

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-K
April 03, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 001-09240

Transcontinental Realty Investors, Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of

Incorporation or organization)
1603 LBJ Freeway,

Suite 300, Dallas, Texas
(Address of principal executive offices)

94-6565852
(IRS Employer

Identification Number)

75234
(Zip Code)

(469) 522-4200

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Registrant's Telephone Number, including area code

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

<i>Title of Each Class</i>	<i>Name of each exchange on which registered</i>
Common Stock, \$0.01 par value	New York Stock Exchange

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller Reporting Company

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales price of the Common Stock on the New York Stock Exchange as of June 30, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$2,460,237 based upon a total of 1,123,396 shares held as of June 30, 2011 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 22, 2012, there were 8,413,469 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc. Commission File No. 001-14784

Consolidated Financial Statements of American Realty Investors, Inc. Commission File No. 001-15663

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FORWARD-LOOKING STATEMENTS

Certain Statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words estimate, plan, intend, expect, anticipate, believe, and similar expressions are intended to identify forward-looking statements. The forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. The Company disclaims any intention or obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described under Part I, Item 1A. Risk Factors.

PART I

ITEM 1. BUSINESS

General

As used herein, the terms TCI, the Company, We, Our, or Us refer to Transcontinental Realty Investors, Inc. a Nevada corporation. TCI is the successor to a California business trust that was organized on September 6, 1983 and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired all of the outstanding shares of beneficial interest of Continental Mortgage and Equity Trust (CMET), a real estate company, in a tax-free exchange of shares, issuing 1,181 shares of its Common Stock for each outstanding CMET share. Prior to January 1, 2000, TCI elected to be treated as a Real Estate Investment Trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). During the third quarter of 2000, due to a concentration of ownership TCI no longer met the requirement for tax treatment as a REIT. Effective March 31, 2003, TCI financial results were consolidated in the American Realty Investors, Inc. (ARL) Form 10-K and related consolidated financial statements. As of December 31, 2011, ARL through subsidiaries owned 82.7% of the outstanding TCI common shares.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange (NYSE) under the symbol (TCI). TCI is a C corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL.

On July 17, 2009, the Company acquired from Syntek West, Inc., (SWI), 2,518,934 shares of Common Stock, par value \$0.01 per share of Income Opportunity Realty Investors, Inc. (IOT) at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by the Company through an assumption of an aggregate amount of indebtedness of \$17,884,431 on the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT Common Stock acquired by the Company constituted approximately 60.4% of the issued and outstanding Common Stock of IOT. The Company had owned for several years an aggregate of 1,037,184 shares of Common Stock of IOT (approximately 25% of the issued and outstanding). After giving effect to the transaction on July 17, 2009, TCI owned an aggregate of 3,556,118 shares of IOT common stock which constituted over 80% of the shares of common stock of IOT outstanding. As of December 31, 2011 TCI owned 82.6% of the outstanding IOT common shares. Shares of IOT are traded on the American Stock Exchange (AMEX) under the symbol (IOT).

With the Company's acquisition of the additional shares on July 17, 2009, which increased the aggregate ownership to in excess of 80%, beginning in July 2009, IOT's results of operations are now consolidated with those of the Company for tax and financial reporting purposes. At the time of the acquisition, the historical accounting value of IOT's assets was \$112 million and liabilities were \$43 million. In that the shares of IOT

acquired by TCI were from a related party, the values recorded by TCI are IOT's historical accounting values at the date of transfer. The Company's fair valuation of IOT's assets and liabilities at the acquisition date approximated IOT's book value. The net difference between the purchase price and historical accounting basis of the assets and liabilities acquired was \$26.9 million and has been reflected by TCI as deferred income. The deferred income will be recognized upon the sale of the land that IOT held on its books as of the date of sale, to an independent third party.

