plan for COPI, reflecting the terms of the Agreement, approved by the bankruptcy court. Under the Agreement, the Company has agreed to provide approximately \$14.0 million to COPI in the form of cash and common shares of the Company to fund costs, claims and expenses relating to the bankruptcy and related transactions, and to provide for the distribution of the Company's common shares to the COPI stockholders. The Company also agreed, however, that it will issue common shares with a minimum dollar value of approximately \$2.2 million to the COPI stockholders, even if it would cause the total costs, claims and expenses that it pays to exceed \$14.0 million. Currently, the Company estimates that the value of the common shares that will be issued to the COPI stockholders will be between approximately \$2.2 million and \$3.0 million. The actual value of the common shares issued to the COPI stockholders will not be determined until the confirmation of COPI's bankruptcy plan and could vary from the estimated amounts, but will have a value of at least \$2.2 million.

In addition, the Company has agreed to use commercially reasonable efforts to assist COPI in arranging COPI's repayment of its \$15.0 million obligation to Bank of America, together with any accrued interest. The Company expects to form and capitalize a new entity ("Crescent Spinco"), to be owned by the shareholders of the Company. Crescent Spinco then would purchase COPI's interest in AmeriCold Logistics for between \$15.0 million and \$15.5 million. COPI has agreed that it will use the proceeds of the sale of the AmeriCold Logistics interest to repay Bank of America in full.

COPI obtained the loan from Bank of America primarily to participate in investments with the Company. At the time COPI obtained the loan, Bank of

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America required, as a condition to making the loan, that Richard E. Rainwater, the Chairman of the Board of Trust Managers of the Company, and John C. Goff, Vice-Chairman of the Board of Trust Managers and Chief Executive Officer of the Company, enter into a support agreement with COPI and Bank of America. Pursuant to the support agreement, Messrs. Rainwater and Goff agreed to make additional equity investments in COPI if COPI defaulted on payment obligations under its line of credit with Bank of America and if the net proceeds of an offering of COPI securities were insufficient to allow COPI to repay Bank of America in full.

Previously, the Company held a first lien security interest in COPI's entire membership interest in AmeriCold Logistics. REIT rules prohibit the Company from acquiring or owning the membership interest that COPI owns in AmeriCold Logistics. Under the Agreement, the Company agreed to allow COPI to grant Bank of America a first priority security interest in the membership interest and to subordinate its own security interest to that of Bank of America.

On March 6, 2003, the stockholders of COPI approved the pre-packaged bankruptcy plan for COPI. On March 10, 2003, COPI filed the plan under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas.

If the COPI bankruptcy plan is approved by bankruptcy court, the holders of COPI's common stock will receive the Company's common shares. As stockholders of COPI, Mr. Rainwater and Mr. Goff will also receive the Company's common shares.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Agreement, the current and former directors and officers of COPI and the current and former trust managers and officers of the Company also have received a release from COPI of liability for any actions taken prior to February 14, 2002, and, depending on various factors, will receive certain liability releases from COPI and its stockholders under the COPI bankruptcy plan.

Completion and effectiveness of the pre-packaged bankruptcy plan for COPI is contingent upon a number of conditions, including the approval of the plan by certain of COPI's creditors and the confirmation of the plan by the bankruptcy court.

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

INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements.....

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Results of Operations

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FORWARD-LOOKING STATEMENTS

You should read this section in conjunction with the consolidated interim financial statements and the accompanying notes in Item 1, "Financial Statements," of this document and the more detailed information contained in the Company's Form 10-K for the year ended December 31, 2002. In management's opinion, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation of the unaudited interim financial statements are included. Capitalized terms used but not otherwise defined in this section have the meanings given to them in the notes to the consolidated financial statements in Item 1, "Financial Statements."

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "anticipates," "believes," "expects," "intends," "future," "may," "will," "should," "plans," "estimates," "potential," or "continue," or the negative of these terms, or other similar expressions, identify forward-looking statements.

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

The following factors might cause such a difference:

- The Company's ability, at its Office Properties, to timely lease unoccupied square footage and timely re-lease occupied square footage upon expiration on favorable terms, which may continue to be adversely affected by existing real estate conditions (including changes in vacancy rates in a particular market or markets, decreases in rental rates, increased competition from other properties or by a general downturn in the economy);
- Adverse changes in the financial condition of existing tenants;
- Further deterioration in the resort/business-class hotel markets or in the market for residential land or luxury residences, including single-family homes, townhomes and condominiums, or in the economy generally;
- Financing risks, such as the Company's ability to generate revenue

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sufficient to service and repay existing or additional debt, increases in debt service associated with increased debt and with variable rate debt, the Company's ability to meet financial and other covenants and the Company's ability to consummate financings and refinancings on favorable terms and within any applicable time frames;

- The ability of the Company to consummate anticipated office acquisitions and investment land and other dispositions on favorable terms and within anticipated time frames;
- Further or continued adverse conditions in the temperature-controlled logistics business (including both industry-specific conditions and a general downturn in the economy) which may further jeopardize the ability of the tenant to pay all current and deferred rent due;
- The inability of the Company to complete the distribution to its shareholders of the shares of a new entity to purchase the AmeriCold Logistics tenant interest from COPI;
- The concentration of a significant percentage of the Company's assets in Texas;
- The existence of complex regulations relating to the Company's status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of the failure to qualify as a REIT; and
- Other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

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

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RESULTS OF OPERATIONS

The following table shows the Company's financial data as a percentage of total revenue for the three and nine months ended September 30, 2003 and 2002, and the variance in dollars between the three and nine months ended September 30, 2003 and 2002.

	FINANCIAL DATA AS A PERCENTAGE OF TOTAL REVENUES FOR THE THREE MONTHS ENDED SEPT 30,		FINANCIAL DATA AS A PERCENTAGE OF TOTAL REVENUES FOR THE NINE MONTHS ENDED SEPT 30,		TOT DOL TH EN
	2003 ----	2002 ----	2003 ----	2002 ----	(2 --
REVENUE:					
Office Property	60.0 %	59.0 %	56.5 %	56.5 %	
Resort/Hotel Property	25.9	23.5	25.6	20.4	
Residential Development Property	14.1	17.5	17.9	23.1	
	-----	-----	-----	-----	
TOTAL PROPERTY REVENUE	100.0 %	100.0 %	100.0 %	100.0 %	

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	-----	-----	-----	-----
EXPENSE:				
Office Property real estate taxes	7.4 %	7.2 %	7.6 %	7.8 %
Office Property operating expenses	20.8	17.8	19.4	17.1
Resort/Hotel Property expense	21.2	18.7	20.6	15.2
Residential Development Property expense	14.0	16.5	16.6	21.0
	-----	-----	-----	-----
TOTAL PROPERTY EXPENSE	63.4 %	60.2 %	64.2 %	61.1 %
	-----	-----	-----	-----
INCOME FROM PROPERTY OPERATIONS	36.6 %	39.8 %	35.8 %	38.9 %
	-----	-----	-----	-----
OTHER INCOME (EXPENSE):				
Income from investment land sales, net	5.4 %	2.3 %	2.0 %	0.7 %
Gain on joint venture of properties, net	0.0	7.4	0.0	2.4
Interest and other income	0.6	0.7	0.6	0.8
Corporate general and administrative	(3.8)	(3.4)	(3.1)	(2.7)
Interest expense	(20.3)	(19.7)	(19.4)	(18.6)
Amortization of deferred financing costs	(1.3)	(1.1)	(1.2)	(1.1)
Depreciation and amortization	(17.8)	(15.4)	(16.7)	(14.0)
Impairment charges related to real estate assets	0.0	0.0	(0.2)	(0.1)
Other expenses	(0.1)	0.0	(0.2)	0.0
Equity in net income (loss) of unconsolidated companies:				
Office Properties	2.6	0.4	1.3	0.5
Resort/Hotel Properties	0.0	(0.1)	0.3	0.0
Residential Development Properties	0.8	1.8	0.6	3.1
Temperature-Controlled Logistics Properties	(0.5)	(1.3)	0.0	(0.5)
Other	(0.4)	(0.3)	(0.1)	(0.7)
	-----	-----	-----	-----
TOTAL OTHER INCOME (EXPENSE)	(34.8)%	(28.7)%	(36.1)%	(30.2)%
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES	1.8 %	11.1 %	(0.3)%	8.7 %
Minority interests	(0.7)	(1.8)	(0.3)	(2.3)
Income tax benefit	2.3	1.1	1.6	0.9
	-----	-----	-----	-----
INCOME BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	3.4 %	10.4 %	1.0%	7.3 %
Net income (loss) from discontinued operations, net of minority interests	(0.9)	0.6	0.2	0.6
(Loss) gain on real estate from discontinued operations, net of minority interests	(0.9)	0.6	(2.5)	0.7
Cumulative effect of a change in accounting principle	0.0	0.0	0.0	(1.2)
	-----	-----	-----	-----
NET INCOME (LOSS)	1.6 %	11.6 %	(1.3)%	7.4 %
Series A Preferred Share distributions	(2.2)	(1.9)	(2.1)	(1.7)
Series B Preferred Share distributions	(1.0)	(0.8)	(0.9)	(0.4)
	-----	-----	-----	-----
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	(1.6)%	8.9 %	(4.3)%	5.3 %

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2003 TO THE THREE MONTHS ENDED SEPTEMBER 30, 2002

PROPERTY REVENUES

Total property revenues decreased \$27.2 million, or 11.4%, to \$211.6 million for the three months ended September 30, 2003, as compared to \$238.8 million for the three months ended September 30, 2002. The primary components of the decrease in total property revenues are discussed below.

- Office Property revenues decreased \$13.8 million, or 9.8%, to \$127.0 million, primarily due to:
 - a decrease of \$8.0 million from the 57 consolidated Office Properties (excluding 2002 and 2003 acquisitions and properties held for sale) that the Company owned or had an interest in, primarily due to a 5.4 percentage point decline in occupancy (from 89.6% to 84.2%) resulting in decreases in both rental revenue and operating expense recoveries;
 - a decrease of \$6.6 million resulting from the contribution of two Office Properties to joint ventures in the third quarter 2002; and
 - a decrease of \$5.0 million related to the insurance settlement in 2002 for tornado damage at the Carter Burgess Plaza Office Property; partially offset by
 - an increase of \$2.7 million from the acquisition of the Johns Manville Plaza Office Property in August 2002 and The Colonnade Office Property in August 2003;
 - an increase of \$2.3 million in net lease termination fees to \$5.3 million for third quarter 2003; and
 - an increase of \$1.1 million resulting from third party management services and related direct expense reimbursements.
- Residential Development revenues decreased \$12.0 million, or 28.7%, to \$29.8 million, primarily due to:
 - a decrease of \$17.6 million primarily due to the sale of 19 fewer units at CRDI; partially offset by
 - an increase of \$3.5 million due to consolidation of MVDC and HADC in 2003.