TCI's Board of Directors represents the Company's shareholders and is responsible for directing the overall affairs of TCI and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc., a Nevada corporation (Pillar) under a written Advisory Agreement that is reviewed annually by TCI's Board of Directors. The directors of TCI are also directors of ARL and IOT. The Chairman of the Board of Directors of TCI also serves as the Chairman of the Board of Directors of ARL and IOT. The officers of TCI also serve as officers of ARL, IOT and Pillar.

Prior to April 30, 2011, the Company's contractual Advisor and Cash Manager was Prime Income Asset Management, LLC (Prime). Effective April 30, 2011, Pillar, a Nevada corporation, the sole stockholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, the sole stockholder of which is Realty Advisors Management, Inc., a Nevada corporation which is owned 100% by a Trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for TCI's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. As the contractual advisor, Pillar is compensated by TCI under an Advisory Agreement that is more fully described in Part III, Item 10. Directors, Executive Officers and Corporate Governance The Advisor . TCI has no employees. Employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Prior to December 31, 2010, Triad Realty Services, L.P. (Triad), an affiliate of Prime, provided management services for our commercial properties. Triad subcontracted the property-level management and leasing of our commercial properties (office buildings, shopping centers and industrial warehouses) to Regis Realty I, LLC (Regis I). Effective January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC (Regis), the sole member of which is Realty Advisors, LLC, manages our commercial properties and provides brokerage services under the same terms as the previous agreements with Triad and Regis Realty I for a term of five years. Regis receives property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. Directors, Executive Officers and Corporate Governance Property Management . TCI engages third-party companies to lease and manage its apartment properties.

Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate properties. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents, and leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies. We also generate revenues from gains on sales of income-producing properties and land.

At December 31, 2011, our income-producing properties consisted of:

16 commercial properties consisting of 11 office buildings, one industrial warehouse, three retail properties, and one parking garage, comprising in aggregate approximately 3.6 million square feet;

50 residential apartment communities comprising 9,317 units, excluding apartments being developed.

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The following table sets forth the location of our real estate held for investment (income-producing properties only) by asset type as of December 31, 2011:

Location	Apartments		Commercial	
	No.	Units	No.	SF
Alaska			1	20,715
Arkansas	4	678		
Florida			1	6,722
Indiana			1	220,439
Kansas	1	320		
Louisiana-New Orleans			5	1,356,813
Louisiana-Other	2	384		
Mississippi	7	568	1	26,000
Ohio	1	200		
Oklahoma			1	225,566
Tennessee	2	312		
Texas-Greater Dallas-Ft Worth	20	3,936	5	1,652,885
Texas-Greater Houston	3	656		
Texas-San Antonio	2	468		
Texas -Temple	2	452		
Texas-Other	6	1,343		
Wisconsin			1	122,205
Total	50	9,317	16	3,631,345

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties, and debt financing primarily in the form of property-specific, first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable-rate construction loans that are refinanced with the proceeds of long-term, fixed-rate amortizing mortgages when the development has been completed and occupancy has been stabilized. When we sell properties, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable, secured by the property being sold. We may also from time to time enter into partnerships or joint ventures with various investors to acquire land or income-producing properties or to sell interests in certain of our properties.

We join with various third-party development companies to construct residential apartment communities. We completed construction on five apartment projects in 2011 and are in the predevelopment process on several residential apartment communities, scheduled for construction in 2012. At December 31, 2011, we had no apartment projects in development. The third-party developer typically holds a general partner as well as a limited partner interest in a limited partnership formed for the purpose of building a single property while we generally take a limited partner interest in the limited partnership. We may contribute land to the partnership as part of our equity contribution or we may contribute the necessary funds to the partnership to acquire the land. We are required to fund all required equity contributions while the third-party developer is responsible for obtaining construction financing, hiring a general contractor and for the overall management, successful completion and delivery of the project. We generally bear all the economic risks and rewards of ownership in these partnerships and therefore include these partnerships in our consolidated financial statements. The third-party developer is paid a developer fee typically equal to a percentage of the construction costs. When the project reaches stabilized occupancy, we acquire the third-party developer's partnership interests in exchange for any remaining unpaid developer fees.