PROPERTY EXPENSES

Total property expenses decreased \$9.6 million, or 6.7%, to \$134.1 million for the three months ended September 30, 2003, as compared to \$143.7 million for the three months ended September 30, 2002. The primary components of the decrease in total property expenses are discussed below.

- Office Property expenses decreased \$0.3 million, or 0.5%, to \$59.5 million, primarily due to:

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- a decrease of \$2.6 million due to the contribution of two Office Properties to joint ventures in 2002;
- a decrease of \$0.7 million related to consulting fees incurred in 2002 on the 5 Houston Center development and a reduction in nonrecurring legal fees for the Office Segment; and
- a decrease of \$0.4 million of other expenses; partially offset by
- an increase of \$1.3 million in operating expenses from the 57 consolidated Office Properties (excluding 2002 and 2003 acquisitions and properties held for sale) that the Company owned or had an interest in, due to:
 - \$2.5 million increase in utilities expense, primarily attributable to a new utility contract for the Texas Office Properties; and
 - \$1.7 million increase in building repairs and maintenance expense; partially offset by
 - \$1.2 million decrease in bad debt expense;
 - \$1.0 million decrease in property taxes and other taxes and assessments; and
 - \$0.7 million decrease in other expenses;
- an increase of \$1.1 million from the acquisition of Johns Manville Plaza Office Property in August 2002 and The Colonnade Office Property in August 2003; and
- an increase of \$0.9 million attributable to the cost of providing third party management services to joint venture properties, which are recouped by increased third party fee income and direct expense reimbursements.

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- Residential Development Property expenses decreased \$9.6 million, or 24.4%, to \$29.7 million, primarily due to:
 - a decrease of \$14.4 million primarily due to a reduction in cost of sales related to the sale of 19 fewer units at CRDI; partially offset by
 - an increase of \$2.6 million primarily due to increased cost of sales from the consolidation of MVDC and HADC in 2003.

OTHER INCOME/EXPENSE

Total other income and expenses increased \$5.1 million, or 7.5%, to \$73.6 million for the three months ended September 30, 2003, as compared to \$68.5 million for the three months ended September 30, 2002. The primary components of the increase in total other expenses are discussed below.

OTHER INCOME

Other income decreased \$8.2 million, or 31.4%, to \$17.9 million for the

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three months ended September 30, 2003, as compared to \$26.1 million for the three months ended September 30, 2002. The primary components of the decrease in other income are discussed below.

- Gain on joint venture of properties, net decreased \$17.7 million due to a net gain of \$17.7 million on the joint venture of three properties in 2002.
- Interest and other income decreased \$0.5 million due to the payoff of two notes receivable, with an aggregate principal balance of \$19.9 million, in 2002.
- Equity in net income of unconsolidated companies increased \$4.1 million, or 341.7%, to \$5.3 million, primarily due to:
 - an increase of \$4.6 million in Office Properties equity in net income primarily due to the gain on sale of three properties at Woodlands CPC in 2003; and
 - an increase of \$2.2 million in Temperature-Controlled Logistics Properties equity in income due to an increase in rental income due to improved operations, a gain on the sale of one facility and an improvement in real property depreciation, interest expense and other income; partially offset by
 - a decrease of \$2.5 million in Residential Development Properties equity in net income due to a reduction in lot sales at the Woodlands Land Development Company, L.P. and consolidation of the operations of MVDC and HADC as a result of the Company's purchase, on January 2, 2003, of the remaining economic interest in DBL, which owns a majority of the voting stock in MVDC and HADC.
- Income from investment land sales, net increased \$5.9 million, due to the gain on sale of two parcels of land, located in Texas, in 2003 compared to the sale of one parcel of land, located in Arizona, in 2002.

OTHER EXPENSES

Other expenses decreased \$3.1 million, or 3.3%, to \$91.6 million for the three months ended September 30, 2003, as compared to \$94.7 million for the three months ended September 30, 2002. The primary components of the decrease in other expenses are discussed below.

- Interest expense decreased \$4.1 million, or 8.7%, to \$43.0 million due to a decrease of 0.88% in the weighted average interest rate, partially offset by an increase of \$56.0 million in the weighted average debt balance.
- Depreciation expense increased \$1.0 million, or 2.7%, to \$37.7 million primarily due to an increase in Office Property depreciation expense primarily attributable to an increase in lease commissions and building improvements.

INCOME TAX BENEFIT

Income tax benefit increased \$2.4 million, or 96.0%, to \$4.9 million primarily due to an increase of \$2.7 million attributable to Residential Development Property operations, partially offset by a decrease of \$0.5 million from Resort/Hotel Property operations.

DISCONTINUED OPERATIONS

Income from discontinued operations on assets sold and held for sale decreased \$6.9 million, or 230.0%, to a loss of \$3.9 million, primarily due to:

- a decrease of \$3.4 million due to net operating losses in 2003 from seven office properties and one retail property held for sale in 2003;
- a decrease of \$2.0 million due to the impairment of three behavioral healthcare properties in 2003; and
- a decrease of \$1.4 million due to the gain on the sale of two office properties in 2002.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2003 TO THE NINE MONTHS ENDED SEPTEMBER 30, 2002

The following comparison of the results of operations for the nine months ended September 30, 2003 and the nine months ended September 30, 2002 reflects the consolidation of eight of the Resort/Hotel Properties and three of the Residential Development Properties commencing on February 14, 2002, as a result of the COPI transaction. Prior to February 14, 2002, the results of operations of the Resort/Hotel Properties were reflected in the Company's consolidated financial statements as lease payments and as equity in net income for the Residential Development Properties. Because the results of operations of these Properties are consolidated for the full period in 2003, as compared to a partial period in 2002, the Company's financial statements do not provide a direct comparison of the results of operations of the Resort/Hotel Properties or the Residential Development Properties for the full periods in 2003 and 2002. Additional information on the results of operations of the Resort/Hotel Properties or the Residential Development Properties for the full periods in both 2003 and 2002 is provided below under the captions "Resort/Hotel Properties" and "Residential Development Properties."

PROPERTY REVENUES

Total property revenues decreased \$62.1 million, or 8.5%, to \$665.5 million for the nine months ended September 30, 2003, as compared to \$727.6 million for the nine months ended September 30, 2002. The components of the decrease in total property revenues are discussed below.

- Office Property revenues decreased \$35.1 million, or 8.5%, to \$376.0 million, due to:
 - a decrease of \$24.8 million from the 57 consolidated Office Properties (excluding 2002 and 2003 acquisitions and properties held for sale) that the Company owned or had an interest in, primarily due to a 5.3 percentage point decline in occupancy (from 90.0% to 84.7%) resulting in decreases in both rental revenue and operating expense recoveries, and decreases in net parking revenues and charges for customary services;
 - a decrease of \$22.7 million resulting from the contribution of two Office Properties to joint ventures in the third quarter 2002;

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- a decrease of \$5.0 million related to the Carter Burgess Plaza Office Property due to the insurance settlement in 2002 for tornado damage; and
 - a decrease of \$0.9 million in development revenue from the construction of 5 Houston Center Office Property in 2002; partially offset by
 - an increase of \$9.3 million from the acquisition of the Johns Manville Plaza Office Property in August 2002 and The Colonnade Office Property in August 2003;
 - an increase of \$3.8 million resulting from third party management services and related direct expense reimbursements;
 - an increase of \$3.5 million in net lease termination fees to \$8.3 million for 2003;
 - an increase of \$1.3 million resulting from deferred rent recognition for a tenant in 2003; and
 - an increase of \$0.5 million in other revenues.
- Residential Development Property revenues decreased \$49.0 million, or 29.1%, to \$119.4 million, primarily due to a reduction in lot, unit and acreage sales at Desert Mountain and CRDI.
 - Resort/Hotel Property revenues increased \$22.0 million, or 14.9%, to \$170.1 million, primarily due to the consolidation of the operations of eight of the Resort/Hotel Properties for the full period in 2003 as compared to a partial period in 2002 as a result of the COPI transaction (prior to February 14, 2002 the Company recognized lease payments related to these properties).

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PROPERTY EXPENSES

Total property expenses decreased \$17.4 million, or 3.9%, to \$427.6 million for the nine months ended September 30, 2003, as compared to \$445.0 million for the nine months ended September 30, 2002. The components of the decrease in total property expenses are discussed below.

- Office Property expenses decreased \$1.5 million, or 0.8%, to \$179.8 million, primarily due to:
 - a decrease of \$9.3 million due to the contribution of two Office Properties to joint ventures in 2002; and
 - a decrease of \$1.3 million related to consulting fees incurred in 2002 on the 5 Houston Center Office Property development and a reduction in nonrecurring legal fees for the Office Segment; partially offset by
 - an increase of \$3.7 million from the acquisition of Johns Manville Plaza in August 2002 and The Colonnade in August 2003;
 - an increase of \$3.2 million related to the cost of providing third party management services to joint venture properties, which are recouped by increased third party fee income and

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direct expense reimbursements;

- an increase of \$1.4 million in operating expenses from the 57 consolidated Office Properties (excluding 2002 and 2003 acquisitions and properties held for sale) that the Company owned or had an interest in, due to:
 - \$7.8 million increase in utilities expense, primarily attributable to a new utility contract for the Texas Office Properties; and
 - \$0.3 million increase in other expenses; partially offset by
 - \$3.9 million decrease in property taxes;
 - \$1.6 million decrease in bad debt expense;
 - \$0.8 million decrease in building repairs, maintenance and security expense; and
 - \$0.4 million decrease in management fee expenses; and
- an increase of \$0.5 million in taxes/assessments related to various land parcels.
- Resort/Hotel Property expenses increased \$26.6 million, or 24.0%, to \$137.3 million, primarily due to the consolidation of the operations of eight of the Resort/Hotel Properties for a full period in 2003 as compared to a partial period in 2002 as a result of the COPI transaction on February 14, 2002.
- Residential Development Property expenses decreased \$42.5 million, or 27.8%, to \$110.5 million, primarily due to a reduction in lot, unit and acreage sales and related costs at Desert Mountain and CRDI.