We have made investments in a number of large tracts of undeveloped and partially developed land and intend to a) continue to improve these tracts of land for our own development purposes or b) make the improvements necessary to ready the land for sale to other developers.

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At December 31, 2011, our investments in undeveloped and partially developed land consisted of the following (dollars in thousands):

Property	Location	Date(s) Acquired	Acres	Cost	Primary Intended Use
Capital City Center	Jackson, MS	2007-2008	8	\$ 12,500	Mixed use
McKinney Multi-Tracts	McKinney, TX	1997-2008	204	20,676	Mixed use
Mercer Crossing	Dallas, TX	1996-2008	425	66,723	Mixed use
Pioneer Crossing	Austin, TX	1997-2005	39	1,494	Multi-family residential
Travis Ranch	Kaufman County, TX	2008	18	1,980	Multi-family residential
US Virgin Islands Multi-Tracts	St. Thomas, USVI	2005-2008	97	16,391	Single-family residential
Waco Multi-Tracts	Waco, TX	2005-2006	492	4,831	Single-family residential
Windmill Farms	Kaufman County, TX	2011	2,900	43,193	Single-family residential
Woodmont Multi-Tracts	Dallas, TX	2006-2008	12	5,678	Mixed use
Other Land Holdings	Various	1990-2010	525	23,835	Various
Total Land Holdings			4,720	\$ 197,301	

Significant Real Estate Acquisitions/Dispositions and Financings

A summary of some of the significant transactions for the year ended December 31, 2011 are discussed below:

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

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

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

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

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

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

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

The Company had a 75.0% limited partner interest in Woodmont TCI Group XIII, LP, a partnership that owned 8.91 acres of land known as Las Colinas Station land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On February 4, 2011 the partnership transferred ownership of the property to the existing lender and TCI recognized deferred gain of \$2.2 million on the transfer.

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

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

On March 23, 2011, we sold 82.20 acres of land known as Denton Coonrod land located in Denton, Texas and 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$2.9 million. We provided \$1.6 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 23, 2016. The buyer assumed the existing mortgage of \$1.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On January 3, 2012, ownership of Denton Coonrod land was transferred to the lender to satisfy the debt secured by this property and partial credit against debt related to another property. Any impairment necessary, related to the inability to recover our original investment, has been realized in 2011 and the sale that was deferred will be recognized in the first quarter of 2012 when ownership transferred to a third party.

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

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

On March 30, 2011, we sold six parcels, comprising approximately 195.52 acres of undeveloped land known as Dominion land, Hollywood Casino land, Stanley Tools land and Wilmer 88 land, all located in Dallas County, Texas, and Creekside land and Crowley land, both located in Fort Worth, Texas, to T Sorrento, Inc., a related party under common control, for a sales price of \$16.6 million. We provided \$9.3 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 30, 2016. The buyer assumed the existing mortgage of \$7.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial

investment and questionable recovery of investment cost. On April 5, 2011, we recognized the sale of Creekside land, Crowley land and Wilmer 88 land when ownership of the property transferred to the existing lender.

On April 1, 2011, we sold of 6.80 acres of land known as Travis Ranch land located in Kaufman, Texas, to Kelly Lot Development, Inc., a related party under common control, for a sales price of \$0.8 million. There was no gain or loss recorded on the sale of the land parcel.

On April 1, 2011, we purchased 100% of the general and limited partnership interest in Garden Whispering Pines, LP, which owns Whispering Pines apartments, a 320-unit complex located in Topeka, Kansas, from ARL, a related party under common control, for \$1.4 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$9.5 million.

On April 1, 2011, we purchased 100% of the membership interest in EQK Sesame Square, LLC, which owns Sesame Square, a 20,715 square-foot office building located in Anchorage, Alaska, from ARL, a related party under common control, for \$0.6 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$1.1 million.

On April 5, 2011, we recognized the July 30, 2009 sale of 13.22 acres of land known as Hackberry land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of \$3.9 million. The buyer assumed the existing mortgage of \$3.9 million secured by the property. We recorded a gain on sale of \$3.3 million when ownership of the property transferred to the existing lender.