OTHER INCOME/EXPENSE

Total other income and expenses increased \$20.3 million, or 9.2%, to \$240.0 million for the nine months ended September 30, 2003, as compared to \$219.7 million for the nine months ended September 30, 2002. The primary components of the increase in total other expenses are discussed below.

OTHER INCOME

Other income decreased \$15.7 million, or 33.8%, to \$30.8 million for the nine months ended September 30, 2003, as compared to \$46.5 million for the nine months ended September 30, 2002. The primary components of the decrease in other income are discussed below.

- Gain on joint venture of properties, net decreased \$17.6 million primarily due to a net gain of \$17.7 million on the joint venture of three properties in 2002.
- Equity in net income of unconsolidated companies decreased \$3.9 million, or 22.4%, to \$13.5 million, primarily due to:
 - a decrease of \$17.3 million in Residential Development Properties equity in net income primarily due to the consolidation of the operations of three of the Residential Development Corporations for the full period in 2003 as compared to a partial period in 2002 as a result of the COPI

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transaction on February 14, 2002; and

- a decrease of \$1.4 million in Residential Development Properties equity in net income due to the consolidation of the operations of MVDC and HADC as a result of the Company's purchase, on January 2, 2003, of the remaining economic interest in DBL, which owns a majority of the voting stock in MVDC and HADC; partially offset by

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- an increase of \$5.1 million in Office Properties equity in net income primarily due to the gain on sale of three properties at Woodlands CPC in 2003;
- an increase of \$3.9 million in Temperature-Controlled Logistics Properties equity in net income due to the loss on the sale of one facility in 2002 and the gain on the sale of one facility in 2003, a decrease in interest expense, an increase in rental income due to improved operations, an increase in other income related to interest earned on deferred rent balance and reduced general and administrative expenses;
- an increase of \$3.6 million in other unconsolidated companies primarily due to:
 - the consolidation of DBL on January 2, 2003, which incurred a \$4.8 million loss which includes a \$5.2 million impairment in 2002 for Class C-1 Notes issued by Juniper CBO 1999 Ltd., partially offset by earnings from G2 in 2002; and
 - \$0.9 million of equity earnings at DBL - ABC, Inc. in 2003; partially offset by
 - equity losses of \$1.8 million in 2003 resulting from operations at the Woodlands Conference Center and Country Club in 2003.
- an increase of \$2.1 million in Resort/Hotel Properties equity in net income, primarily due to a series of transactions in October 2002 in which the Company increased its equity interest in the Ritz Carlton Palm Beach Hotel from 25% to 50%, and the Company's \$1.9 million portion of a payment received from the operator of the Resort/Hotel Property pursuant to the terms of the operating agreement because the Property did not achieve the specified net operating income level for 2002.
- Interest and other income decreased \$1.7 million, or 28.8%, to \$4.2 million, primarily attributable to a decrease of \$1.1 million due to the payoff of the Temperature-Controlled Logistics Corporation's notes receivable and a decrease of \$0.8 million due to the payoff of the Manalapan Hotel Partners' note receivable, both in 2002.
- Income from investment land sales, net increased \$7.4 million, due to net income from the sales of three parcels of land, located in Texas, in 2003 compared to the sale of one parcel of land, located in Arizona, in 2002.

OTHER EXPENSES

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Other expenses increased \$4.6 million, or 1.7%, to \$270.8 million for the nine months ended September 30, 2003, as compared to \$266.2 million for the nine months ended September 30, 2002. The primary components of the increase in other expenses are discussed below.

- Depreciation expense increased \$9.0 million, or 8.8%, to \$110.9 million, primarily due to:
 - an increase of \$5.0 million in Residential Development Property and Resort/Hotel Property depreciation expense; and
 - an increase of \$3.8 million in Office Property depreciation expense, attributable to:
 - an increase of \$6.9 million due to an increase in lease commissions, building improvements and other leasing costs; and
 - an increase of \$1.3 million from Johns Manville Office Property acquired in August 2002; partially offset by
 - a decrease of \$4.4 million associated with the contribution of two Office Properties to joint ventures in 2002.
- Other expenses increased \$1.0 million due to a loss from the sale of marketable securities and franchise taxes related to the sale of a property in 2002.
- Corporate, general and administrative expenses increased \$0.7 million, or 3.5%, to \$20.5 million, primarily due to increased legal expenses, shareholder services and consulting costs related to the Sarbanes-Oxley Act.
- Interest expense decreased \$6.4 million, or 4.7%, to \$129.3 million due to a decrease of 0.49% in the weighted average interest rate, partially offset by an increase of \$32.8 million in the weighted average debt balance.

INCOME TAX BENEFIT

Income tax benefit increased \$4.0 million, or 61.5%, to \$10.5 million primarily due to an increase of \$9.7 million attributable to Residential Development operations and an increase of \$0.7 million attributable to Hotel/Resort operations, partially offset by a \$6.7 million deferred tax asset recorded in 2002.

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DISCONTINUED OPERATIONS

Income from discontinued operations on assets sold and held for sale decreased \$25.1 million, or 261.5%, to a loss of \$15.5 million, due to:

- a decrease of \$12.7 million, net of minority interest, due to the impairment in 2003 on the 1800 West Loop South Office Property;
- a decrease of \$7.0 million due to the gain on the sale of four

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office properties in 2002;

- a decrease of \$2.9 million due to the impairment of five behavioral healthcare properties in 2003 and one in 2002;
- a decrease of \$3.5 million due to net operating losses in 2003 from seven office properties and a retail property held for sale in 2003; and
- a decrease of \$0.3 million due to the loss on sales of three behavioral healthcare properties in 2003; partially offset by
- an increase of \$1.3 million due to the impairment in 2002 of two transportation companies sold in 2002.

RESORT/HOTEL PROPERTIES

The following provides a comparison of the results of operations of the Resort/Hotel Properties for the nine months ended September 30, 2003 and 2002.

(in thousands)	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	2003	2002	VARIANCE
Lease revenues	\$ 3,662	\$ 10,128	
Operating revenues	166,460	138,029	
Operating expenses	(137,325)	(110,701)	
Net Operating Income	\$ 32,797	\$ 37,456	\$ (4,659)

The net operating income for the Resort/Hotel Properties decreased \$4.7 million, or 12.5%, to \$32.8 million, primarily due to an increase of \$4.1 million in Resort/Hotel Property expenses, primarily consisting of insurance and workers' compensation expenses. Resort net operating income as a percentage of revenue decreased two percentage points from 19% to 17% and Business Class Hotel net operating income as a percentage of revenue decreased one percentage point from 23% to 22%.

RESIDENTIAL DEVELOPMENT PROPERTIES

The following provides a comparison of the results of operations of the Residential Development Properties for the nine months ended September 30, 2003 and 2002.

(in thousands)	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	2003	2002	VARIANCE
Operating revenues	\$ 119,380	\$ 168,372	
Operating expenses	(110,483)	(152,983)	
Depreciation and amortization	(7,817)	(4,885)	
Equity in net income of unconsolidated Companies	4,235	22,934	

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Income tax benefit (provision)	6,302	(3,411)	
Minority interests	(1,628)	(2,651)	
Discontinued operations	-	(1,539)	
	-----	-----	
Net Income	\$ 9,989	\$ 25,837	\$ (15,848)
	-----	-----	-----

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Net income for the Residential Development Properties decreased \$15.8 million, or 61.2%, to \$10.0 million, primarily due to:

- a decrease of approximately \$11.3 million due to the sale of 20 fewer lots and product mix at Desert Mountain, 175 fewer units and six fewer equivalent time share units at CRD, and 73 fewer lots and 10 fewer acres at The Woodlands in 2003;
- a decrease of approximately \$6.0 million as a result of gains recognized on the disposition of two properties at The Woodlands in 2002; and
- a decrease of \$0.8 million due to the sale of two transportation companies in December 2002 by CRDI; partially offset by
- an increase of \$1.4 million due to a goodwill impairment at CRDI in 2002 resulting from the adoption of SFAS No. 142.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

(in millions)	FOR THE NINE MONTHS ENDED SEPT 30, 2003
-----	-----
Cash provided by Operating Activities	\$ 55.6
Cash used in Investing Activities	(61.5)
Cash used in Financing Activities	(9.0)

Decrease in Cash and Cash Equivalents	\$ (14.9)
Cash and Cash Equivalents, Beginning of Period	78.4

Cash and Cash Equivalents, End of Period	\$ 63.5
	=====

OPERATING ACTIVITIES

The Company's cash provided by operating activities of \$55.6 million is attributable to Property operations.

INVESTING ACTIVITIES

The Company's cash used in investing activities of \$61.5 million is primarily attributable to:

- \$51.1 million for revenue and non-revenue enhancing tenant

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improvement and leasing costs for Office Properties;

- \$28.7 million for Residential Development Property investments;
- \$18.5 million for property improvements for rental properties, primarily attributable to non-recoverable building improvements for the Office Properties and replacement of furniture, fixtures and equipment for the Resort/Hotel Properties;
- \$14.8 million for the acquisition of rental properties;
- \$4.8 million of additional investment in unconsolidated Residential Development Properties;
- \$3.6 million for development of investment properties;
- \$1.4 million of additional investment in SunTx;
- \$0.9 million of additional investment in Temperature-Controlled Logistics Properties; and
- \$0.8 million resulting from an increase in restricted cash, due primarily to an increase in escrow deposits for capital expenditures at the Company's Office Properties.

The cash used in investing activities is partially offset by:

- \$19.1 million resulting from a decrease in notes receivable, primarily due to payment on a short-term seller financing note attributable to the sale of two Office Properties in The Woodlands and collections on developer financing notes at the Residential Development Properties related to lot and unit sales in 2002;
- \$16.0 million of proceeds from property sales;
- \$11.4 million in cash resulting from the consolidation of MVDC and HADC;
- \$7.7 million from return of investments in unconsolidated Office Properties;
- \$5.4 million from return of investments in SunTx;
- \$3.2 million from return of investments in Temperature-Controlled Logistics Properties; and
- \$0.2 million from return of investments in unconsolidated Residential Development Properties.