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

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

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

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

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

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

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

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

On June 7, 2011, we recognized the June 2, 2011 sale of Alpenloan, a 28,594 square foot building and 8.16 acres of land, located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of \$0.4 million. We recorded a loss on sale of \$0.9 million when ownership of the property transferred to the existing lender.

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

On June 7, 2011, we recognized the December 22, 2010 sale of Fenton Center, a 707,559 square foot building and 4.70 acres of land, located in Dallas, Texas to ABCLD Properties, LLC, a related party under common control, for a sales price of \$67.0 million. We recorded a loss on sale of \$8.3 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 27.11 acres of land known as Kinwest land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$4.1 million. The buyer assumed the existing mortgage of \$4.0 million secured by the property. We recorded a gain on sale of \$3.1 million when ownership of the property transferred to the existing lender.

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

On June 7, 2011, we recognized the December 23, 2010 sale of 109.85 acres of land known as Payne North land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$14.1 million. The buyer assumed the existing mortgage of \$12.0 million secured by the property. We recorded a gain on sale of \$5.2 million when ownership of the property transferred to the existing lender.

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

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

On July 5, 2011, we recognized the March 28, 2011 sale of One Hickory Center, a 97,361 square-foot office building and Two Hickory Center, a 96,539 square-foot office building, both located in Dallas, Texas, to ABCLD

Real Estate, LLC, a related party under common control, for a sales price of \$19.5 million. The buyer assumed the existing mortgage of \$19.4 million secured by the property. We recorded a gain on sale of \$4.2 million when ownership transferred to the existing lender.

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

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

On August 2, 2011, we recognized the March 23, 2011 sale of 10.08 acres of land known as Centura land located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$13.0 million. The buyer assumed the existing mortgage of \$7.2 million secured by the property. There was no gain or loss recorded when ownership transferred to the existing lender.

On August 2, 2011, we recognized the April 25, 2011 sale of seven land parcels, comprising approximately 2,713.68 acres of undeveloped land known as Diplomat land, Kaufman Cogen land, Kaufman Stagliano land, Kaufman Taylor land, Payne South land, Senlac VHP land and Valley Ranch land located in Dallas County, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$24.0 million. The buyer assumed the existing mortgage of \$8.1 million secured by the property. We recorded a loss on sale of \$0.9 million when ownership transferred to the existing lender.

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

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

The Company had a 75.0% limited partner interest in Woodmont TCI Group XII, LP, a partnership that owned 16.18 acres of land known as Las Colinas Village land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On August 2, 2011 the partnership transferred ownership of the property to the existing lender and TCI recognized a deferred gain of \$7.5 million on the sale.

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

On September 1, 2011, we sold seven land parcels, comprising approximately 107.73 acres of undeveloped land located in Austin, Texas, Dallas County, Texas, Denton County, Texas and Tarrant County, Texas, known as Andrew B land, Andrew C land, DeSoto Ranch land, Mansfield land, Pioneer Crossing land, Senlac land and Sheffield land, to TCI Luna Ventures, LLC, a related party under common control, for a sales price of

\$10.6 million. We provided \$6.4 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 1, 2016. The buyer assumed the existing mortgage of \$4.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. In the first quarter of 2012, ownership of the Andrew B land and DeSoto Ranch land was transferred to the existing lender to satisfy a portion of the multi-tract collateral debt.

On September 21, 2011, we sold our investment in TCI Dedeaux Road, Inc. to One Realco Corporation, a related party under common control, for a sales price of \$1,000. This entity owns 9.97 acres of undeveloped land located in Gulfport, Mississippi, known as Dedeaux land. The buyer assumed the existing mortgage of \$2.0 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 27, 2011, we sold a 256-unit apartment complex known as Spyglass apartments, located in Dallas, Texas, for a sales price of \$21.6 million. The buyer assumed the existing mortgage of \$15.5 million secured by the property. We recorded a gain on sale of \$5.7 million on the apartment sale.