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FINANCING ACTIVITIES

The Company's cash used in financing activities of \$9.0 million is attributable to:

- \$134.0 million of payments under the Company's credit facility, primarily from proceeds from the new Cigna note;

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- \$131.6 million of distributions to common shareholders and unitholders;
- \$97.2 million of payments under other borrowings, partially resulting from the payoff of the Cigna Note;
- \$56.0 million of Residential Development Property note payments;
- \$19.7 million of distributions to preferred shareholders;
- \$9.5 million of net capital distributions to joint venture partners;
- \$2.6 million of debt financing costs; and
- \$0.9 million for common shares purchased under a compensation plan.

The cash used in financing activities is partially offset by:

- \$284.5 million of proceeds from borrowings under the Company's credit facility, a portion of which were used to pay off the Cigna Note and for investment in Residential Development Properties and tenant improvements, leasehold commissions and property improvements for the Office Segment;
- \$100.5 million of proceeds from other borrowings, primarily as a result of the new Cigna note; and
- \$57.5 million of proceeds from borrowings for construction costs for infrastructure development on Residential Development Properties.

LIQUIDITY REQUIREMENTS

DEBT FINANCING SUMMARY

The following tables show summary information about the Company's debt, including its share of unconsolidated debt, as of September 30, 2003. Additional information about the significant terms of the Company's debt financing arrangements, its unconsolidated debt, and the Company's guarantees of unconsolidated debt, is contained in Note 9, "Notes Payable and Borrowings under Credit Facility," Note 8, "Investments in Unconsolidated Companies," and Note 11, "Commitments and Contingencies" of Item 1, "Financial Statements."

(in thousands)	TOTAL COMPANY DEBT (1)	SHARE OF UNCONSOLIDATED DEBT (2)	TOTAL (3)
-----	-----	-----	-----
Fixed Rate Debt	\$ 1,677,547	\$ 323,767	\$ 2,001,314
Variable Rate Debt	898,922	236,349	1,135,271
	-----	-----	-----
Total Debt	\$ 2,576,469	\$ 560,116	\$ 3,136,585
	=====	=====	=====

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- (1) Balance excludes hedges. The percentages for fixed rate debt and variable rate debt, including the \$500.0 million of hedged variable rate debt, are 85% and 15%, respectively.
- (2) Balance excludes hedges. The percentages for fixed rate debt and variable rate debt, including the \$42.5 million of hedged variable rate debt, are 65% and 35%, respectively.
- (3) Balance excludes hedges. The percentages for total consolidated and unconsolidated fixed rate debt and variable rate debt, including the \$542.5 million of hedged variable rate debt, are 81% and 19%, respectively.

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Listed below are the aggregate principal payments by year required as of September 30, 2003. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	SECURED DEBT	UNSECURED DEBT	UNSECURED DEBT LINE OF CREDIT	TOTAL COMPANY DEBT	SHARE OF UNCONSOLIDATED DEBT	-----
2003	\$ 17,643	\$ 7,000	\$ -	\$ 24,643	\$ 12,027	\$
2004	285,554	-	314,500	600,054	86,910	
2005	381,903	-	-	381,903	162,286	
2006	18,920	-	-	18,920	23,977	
2007	26,892	250,000	-	276,892	48,384	
Thereafter	899,057	375,000	-	1,274,057	226,532	
	----- \$ 1,629,969 =====	----- \$ 632,000 =====	----- \$ 314,500 =====	----- \$ 2,576,469 =====	----- \$ 560,116 =====	----- \$ =====

CAPITAL EXPENDITURES

As of September 30, 2003, the Company had unfunded capital expenditures of approximately \$56.4 million relating to capital investments that are not in the ordinary course of operations of the Company's business segments. The table below specifies the Company's requirements for capital expenditures and its amounts funded as of September 30, 2003, and amounts remaining to be funded (future fundings classified between short-term and long-term capital requirements):

(in millions)	PROJECT	TOTAL PROJECT COST (1)	AMOUNT FUNDED AS OF SEPT 30, 2003	AMOUNT REMAINING TO FUND	CAPIT ----- SHORT-TE (NEXT 1 MONTHS)
OFFICE SEGMENT					
	Acquired or Developed Properties (3)	\$ 2.2	\$ (1.5)	\$ 0.7	\$ 0.
	Houston Center Shops Redevelopment (4)	11.6	(2.7)	8.9	8.
RESIDENTIAL DEVELOPMENT SEGMENT (5)					

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Tahoe Mountain Properties & Club	85.3	(78.9)	6.4	6.
Desert Mountain Golf Course and Water Supply Pipeline	55.9	(46.3)	9.6	9.
RESORT/HOTEL SEGMENT				
Canyon Ranch - Tucson Land - Construction Loan (6)	3.2	-	3.2	1.
OTHER				
SunTx (7)	19.0	(6.9)	12.1	4.
Crescent Spinco (8)	15.5	-	15.5	15.
	-----	-----	-----	-----
TOTAL	\$ 192.7	\$ (136.3)	\$ 56.4	\$ 46.
	=====	=====	=====	=====

- (1) All amounts are approximate.
- (2) Reflects the Company's estimate of the breakdown between short-term and long-term capital expenditures.
- (3) The capital expenditures reflect the Company's ownership percentage in each Property, 25% for 5 Houston Center Office Property and 30% for Five Post Oak Park Office Property.
- (4) Located within the Houston Center Office Property complex.
- (5) Represents capital expenditures for infrastructure and amenities. The Tahoe Mountain Properties and Club project costs exclude costs for projects in which the Company anticipates sales to occur over the next 18 months.
- (6) The Company committed to fund a construction loan to the purchaser of the land which will be secured by 20 developed lots and a \$0.6 million letter of credit.
- (7) This commitment is related to the Company's investment in a private equity fund.
- (8) The Company expects to form and capitalize Crescent Spinco, which will be a separate entity to be owned by the Company's shareholders and unitholders, and to cause the new entity to commit to acquire COPI's entire membership interest in AmeriCold Logistics.

LIQUIDITY OUTLOOK

The Company expects to fund its short-term capital requirements of approximately \$46.7 million through a combination of construction financing, net cash flow from operations, and borrowings under the Company's credit facility or additional debt facilities. The Company plans to meet its maturing debt obligations, through September 30, 2004, of approximately \$611.3 million, primarily through electing the extension option on its Credit Facility, refinancing or electing

the extension option on the Deutsche Bank-CMBS loan, and extending the maturity date of the Northwestern Life Note pursuant to the terms of an existing commitment.

The Company expects to meet its other short-term liquidity

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requirements, consisting of normal recurring operating expenses, debt service requirements, non-revenue enhancing capital expenditures and revenue enhancing capital expenditures (such as property improvements, tenant improvements and leasing costs), distributions to shareholders and unitholders, and unfunded expenses related to the COPI bankruptcy, primarily through cash flow provided by operating activities and return of capital from the Residential Development Segment. The Company expects to fund the remainder of these short-term liquidity requirements with borrowings under the Company's credit facility and additional debt facilities, and proceeds from the sale or joint venture of Properties.

The Company's long-term liquidity requirements as of September 30, 2003 consist primarily of debt maturities after September 30, 2004, which totaled approximately \$2.0 billion. The Company also has \$9.7 million of long-term capital expenditure requirements. The Company expects to meet these long-term liquidity requirements primarily through long-term secured and unsecured borrowings and other debt and equity financing alternatives as well as cash proceeds received from the sale or joint venture of Properties and return of capital investment from the Residential Development Segment.

Debt and equity financing alternatives currently available to the Company to satisfy its liquidity requirements and commitments for material capital expenditures include:

- Additional proceeds from the Company's Credit Facility under which the Company has up to \$53.9 million of borrowing capacity available as of September 30, 2003;
- Additional proceeds from the refinancing of existing secured and unsecured debt;
- Additional debt secured by existing underleveraged properties;
- Issuance of additional unsecured debt;
- Equity offerings including preferred and/or convertible securities; and
- Proceeds from joint ventures and Property sales.

The following factors could limit the Company's ability to utilize these financing alternatives:

- The reduction in the operating results of the Properties supporting the Company's Credit Facility to a level that would reduce the availability under the Credit Facility;
- A reduction in the operating results of the Properties could limit the Company's ability to refinance existing secured and unsecured debt;
- The Company may be unable to obtain debt or equity financing on favorable terms, or at all, as a result of the financial condition of the Company or market conditions at the time the Company seeks additional financing;
- Restrictions under the Company's debt instruments or outstanding equity may prohibit it from incurring debt or issuing equity on terms available under then-prevailing market conditions or at all; and
- The Company may be unable to service additional or replacement debt due to increases in interest rates or a decline in the Company's operating performance.

The Company's portion of unconsolidated debt maturing through September

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30, 2004 is \$30.3 million. The Company's portion of unconsolidated debt maturing after September 30, 2004 is \$529.8 million. Unconsolidated debt is the liability of the unconsolidated entity, is typically secured by that entity's property, and is non-recourse to the Company except where a guarantee exists.

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DEBT FINANCING

DEBT FINANCING ARRANGEMENTS

The significant terms of the Company's primary debt financing arrangements existing as of September 30, 2003, are shown below:

DESCRIPTION (1)	MAXIMUM BORROWINGS	BALANCE OUTSTANDING AT SEPT 30, 2003	INTEREST RATE AT SEPT 30, 2003	

SECURED FIXED RATE DEBT: (dollars in thousands)				
AEGON Partnership Note	\$ 261,412	\$ 261,412	7.53	%
LaSalle Note I	235,829	235,829	7.83	
JP Morgan Mortgage Note	192,395	192,395	8.31	
LaSalle Note II	160,072	160,072	7.79	
Cigna Note	70,000	70,000	5.22	
Bank of America Note	38,000	38,000	5.53	
Metropolitan Life Note V	37,667	37,667	8.49	
Northwestern Life Note	26,000	26,000	7.66	
Woodmen of the World Note	8,500	8,500	8.20	
Nomura Funding VI Note	7,898	7,898	10.07	
Mitchell Mortgage Note	1,743	1,743	7.00	
Construction, Acquisition and other obligations for various CRDI and MVDC projects	13,031	13,031	2.90 to 11.25	
Subtotal/Weighted Average	\$ 1,052,547	\$ 1,052,547	7.59	%

UNSECURED FIXED RATE DEBT:				
The 2009 Notes	\$ 375,000	\$ 375,000	9.25	%
The 2007 Notes	250,000	250,000	7.50	
Subtotal/Weighted Average	\$ 625,000	\$ 625,000	8.55	%

SECURED VARIABLE RATE DEBT:				
Fleet Fund I and II Term Loan	\$ 275,000	\$ 275,000	4.38	%
Deutsche Bank-CMBS Loan (2)	220,000	220,000	5.84	
National Bank of Arizona	51,825	49,191	4.00 to 5.00	
FHI Finance Loan	10,000	435	5.62	
Construction, Acquisition and other obligations for various CRDI and MVDC projects	74,862	32,796	4.00 to 5.00	
Subtotal/Weighted Average	\$ 631,687	\$ 577,422	4.87	%

UNSECURED VARIABLE RATE DEBT:				
Credit Facility (3)	\$ 383,570	\$ 314,500 (4)	3.00	%
JP Morgan Loan Sales Facility (5)	50,000	7,000	2.50	

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Subtotal/Weighted Average	\$ 433,570	\$ 321,500	2.99	%
TOTAL/WEIGHTED AVERAGE	\$ 2,742,804	\$ 2,576,469	6.65	% (6

AVERAGE REMAINING TERM

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- (1) For more information regarding the terms of the Company's debt financing arrangements, including the amounts payable at maturity, properties securing the Company's secured debt and the method of calculation of the interest rate for the Company's variable rate debt, see Note 9, "Notes Payable and Borrowings under the Credit Facility," included in Item 1, "Financial Statements."
 - (2) This loan has two one-year extension options.
 - (3) This facility has a one-year extension option.
 - (4) The outstanding balance excludes letters of credit issued under the credit facility of \$15.2 million.
 - (5) This is an uncommitted facility.
 - (6) The overall weighted average interest rate does not include the effect of the Company's cash flow hedge agreements. Including the effect of these agreements, the overall weighted average interest rate would have been 6.73%.

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In April 2003, the Company obtained modifications to certain definitions relating to financial and other covenants in the \$400 million Fleet Revolving Credit Facility and \$275 million Fleet Fund I and II Term Loan. The modifications did not alter the Company's borrowing capacity, scheduled principal payments, interest rates, or maturity dates.

In October 2003, the Company received approval from the lending group for the Fleet Revolving Credit Facility and \$275 million Fleet Funding I and II Term Loan for less restrictive key financial and other covenants in each facility. The Company requested these modifications due to the slowdown in the general business environment and its impact on the Company's core business cash flow. In exchange for approving the modifications, the Company agreed to an increase in the interest rate spread over LIBOR by 25 basis points (approximately \$1.6 million interest expense based on maximum borrowings) for both the Credit Facility and the Term Loan.

The Company is currently negotiating the terms of a \$75 million secured loan with Fleet Bank. The loan is expected to have a term of 120 days and close prior to November 14, 2003. The Company expects to refinance the loan with a \$75 million term loan secured by an Office Property.

As of September 30, 2003, no event of default had occurred, and the Company was in compliance with all of its financial covenants related to its outstanding debt.

The Company is generally obligated by its debt agreements to comply with financial covenants, affirmative covenants and negative covenants, or some combination of these types of covenants. Failure to comply with covenants under the Credit Facility or other debt instruments could result in an event of

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default under one or more of the Company's debt instruments. Any uncured or unwaived events of default under the Company's loans can trigger an increase in interest rates, an acceleration of payment on the loan in default or, for the Company's secured debt, foreclosure on the Property securing the debt, and could cause the credit facility to become unavailable to the Company. In addition, an event of default by the Company or any of its subsidiaries with respect to any indebtedness in excess of \$5.0 million generally will result in an event of default under the credit facility and the Fleet Fund I and II Term Loan after the notice and cure periods for the other indebtedness have passed. As a result, any uncured or unwaived event of default could have an adverse effect on the Company's business, financial condition, or liquidity.

The Company's debt facilities generally prohibit loan prepayment for an initial period, allow prepayment with a penalty during a following specified period and allow prepayment without penalty after the expiration of that period. During the nine months ended September 30, 2003, there were no circumstances that required prepayment or increased collateral related to the Company's existing debt.

The Company's policy with regard to the incurrence and maintenance of debt is based on a review and analysis of the following:

- investment opportunities for which capital is required and the cost of debt in relation to such investment opportunities;
- the type of debt available (secured or unsecured; variable or fixed);
- the effect of additional debt on existing covenant ratios;
- the maturity of the proposed debt in relation to maturities of existing debt; and
- exposure to variable rate debt and alternatives such as interest-rate swaps and cash flow hedges to reduce this exposure.

UNCONSOLIDATED DEBT ARRANGEMENTS

As of September 30, 2003, the total debt of the unconsolidated joint ventures and equity investments in which the company has ownership interests was \$1.4 billion, of which the Company's share was \$560.1 million. The Company had guaranteed \$12.6 million of this debt as of September 30, 2003. Additional information relating to the Company's unconsolidated debt financing arrangements is contained in Note 8, "Investments in Unconsolidated Companies," of Item 1, "Financial Statements."

Under the terms of the Main Street Partners, L.P., ("Main Street Partners") loan agreement, the Bank One Center Office Property must maintain certain coverage ratios in order for Main Street Partners to distribute cash. As of September 30, 2003, the Property income was not sufficient to provide the minimum required coverages. While this does not constitute a default under the loan agreement, Main Street Partners will not be permitted to distribute cash during the period during which minimum required coverages are not maintained.

GUARANTEE COMMITMENTS

The Company's guarantees in place as of September 30, 2003 are listed

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

DEBTOR	GUARANTEED AMOUNT OUTSTANDING AT SEPT 30, 2003
	(in thousands)
CRDI - Eagle Ranch Metropolitan District - Letter of Credit (1)	\$ 15,197
Blue River Land Company, L.L.C. (2) (3)	5,355
Main Street Partners, L.P. - Letter of Credit (2) (4)	4,250
Manalapan Hotel Partners, L.L.C. - Letter of Credit (2) (5)	3,000

Total Guarantees	\$ 27,802
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- (1) The Company provides a \$15.2 million letter of credit to support the payment of interest and principal of the Eagle Ranch Metropolitan District Revenue Development Bonds and Limited Tax Bonds.
 - (2) See Note 8, "Investments in Unconsolidated Companies - Unconsolidated Debt Analysis," in Item 1, "Financial Statements," for a description of the terms of this debt.
 - (3) A fully consolidated entity of CRDI, of which CRDI owns 88.3%, provides a guarantee of 70% of the outstanding balance of up to a \$9.0 million loan to Blue River Land Company, L.L.C. There was approximately \$7.7 million outstanding at September 30, 2003 and the amount guaranteed was \$5.4 million.
 - (4) The Company and its joint venture partner each provide a \$4.3 million letter of credit to guarantee repayment of up to \$8.5 million of the loan to Main Street Partners, L.P.
 - (5) The Company and its joint venture partner each provide a \$3.0 million letter of credit to guarantee repayment of up to \$6.0 million of the Manalapan debt with Corus Bank.

OTHER COMMITMENTS

On September 23, 2003, the Company entered into a one year option agreement for the future sale of approximately 1.5 acres of undeveloped investment land located in Houston, Texas for approximately \$7.8 million. The Company received \$0.01 million consideration in September 2003. The option agreement may be extended up to four years on a yearly basis at the option of the prospective purchaser for additional consideration.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other

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identified risks. Derivative financial instruments are used to convert a portion of the Company's variable rate debt to fixed rate debt and to manage its fixed to variable rate debt ratio. To accomplish this objective, the Company primarily uses interest rate swaps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the payment of fixed rate amounts in exchange for variable rate payments over the life of the agreements without exchange of the underlying principal amount. For the nine months ended September 30, 2003, such derivatives were used to hedge the variable cash flows associated with existing variable rate debt.

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The following table shows information regarding the Company's cash flow hedge agreements during the nine months ended September 30, 2003, and additional interest expense and unrealized gains (losses) recorded in Accumulated Other Comprehensive Income ("OCI").

EFFECTIVE DATE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FAIR MARKET VALUE	ADDITIONAL INTEREST EXPENSE
(in thousands)					
9/01/99	\$ 200,000	9/02/03	6.18%	\$ -	\$ 6,562
5/15/01	200,000	2/03/03	7.11%	-	1,048
4/18/00	100,000	4/18/04	6.76%	(3,346)	4,179
2/15/03	100,000	2/15/06	3.26%	(3,280)	1,286
2/15/03	100,000	2/15/06	3.25%	(3,273)	1,285
9/02/03	200,000	9/01/06	3.72%	(9,094)	419
				\$ (18,993)	\$ 14,779

CRDI, a consolidated subsidiary of the Company, also uses derivative financial instruments to convert a portion of its variable rate debt to fixed rate debt.

The following table shows information regarding CRDI's cash flow hedge agreements and additional capitalized interest during the nine months ended September 30, 2003. Unlike the additional interest on the Company's cash flow hedges, which was expensed, the additional interest on CRDI's cash flow hedges was capitalized, as it is related to debt incurred for projects that are currently under development. Also presented are the unrealized gains in OCI for the nine months ended September 30, 2003.

ISSUE DATE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FAIR MARKET VALUE	ADDITIONAL CAPITALIZED INTEREST
(in thousands)					
9/4/01	\$ 4,650	9/4/03	4.12%	\$ -	\$ 91
9/4/01	3,700	9/4/03	4.12%	-	72

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\$ -	\$ 163
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In June 2003, CRDI entered into an interest rate cap agreement with Bank of America with an initial notional amount of \$0.8 million, increasing monthly to up to \$28.3 million in September 2004, based on the amount of the loan. The agreement limits the interest rate on the notional amount to a maximum prime rate, as defined in the agreement, of 4.1%.

RECENT DEVELOPMENTS

ASSET ACQUISITIONS

OFFICE PROPERTIES

On August 26, 2003, the Company acquired The Colonnade, an 11-story, 216,000 square foot Class A office tower, located in the Coral Gables submarket of Miami, Florida. The Company acquired the Office Property for approximately \$51.4 million, funded by the Company's assumption of a \$38 million loan from Bank of America and a draw on the Company's credit facility. The Office Property is wholly-owned and included in the Company's Office Segment.