On October 12, 2011, we recognized the January 26, 2011 sale of Willowbrook Village, a 179,741 square foot retail shopping center located in Coldwater, Michigan, to TX LTS Investments, Inc., a related party under common control, for a sales price of \$7.8 million. The buyer assumed the existing mortgage of \$5.6 million, secured by the property. We recorded a loss on sale of \$2.5 million when ownership transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group VIII, LP, a partnership that owned 7.37 acres of land known as Keller Springs Lofts land located in Addison, Texas. The partnership was consolidated in accordance with ASC 810. On October 20, 2011, the partnership sold the property for a sales price of \$4.2 million. We recorded a loss on sale of \$2.1 million on the land parcel.

On November 1, 2011, we acquired 100% of the membership interest in Bridgeview Plaza, LLC. On September 21, 2010, we sold our investment in EQK Bridgeview Plaza, Inc. to Warren Road Farm, Inc. (WRF), a related party under common control, for a sales price of \$8.3 million to be paid via an assumption of debt of \$6.2 million and seller-financing of \$2.1 million. On October 4, 2010, WRF filed a voluntary petition seeking relief under Chapter 11 of the bankruptcy code. The approved bankruptcy plan was effective November 1, 2011, whereby TCI, for its contribution to the plan, was given 100% equity ownership in the entity. During the period of time that WRF owned the equity interest, it had also acquired 2900 acres of land known as Windmill Farms land located in Kaufman, TX, previously held by ARL, for a sales price of \$64.5 million. ARL provided \$33.8 million in seller-financing with a five-year note receivable. The note accrues interest at 6.0% and is payable at maturity on September 21, 2015. WRF assumed the existing mortgage of \$30.7 million, secured by the property.

On November 2, 2011, we recognized the September 3, 2004 sale of Addison Hanger I, a 25,102 square foot industrial warehouse and Addison Hanger II, a 24,000 square foot industrial warehouse located in Addison, Texas, for a sales price of \$4.5 million. At the time of the sale, TCI entered into a 10-year triple-net lease with the buyer. Therefore, this transaction was accounted for under the financing method and the properties continued to be consolidated. As of November 12, 2011, the lease with the buyer was terminated. Due to ongoing litigation related to the lease, TCI has deferred the gain recognition until the matter is resolved.

On November 30, 2011, we recognized the March 23, 2011 sale of 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$1.1 million. The existing mortgage of \$0.5 million, secured by the property, was paid in full. We recorded a loss on sale of \$0.6 million on the land parcel.

On December 21, 2011, we sold 17.07 acres of land known as Lamar Parmer Lane land located in Austin, Texas for a sales price of \$1.4 million. The existing mortgage of \$1.3 million, secured by the property, was paid in full. We recorded a loss on sale of \$0.8 million on the land parcel.

On December 28, 2011, we sold 100% of our common stock of Centura-Ewing, Inc. and Garden Centura, Inc. to Realty Advisors Management, Inc., a related party under common control, for a sales price of \$20.4 million. These entities own a 1% general manager partnership interest and a 4% limited partnership interest in Garden Centura L.P., which owns a 412,215 square foot office building known as Centura Tower located in Dallas, Texas. Centura-Ewing, Inc. has an option to purchase the remaining 95% limited partner interest in Garden Centura, L.P. TCI received a 5-year promissory note for the full sales price. Interest at 30 day LIBOR plus 2% is due quarterly with the principal due at maturity on December 28, 2016. We recorded a gain on sale of \$0.3 million when the stock was subsequently sold to an unrelated party.

In December 2010, there were various commercial and land holdings sold to FRE Real Estate, Inc. a related party under common control. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. and disclosed in the transactions above. As of December 31, 2011, there is one commercial building, Thermalloy, that remains in FRE Real Estate, Inc. We have deferred the recognition of the sales in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

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

We continue to invest in the development of apartment projects. For the twelve months ended December 31, 2011, we have expended \$46.8 million on the construction of various apartment projects and capitalized \$2.1 million of interest costs.