RESIDENTIAL DEVELOPMENT PROPERTIES

On August 14, 2003, CRDI, a consolidated subsidiary of the Company, completed the purchase of a tract of undeveloped land in Eagle County, Colorado for approximately \$15.5 million, funded by a draw on the Company's credit facility.

JOINT VENTURES

On October 8, 2003, the Company entered into a joint venture, Crescent One Briar Lake L.P., with affiliates of J.P. Morgan Fleming Asset Management, Inc. The joint venture purchased One Briar Lake Plaza, located in the Westchase submarket of Houston, Texas, for approximately \$74.4 million. The Property is a 20 story, 502,000 square foot

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Class A office building. The affiliates of J.P. Morgan Fleming Asset Management, Inc. own a 70% interest, and the Company owns a 30% interest, in the joint venture. The initial cash equity contribution to the joint venture was \$24.4 million, of which the Company's portion was \$7.3 million. The Company's equity contribution and an additional working capital contribution of \$0.5 million were funded primarily through a draw under the Company's credit facility. The remainder of the purchase price of the Property was funded by a secured loan to the joint venture in the amount of \$50.0 million. None of the mortgage financing at the joint venture level is guaranteed by the Company. The Company manages and leases the Office Property on a fee basis. The Office Property is an unconsolidated investment and will be included in the Company's Office Segment.

ASSETS HELD FOR SALE AND ASSET DISPOSITIONS

OFFICE SEGMENT

As of September 30, 2003, the 1800 West Loop South Office Property located in the West Loop/Galleria submarket in Houston, Texas was held for sale. During the first quarter of 2003, the Company recognized an approximately \$12.7

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million impairment charge, net of minority interests, on the 1800 West Loop South Office Property.

In addition, as of September 30, 2003, the Las Colinas Plaza retail property, located in the Las Colinas submarket in Dallas, Texas, the Liberty Plaza Office Property located in the Far North Dallas submarket in Dallas, Texas, the 12404 Park Central Office Property located in the LBJ Freeway submarket in Dallas, Texas and the four Woodlands Office Properties located in The Woodlands submarket in Houston, Texas were held for sale.

In October 2003, the Las Colinas Plaza and 1800 West Loop South Office Properties were under contract for sale. The sales are anticipated to close in December 2003.

RESORT/HOTEL SEGMENT

In October 2003, Manalapan entered into a contract to sell the Ritz Carlton Palm Beach Resort/Hotel Property. The sale is anticipated to close in November 2003. The Company's equity interest in Manalapan is 50%.

BEHAVIORAL HEALTHCARE PROPERTIES

On February 27, 2003, the Company sold a behavioral healthcare property for \$2.0 million, consisting of \$1.3 million in cash and a \$0.7 million note receivable. The Company recognized a loss on the sale of this property of approximately \$0.3 million. A \$2.3 million impairment charge, net of minority interest, had been recognized during 2002 related to this property.

On May 2, 2003, the Company sold a behavioral healthcare property for \$2.1 million. The Company recognized a loss on the sale of this property of approximately \$0.1 million. A \$0.7 million impairment charge, net of minority interest, was recognized during the first quarter of 2003 related to this property.

On July 10, 2003, the Company sold a behavioral healthcare property for \$2.3 million and recognized a minimal gain on the sale. A \$0.8 million impairment charge, net of minority interest, was recognized during the second quarter of 2003 related to this property.

As of September 30, 2003, the Company owned four behavioral healthcare properties. Impairment charges of approximately \$2.0 million, net of minority interests, were recognized during the third quarter related to three of these four remaining properties. Two of these properties were sold on October 15, 2003.

INVESTMENT LAND DISPOSITIONS

On April 24, 2003, the Company completed the sale of approximately one-half acre of undeveloped land located in Dallas, Texas. The sale generated net proceeds and a net gain of approximately \$0.3 million. This land was wholly-owned by the Company.

On May 15, 2003, the Company completed the sale of approximately 24.8 acres of undeveloped land located in Coppell, Texas. The sale generated net proceeds of \$3.0 million and a net gain of approximately \$1.1 million. This land was wholly-owned by the Company.

On June 27, 2003, the Company sold approximately 3.5 acres of

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undeveloped land located in Houston, Texas. The sale generated proceeds of \$2.1 million, net of closing costs, and a note receivable in the amount of \$11.8 million, with annual installments of principal and interest payments beginning June 27, 2004, through maturity on June 27, 2010. The principal payment amounts are calculated based upon a 20-year amortization and the interest rate is 4% for the first two years and thereafter the prime rate, as defined in the note, through maturity. Due to a modification of the sales agreement after June 30, 2003, the Company recognized a net gain on the sale of this land of approximately \$8.9 million in the third quarter of 2003. This land was wholly-owned by the Company.

On September 30, 2003, the Company completed the sale of approximately 3.1 acres of undeveloped land located in the Greenway Plaza office complex of Houston, Texas. The sale generated net proceeds of approximately \$5.3 million and a net gain of approximately \$2.4 million. This land was wholly-owned by the Company.

RELATED PARTY TRANSACTIONS

DBL HOLDINGS, INC.

Since June 1999, the Company contributed approximately \$23.8 million to DBL. The contribution was used by DBL to make an equity contribution to DBL-ABC, Inc., which committed to purchase a limited partnership interest representing a 12.5% interest in G2. G2 was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments and is managed and controlled by an entity that is owned equally by GMSP and GMACCM. The G2 general partner is entitled to an annual asset management fee. The ownership structure of GMSP consists of an approximately 86% limited partnership interest owned directly and indirectly by Richard E. Rainwater, Chairman of the Board of Trust Managers of the Company, and an approximately 14% general partnership interest, of which approximately 6% is owned by Darla Moore, who is married to Mr. Rainwater, and approximately 6% is owned by John C. Goff, Vice-Chairman of the Company's Board of Trust Managers and Chief Executive Officer of the Company. The remaining approximately 2% general partnership interest is owned by parties unrelated to the Company. At September 30, 2003, DBL had an approximately \$13.4 million investment in G2.

On January 2, 2003, the Company purchased the remaining 2.56% economic interest, representing 100% of the voting stock, in DBL from Mr. Goff. Total consideration paid for Mr. Goff's interest was \$0.4 million. The Board of Trust Managers of the Company, including all the independent trust managers, approved the transaction based in part on an appraisal of the assets of DBL by an independent appraisal firm. As a result of this transaction, DBL is wholly-owned by the Company and is consolidated in the Residential Development Segment as of and for the nine months ended September 30, 2003. Also, because DBL owns a majority of the voting stock in MVDC and HADC, the Company has consolidated these two Residential Development Corporations as of and for the nine months ended September 30, 2003.

UNCONSOLIDATED INVESTMENTS

INVESTMENTS IN UNCONSOLIDATED COMPANIES

The Company has investments of 20% to 50% in seven unconsolidated joint ventures that own seven Office Properties. These investments are accounted for using the equity method of accounting.

The Company, through ownership interests of 50% or less, or ownership of non-voting interests only, has other unconsolidated investments. These investments are accounted for using the equity method of accounting.

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See "Recent Developments - Joint Ventures" for information regarding an unconsolidated joint venture arrangement entered into subsequent to September 30, 2003.

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The following is a summary of the Company's ownership in significant unconsolidated joint ventures and investments as of September 30, 2003.

ENTITY	CLASSIFICATION
Main Street Partners, L.P.	Office (Bank One Center-Dallas)
Crescent Miami Center, L.L.C.	Office (Miami Center - Miami)
Crescent 5 Houston Center, L.P.	Office (5 Houston Center-Houston)
Austin PT BK One Tower Office Limited Partnership	Office (Bank One Tower-Austin)
Houston PT Four Westlake Park Office Limited Partnership	Office (Four Westlake Park-Houston)
Houston PT Three Westlake Park Office Limited Partnership	Office (Three Westlake Park - Houston)
Crescent Five Post Oak Park L.P.	Office (Five Post Oak - Houston)
The Woodlands Commercial Properties Company, L.P.	Office
The Woodlands Land Development Company, L.P.	Residential Development
Blue River Land Company, L.L.C.	Residential Development
EW Deer Valley, L.L.C.	Residential Development
Manalapan Hotel Partners, L.L.C.	Resort/Hotel (Ritz Carlton Palm Beach)
Vornado Crescent Portland Partnership	Temperature-Controlled Logistics
Vornado Crescent Carthage and KC Quarry, L.L.C.	Temperature-Controlled Logistics
CR License, L.L.C.	Other
The Woodlands Operating Company, L.P.	Other
Canyon Ranch Las Vegas, L.L.C.	Other
SunTx Fulcrum Fund, L.P.	Other
G2 Opportunity Fund, L.P.	Other

- (1) The remaining 50% interest in Main Street Partners, L.P. is owned by Trizec Properties, Inc.
- (2) The remaining 60% interest in Crescent Miami Center, L.L.C. is owned by an affiliate of a fund managed by JP Morgan Fleming Asset Management, Inc.
- (3) The remaining 75% interest in Crescent 5 Houston Center, L.P. is owned by a pension fund advised by JP Morgan Fleming Asset Management, Inc.
- (4) The remaining 80% interest in each of Austin PT BK One Tower Office Limited Partnership, Houston PT Three Westlake Park Office Limited Partnership and Houston PT Four Westlake Park Office Limited Partnership is owned by an affiliate of General Electric Pension Trust.
- (5) The remaining 70% interest in Crescent Five Post Oak Park L.P. is owned by an affiliate of General Electric Pension Trust.
- (6) The remaining 57.5% interest in each of the WLDC, Woodlands CPC and The Woodlands Operating Company, L.P. is owned by an affiliate of Morgan Stanley.