Business Plan and Investment Policy

Our business objective is to maximize long-term value for our stockholders by investing in commercial real estate through the acquisition, development and ownership of apartments, commercial properties and land. We intend to achieve this objective through acquiring and developing properties in multiple markets and operating as an industry-leading landlord. We believe this objective will provide the benefits of enhanced investment opportunities, economies of scale and risk diversification, both in terms of geographic market and real estate product type. We believe our objective will also result in continuing access to favorably priced debt and equity capital. In pursuing our business objective, we seek to achieve a combination of internal and external growth while maintaining a strong balance sheet and employing a strategy of financial flexibility. We maximize the value of our apartments and commercial properties by maintaining high occupancy levels while charging competitive rental rates, controlling costs and focusing on tenant retention. We also pursue attractive development opportunities either directly or in partnership with other investors.

For our portfolio of commercial properties, we generate increased operating cash flow through annual contractual increases in rental rates under existing leases. We also seek to identify best practices within our industry and across our business units in order to enhance cost savings and gain operating efficiencies. We

employ capital improvement and preventive maintenance programs specifically designed to reduce operating costs and increase the long-term value of our real estate investments.

We seek to acquire properties consistent with our business objectives and strategies. We execute our acquisition strategy by purchasing properties which management believes will create stockholder value over the long-term. We will also sell properties when management believes value has been maximized or when a property is no longer considered an investment to be held long-term.

We are continuously in various stages of discussions and negotiations with respect to development, acquisition, and disposition of projects. The consummation of any current or future development, acquisition, or disposition, if any, and the pace at which any may be completed cannot be assured or predicted.

Substantially all of our properties are owned by subsidiary companies, many of which are single-asset entities. This ownership structure permits greater access to financing for individual properties and permits flexibility in negotiating a sale of either the asset or the equity interests in the entity owning the asset. From time-to-time, our subsidiaries have invested in joint ventures with other investors, creating the possibility of risks that do not exist with properties solely owned by a TCI subsidiary. In those instances where other investors are involved, those other investors may have business, economic, or other objectives that are inconsistent with our objectives, which may in turn, require us to make investment decisions different from those if we were the sole owner.

Real estate generally cannot be sold quickly. We may not be able to promptly dispose of properties in response to economic or other conditions. To offset this challenge, selective dispositions have been a part of our strategy to maintain an efficient investment portfolio and to provide additional sources of capital. We finance acquisitions through mortgages, internally generated funds, and, to a lesser extent, property sales. Those sources provide the bulk of funds for future acquisitions. We may purchase properties by assuming existing loans secured by the acquired property. When properties are acquired in such a manner, we customarily seek to refinance the asset in order to properly leverage the asset in a manner consistent with our investment objectives.

Our businesses are not generally seasonal with regard to real estate investments. Our investment strategy seeks both current income and capital appreciation. Our plan of operation is to continue, to the extent our liquidity permits, to make equity investments in income-producing real estate such as apartments and commercial properties. We may also invest in the debt or equity securities of real estate-related entities. We intend to pursue higher risk, higher reward investments, such as improved and unimproved land where we can obtain reasonably-priced financing for substantially all of a property's purchase price. We intend to continue the development of apartment properties in selected markets in Texas and in other locations where we believe adequate levels of demand exist. We intend to pursue sales opportunities for properties in stabilized real estate markets where we believe our properties' value has been maximized. We also intend to be an opportunistic seller of properties in markets where demand exceeds current supply. Although we no longer actively seek to fund or purchase mortgage loans, we may, in selected instances, originate mortgage loans or we may provide purchase money financing in conjunction with a property sale.

Our Board of Directors has broad authority under our governing documents to make all types of investments, and we may devote available resources to particular investments or types of investments without restriction on the amount or percentage of assets that may be allocated to a single investment or to any particular type of investment, and without limit on the percentage of securities of any one issuer that may be acquired. Investment objectives and policies may be changed at any time by the Board without stockholder approval.