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- (7) Distributions are made to partners based on specified payout percentages. During the nine months ended September 30, 2003, the payout percentage to the Company was 52.5%.
- (8) The remaining 50% interest in Blue River Land Company, L.L.C. is owned by parties unrelated to the Company.
- (9) The remaining 58.3% interest in EW Deer Valley, L.L.C. is owned by parties unrelated to the Company.
- (10) The remaining 50% interest in Manalapan is owned by WB Palm Beach Investors, L.L.C. In October 2003, Manalapan entered into a contract to sell the Ritz Carlton Palm Beach Resort/Hotel Property. The sale is anticipated to close in November 2003. The Company's equity interest in Manalapan is 50%.
- (11) The remaining 60% interest in Vornado Crescent Portland Partnership is owned by Vornado Realty Trust, L.P.
- (12) The remaining 44% in Vornado Crescent Carthage and KC Quarry, L.L.C. is owned by Vornado Realty Trust, L.P.
- (13) The remaining 70% interest in CR License, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties.
- (14) The remaining 35% interest in Canyon Ranch Las Vegas, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties.
- (15) SunTx's objective is to invest in a portfolio of acquisitions that offer the potential for substantial capital appreciation. The remaining 71.9% of SunTx is owned by a group of individuals unrelated to the Company. The Company's ownership percentage will decline by the closing date of SunTx as capital commitments from third parties are secured. The Company's projected ownership interest at the closing of SunTx is approximately 7.5% based on SunTx manager's expectations for the final SunTx capitalization. The Company accounts for its investment in SunTx under the cost method. The Company's investment at September 30, 2003 was \$6.9 million.
- (16) G2 was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments. GMSP and GMACCM each own 21.875% of G2, with the remaining 43.75% owned by parties unrelated to the Company. See Note 15, "Related Party Transactions," in Item 1, "Financial Statements," for information regarding the ownership interests of trust managers and officers of the Company in GMSP.

TEMPERATURE-CONTROLLED LOGISTICS SEGMENT

As of September 30, 2003, the Company held a 40% interest in the Temperature-Controlled Logistics Partnership, which owns the Temperature-Controlled Logistics Corporation, which directly or indirectly owns the 87 Temperature-Controlled Logistics Properties, with an aggregate of approximately 440.7 million cubic feet (17.5 million square feet) of warehouse space.

The Temperature-Controlled Logistics Corporation leases the Temperature-Controlled Logistics Properties to AmeriCold Logistics, a limited liability company owned 60% by Vornado Operating L.P. and 40% by a subsidiary of

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COPI. The Company has no economic interest in AmeriCold Logistics. See Note 16, "COPI," in Item 1, "Financial Statements," for information on the proposed acquisition of COPI's 40% interest in AmeriCold Logistics by a new entity to be owned by the Company's shareholders.

AmeriCold Logistics, as sole lessee of the Temperature-Controlled Logistics Properties, leases the Temperature-Controlled Logistics Properties from the Temperature-Controlled Logistics Corporation under three triple-net master leases, as amended. On February 22, 2001, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics agreed to restructure certain financial terms of the leases, including a reduction of the rental obligation for 2001 and 2002, the increase of the Temperature-Controlled Logistics Corporation's share of capital expenditures for the maintenance of the properties (effective January 1, 2000) and the extension of the date on which deferred rent is required to be paid to December 31, 2003. On March 7, 2003, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics amended the leases to further extend the date on which deferred rent is required to be paid to December 31, 2004.

AmeriCold Logistics deferred \$32.5 million of the total \$115.1 million of rent payable for the nine months ended September 30, 2003. The Company's share of the deferred rent was \$13.0 million. The Company recognizes rental income from the Temperature-Controlled Logistics Properties when earned and collected and has not recognized the \$13.0 million of deferred rent in equity in net income of the Temperature-Controlled Logistics Properties for the nine months ended September 30, 2003. As of September 30, 2003, the Temperature-Controlled Logistics Corporation's deferred rent and valuation allowance from AmeriCold Logistics were \$73.1 million and \$66.8 million, respectively, of which the Company's portions were \$29.2 million and \$26.7 million, respectively.

The Company and Vornado Realty Trust, L.P. have engaged underwriters to explore additional debt financing alternatives for the Temperature-Controlled Logistics Corporation. It is anticipated that this financing will be a non-recourse, secured term loan in an amount in excess of \$200 million. If this financing is obtained, the expected use of proceeds will allow the Company to make a reduction in its investment in this business and will provide the business with additional financing for expansion.

VORNADO CRESCENT CARTHAGE AND KC QUARRY, L.L.C.

As of September 30, 2003, the Company held a 56% interest in VCQ. The assets of VCQ include two quarries and the related land. The Company accounts for this investment as an unconsolidated equity investment.

On December 31, 2002, VCQ purchased \$5.7 million of trade receivables from AmeriCold Logistics at a 2% discount. The Company contributed approximately \$3.1 million to VCQ for the purchase of the trade receivables. The receivables were collected during the three months ended March 31, 2003.

On March 28, 2003, VCQ purchased \$6.6 million of trade receivables from AmeriCold Logistics at a 2% discount. VCQ used cash from collection of trade receivables previously purchased from AmeriCold Logistics and a \$2.0 million contribution from its owners, of which approximately \$0.8 million represented the Company's contribution, for the purchase of the trade receivables. The receivables were collected during the second quarter of 2003.

On May 22, 2003, VCQ distributed cash of \$3.2 million to the Company.

SIGNIFICANT ACCOUNTING POLICIES

CRITICAL ACCOUNTING POLICIES

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

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

- Valuation for impairment of the Company's assets and investments,
- Relative Fair Value Method/Cost of Sales (Residential Development entities),
- Capitalization of Interest (Residential Development entities),
- Allowance for doubtful accounts, and
- Allocation of Purchase Price of Acquired Operating Assets.

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

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

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reduce net income.

RELATIVE SALES METHOD AND PERCENTAGE OF COMPLETION. The Company recognizes earnings from the sale of Residential Development Properties when a third-party buyer has made an adequate cash down payment and has attained the attributes of ownership. The cost of residential property sold is defined based on the type of product being purchased. The cost of sales for residential lots is generally determined as a specific percentage of the sales revenues recognized for each Residential Development project. The percentages are based on total estimated development costs and sales revenue for each Residential Development project. These estimates are revised annually and are based on the then-current development strategy and operating assumptions utilizing internally developed projections for product type, revenue and related development costs. The cost of sale for residential units (such as townhomes and condominiums) is determined using the relative sales value method. If the residential unit has been sold prior to the completion of infrastructure cost, and those uncompleted costs are not significant in relation to total costs, the full accrual method is utilized. Under this method, 100% of the revenue is recognized and a commitment liability is established to reflect the allocated estimated future costs to complete the residential unit. If the Company's estimates of costs or the percentage of completion is incorrect, it could result in either an increase or decrease in cost of sales expense or revenue recognized and therefore, an increase or decrease in net income.

CAPITALIZATION OF INTEREST. The Company commences capitalization of interest when development activities and expenditures begin and ceases to capitalize interest upon "completion," which is defined as the time when the asset is ready for its intended use. The Company uses judgment in determining the time period over which to capitalize such interest and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period is extended, more interest is capitalized, thereby increasing net income.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. The Company's accounts receivable balance is reduced by an allowance for amounts that may become uncollectible in the future. The Company's receivable balance is composed primarily of rents and operating cost recoveries due from its tenants. The Company also maintains an allowance for deferred rent receivables which arise from the straight-lining of rents. The allowance for doubtful accounts is reviewed at least quarterly for adequacy by reviewing such factors as the credit quality of the Company's tenants, any delinquency in payment, historical trends and current economic conditions. If the assumptions regarding the collectibility of accounts receivable prove incorrect, the Company could experience write-offs in excess of its allowance for doubtful accounts, which would result in a decrease in net income.

ACQUISITION OF OPERATING PROPERTIES. The Company allocates the purchase price of acquired properties to tangible and identified intangible assets acquired based on their fair values in accordance with SFAS No. 141, "Business Combinations."

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In making estimates of fair value for purposes of allocating purchase price, management utilizes sources, including, but not limited to, independent value consulting services, independent appraisals that may be obtained in connection with financing the respective property, and other market data. Management also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

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

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

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

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

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

ADOPTION OF NEW ACCOUNTING STANDARDS

SFAS NO. 145. In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires the reporting of gains and losses from early extinguishment of debt be included in the determination of net income unless criteria in Accounting Principles Board Opinion No. 30, "Reporting the

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Results of Operations," which allows for extraordinary item classification, are met. The provisions of this Statement related to the rescission of Statement No. 4 are to be applied in fiscal years beginning after May 15, 2002. The Company adopted this Statement for fiscal 2003 and expects no impact in 2003 beyond the classification of costs related to early extinguishments of debt, which were shown in the Company's 2001 Consolidated Statements of Operations as an extraordinary item.

SFAS NOS. 148 AND 123. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," effective for fiscal years ending after December 15, 2002, to amend the transition and disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." In addition to the prospective transition method of accounting for Stock-Based Employee Compensation using the fair value method provided in SFAS No. 123, SFAS No. 148 permits two additional transition methods, both of which avoid the ramp-up effect arising

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from prospective application of the fair value method. The Retroactive Restatement Method requires companies to restate all periods presented to reflect the Stock-Based Employee Compensation under the fair value method for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. The Modified Prospective Method requires companies to recognize Stock-Based Employee Compensation from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value method in SFAS No. 123 had been used to account for employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. Also, in the absence of a single accounting method for Stock-Based Employee Compensation, SFAS No. 148 expands disclosure requirements from those existing in SFAS No. 123, and requires disclosure of whether, when, and how an entity adopted the preferable, fair value method of accounting.

Effective January 1, 2003, the Company adopted the fair value expense recognition provisions of SFAS No. 123 on a prospective basis as permitted, which requires that the value of stock options at the date of grant be amortized ratably into expense over the appropriate vesting period. During the nine months ended September 30, 2003, the Company granted stock options and recognized compensation expense that was not significant to its results of operations. With respect to the Company's stock options which were granted prior to 2003, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25"). Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the Company's common shares at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. During the nine months ended September 30, 2003, no compensation cost was recognized for grants of stock options made prior to 2003 under the Plans because the Company's policy is to grant stock options with an exercise price equal to the quoted closing market price of the Company's common shares on the grant date. Had compensation cost for the Plans been determined based on the fair value at the grant dates for awards under the Plans consistent with SFAS No. 123, the Company's net (loss) income and (loss) earnings per share would have been reduced to the following pro forma amounts:

FOR THE THREE MONTHS ENDED
SEPTEMBER 30,

FOR THE NI
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(in thousands, except per share amounts)	2003	2002	2003
Net (loss) income available to common shareholders, as reported	\$ (3,305)	\$ 21,174	\$ (28,6
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(700)	(1,011)	(2,3
Pro forma net (loss) income	\$ (4,005)	\$ 20,163	\$ (30,9
(Loss) earnings per share:			
Basic - as reported	\$ (0.03)	\$ 0.20	\$ (0.
Basic - pro forma	\$ (0.04)	\$ 0.19	\$ (0.
Diluted - as reported	\$ (0.03)	\$ 0.20	\$ (0.
Diluted - pro forma	\$ (0.04)	\$ 0.19	\$ (0.

SFAS NO. 149. In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company adopted SFAS 149 effective July 1, 2003. The adoption of this Statement did not have a material impact on the Company's financial condition or its results of operations.

SFAS NO. 150. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer should classify and measure certain financial instruments that have both liability and equity characteristics. Most provisions of this Statement were to be applied to financial instruments entered into or modified after May 31, 2003 and to existing instruments as of the beginning of the first interim financial reporting period after June 15, 2003. On October 29, 2003, the FASB agreed to defer indefinitely the application of the provisions of SFAS No. 150 to noncontrolling interests in limited life subsidiaries.

FASB INTERPRETATION 45. In November 2002, the FASB issued Interpretation 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations

under certain guarantees that it has issued and liability-recognition requirements for a guarantor of certain types of debt. The new guidance requires a guarantor to recognize a liability at the inception of a guarantee which is covered by the new requirements whether or not payment is probable, creating the new concept of a "stand-ready" obligation. Initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. See Note 11, "Commitments and Contingencies" in Item 1, "Financial Statements," for disclosure of the Company's guarantees at September 30, 2003. The Company adopted FIN 45 effective January 1, 2003.

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FASB INTERPRETATION 46. On January 15, 2003, the FASB approved the issuance of Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"), an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Under FIN 46, consolidation requirements are effective immediately for new Variable Interest Entities ("VIEs") created after January 31, 2003. The consolidation requirements apply to existing VIEs for financial periods ending after December 15, 2003. VIEs are generally a legal structure used for business enterprises that either do not have equity investors with voting rights, or have equity investors that do not provide sufficient financial resources for the entity to support its activities. The objective of the new guidance is to improve reporting by addressing when a company should include in its financial statements the assets, liabilities and activities of another entity such as a VIE. FIN 46 requires a VIE to be consolidated by a company if the company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about VIEs that the company is not required to consolidate but in which it has a significant variable interest. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the VIE was established. These disclosure requirements are as follows: (a) the nature, purpose, size, and activities of the VIE; and, (b) the enterprise's maximum exposure to loss as a result of its involvement with the VIE. FIN 46 may be applied prospectively with a cumulative effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative effect adjustment as of the beginning of the first year restated. The Company is assessing the impact of this Interpretation, if any, on its existing entities and does not believe the impact will be significant on its liquidity, financial position, and results of operations. The Company did not create any VIEs subsequent to January 31, 2003.

FUNDS FROM OPERATIONS AVAILABLE TO COMMON SHAREHOLDERS

FFO, as used in this document, means:

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

The Company calculates FFO available to common shareholders in the same manner, except that Net Income (Loss) is replaced by Net Income (Loss) Available to Common Shareholders.

NAREIT developed FFO as a relative measure of performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. The Company considers FFO available to common shareholders an appropriate measure of performance for an equity REIT and FFO an appropriate measure of performance for its investment segments. However, FFO available to common shareholders and FFO should not be considered as alternatives to net income determined in accordance with GAAP as an indication of the Company's operating performance.

The Company has historically distributed an amount less than FFO available to common shareholders, primarily due to reserves required for capital

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expenditures, including leasing costs. The aggregate cash distributions paid to shareholders and unitholders for the nine months ended September 30, 2003 and 2002 were \$131.6 million, and \$132.5 million, respectively. The Company reported FFO available to common shareholders of \$121.3 million and \$167.3 million for the nine months ended September 30, 2003 and 2002, respectively.

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

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

CONSOLIDATED STATEMENTS OF FUNDS FROM OPERATIONS AVAILABLE TO COMMON SHAREHOLDERS

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE
	2003	2002	200
	(in thousands)		
Net income (loss)	\$ 3,270	\$ 27,749	\$ (8
Adjustments to reconcile net income (loss) to funds from operations available to common shareholders:			
Depreciation and amortization of real estate assets	39,617	36,419	109
Loss (gain) on property sales, net	14	(19,646)	
Cumulative effect of a change in accounting principle	-	-	
Impairment charges related to real estate assets	2,356	-	20
Adjustment for investments in unconsolidated companies:			
Office Properties	(1,613)	1,946	3
Resort/Hotel Properties	394	370	1
Residential Development Properties	8	(615)	
Temperature-Controlled Logistics Properties	5,147	6,777	16
Other	260	96	
Unitholder minority interest	585	3,491	(1
Series A Preferred share distributions	(4,556)	(4,556)	(13
Series B Preferred share distributions	(2,019)	(2,019)	(6
	-----	-----	-----
Funds from operations available to common shareholders before impairment charges related to real estate assets (1)	43,463	50,012	121
	=====	=====	=====

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Impairment charges related to real estate assets	(2,356)	-	(20)
Funds from operations available to common shareholders after impairment charges related to real estate assets	\$ 41,107 =====	\$ 50,012 =====	\$ 100 =====
Investment Segments:			
Office Segment	\$ 73,855	\$ 88,045	\$ 216
Resort/Hotel Segment	11,471	13,593	39
Residential Development Segment	2,773	4,319	13
Temperature-Controlled Logistics Segment	4,198	3,675	16
Other:			
Corporate general and administrative	(7,926)	(8,121)	(20)
Corporate and other adjustments:			
Interest expense	(43,074)	(47,149)	(129)
Series A Preferred share distributions	(4,556)	(4,556)	(13)
Series B Preferred share distributions	(2,019)	(2,019)	(6)
Other (2)	8,741	2,225	5
	-----	-----	-----
Funds from operations available to common shareholders before impairment charges related to real estate assets (1)	43,463 =====	50,012 =====	121 =====
Impairment charges related to real estate assets	(2,356)	-	(20)
Funds from operations available to common shareholders after impairment charges related to real estate assets	\$ 41,107 =====	\$ 50,012 =====	\$ 100 =====
Basic weighted average shares	99,172 =====	103,766 =====	99 =====
Diluted weighted average shares and units (3)	116,929 =====	117,070 =====	116 =====

-
- (1) To calculate basic funds from operations available to common shareholders, deduct unitholder minority interest.
 - (2) Includes interest and other income, behavioral healthcare property income, preferred return paid to GMACCM in 2002, other unconsolidated companies, less depreciation and amortization of non-real estate assets and amortization of deferred financing costs, income from investment land sales, net, and other expenses.
 - (3) See calculations for the amounts presented in the reconciliation following this table.

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR END
	-----		-----
(shares/units in thousands)	2003	2002	20

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Basic weighted average shares:	99,172	103,766	99,
Add: Weighted average units	17,747	13,183	17,
Share and unit options	10	121	
	-----	-----	-----
Diluted weighted average shares and units	116,929	117,070	116,
	=====	=====	=====

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes in the Company's market risk occurred from December 31, 2002 through September 30, 2003. Information regarding the Company's market risk at December 31, 2002 is contained in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e) promulgated under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2003, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and its Chief Financial and Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and its Chief Financial and Accounting Officer concluded that the Company's disclosure controls and procedures were effective.

During the three months ended September 30, 2003, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended September 30, 2003, the Company issued an aggregate of 2,110 common shares to holders of Operating Partnership units in exchange for 1,055 units. The issuances of common shares were exempt from registration as private placements under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). The Company has registered the resale

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of such common shares under the Securities Act.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

(b) Reports on Form 8-K

Form 8-K dated November 3, 2003, furnished November 4, 2003, for the purpose of reporting, under Item 12 - Results of Operations and Financial Condition, the Company's 2003 third quarter earnings and related financial, operating and statistical information.

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SIGNATURES

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.

CRESCENT REAL ESTATE EQUITIES COMPANY
(Registrant)

By /s/ John C. Goff

Date: November 6, 2003

John C. Goff
Vice-Chairman of the Board and Chief
Executive Officer

By /s/ Jerry R. Crenshaw, Jr.

Date: November 6, 2003

Jerry R. Crenshaw, Jr.
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting
Officer)

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INDEX TO EXHIBITS

EXHIBIT
NUMBER

DESCRIPTION OF EXHIBIT

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
3.01	Restated Declaration of Trust of Crescent Real Estate Equities Company, as amended (filed as Exhibit No. 3.01 to the Registrant's Current Report on Form 8-K filed April 25, 2002 (the "April 2002 8-K") and incorporated herein by reference)
3.02	Second Amended and Restated Bylaws of Crescent Real Estate Equities Company (filed as Exhibit No. 3.02 to the Registrant's Quarterly Report on Form 10-Q

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for the quarter ended June 30, 2003 and incorporated herein by reference)

- 4.01 Form of Common Share Certificate (filed as Exhibit No. 4.03 to the Registrant's Registration Statement on Form S-3 (File No. 333-21905) and incorporated herein by reference)
- 4.02 Statement of Designation of 6-3/4% Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company dated February 13, 1998 (filed as Exhibit No. 4.07 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (the "1997 10-K") and incorporated herein by reference)
- 4.03 Form of Certificate of 6-3/4% Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company (filed as Exhibit No. 4 to the Registrant's Registration Statement on Form 8-A/A filed on February 18, 1998 and incorporated by reference)
- 4.04 Statement of Designation of 6-3/4% Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company dated April 25, 2002 (filed as Exhibit No. 4.1 to the April 2002 8-K and incorporated herein by reference)
- 4.05 Statement of Designation of 9.50% Series B Cumulative Redeemable Preferred Shares of Crescent Real Estate Equities Company dated May 13, 2002 (filed as Exhibit No. 2 to the Registrant's Form 8-A dated May 14, 2002 (the "Form 8-A") and incorporated herein by reference)
- 4.06 Form of Certificate of 9.50% Series B Cumulative Redeemable Preferred Shares of Crescent Real Estate Equities Company (filed as Exhibit No. 4 to the Form 8-A and incorporated herein by reference)
- *4 Pursuant to Regulation S-K Item 601 (b) (4) (iii), the Registrant by this filing agrees, upon request, to furnish to the Securities and Exchange Commission a copy of instruments defining the rights of holders of long-term debt of the Registrant
- 10.01 Third Amended and Restated Agreement of Limited Partnership of Crescent Real Estate Equities Limited Partnership, dated as of January 2, 2003, as amended (filed herewith)
- 31.01 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a - 14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.01 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)