The specific composition from time-to-time of our real estate portfolio owned by TCI directly and through our subsidiaries depends largely on the judgment of management to changing investment opportunities and the level of risk associated with specific investments or types of investments. We intend to maintain a real estate portfolio that is diversified by both location and type of property.

Competition

The real estate business is highly competitive and TCI competes with numerous companies engaged in real estate activities (including certain entities described in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence), some of which have greater financial resources than TCI. We believe that success against such competition is dependent upon the geographic location of a property, the performance of property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to a property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item 1A. Risk Factors .

To the extent that TCI seeks to sell any of its properties, the sales prices for the properties may be affected by competition from other real estate owners and financial institutions also attempting to sell properties in areas where TCI's properties are located, as well as aggressive buyers attempting to dominate or penetrate a particular market.

As described above and in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence , the officers and directors of TCI serve as officers and directors of ARL and IOT. Both ARL and IOT have business objectives similar to those of TCI. TCI's officers and directors owe fiduciary duties to both IOT and ARL as well as to TCI under applicable law. In determining whether a particular investment opportunity will be allocated to TCI, IOT, or ARL, management considers the respective investment objectives of each Company and the appropriateness of a particular investment in light of each Company's existing real estate and mortgage notes receivable portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity may be allocated to the entity which has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

In addition, as described in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence , TCI competes with affiliates of Pillar having similar investment objectives related to the acquisition, development, disposition, leasing and financing of real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, Pillar has informed TCI that it intends to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

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

Available Information

TCI maintains an internet site at <http://www.transconrealty-invest.com>. We make available through our website free of charge Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. In addition, we have posted the charters for our Audit Committee, Compensation Committee and Governance and Nominating Committee, as well as our Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director

Independence and other information on the website. These charters and principles are not incorporated in this Report by reference. We will also provide a copy of these documents free of charge to stockholders upon written request. The Company issues Annual Reports containing audited financial statements to its common shareholders.

ITEM 1A. RISK FACTORS

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information in this report before trading our securities.

Risk Factors Related to our Business

Adverse events concerning our existing tenants or negative market conditions affecting our existing tenants could have an adverse impact on our ability to attract new tenants, release space, collect rent or renew leases, and thus could adversely affect cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which the Company has limited or no control, such as:

lack of demand for space in areas where the properties are located;

inability to retain existing tenants and attract new tenants;

oversupply of or reduced demand for space and changes in market rental rates;

defaults by tenants or failure to pay rent on a timely basis;

the need to periodically renovate and repair marketable space;

physical damage to properties;

economic or physical decline of the areas where properties are located; and

potential risk of functional obsolescence of properties over time.

At any time, any tenant may experience a downturn in its business that may weaken its financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due, could result in the termination of the tenant's lease and material losses to the Company.

If tenants do not renew their leases as they expire, we may not be able to rent the space. Furthermore, leases that are renewed, and some new leases for space that is re-let, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Any of these events could adversely affect cash flow from operations and our ability to make distributions to shareholders and service indebtedness. A significant portion of the costs of owning property, such as real estate taxes, insurance, and debt service payments, are not necessarily reduced when circumstances cause a decrease in rental income from the properties.

We may not be able to compete successfully with other entities that operate in our industry.

We experience a great deal of competition in attracting tenants for the properties and in locating land to develop and properties to acquire.

In our effort to lease properties, we compete for tenants with a broad spectrum of other landlords in each of the markets. These competitors include, among others, publicly-held REITs, privately-held entities, individual

property owners and tenants who wish to sublease their space. Some of these competitors may be able to offer prospective tenants more attractive financial terms than we are able to offer.

If the availability of land or high quality properties in our markets diminishes, operating results could be adversely affected.

We may experience increased operating costs which could adversely affect our financial results and the value of our properties.

Our properties are subject to increases in operating expenses such as insurance, cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security, landscaping, repairs, and maintenance of the properties. While some current tenants are obligated by their leases to reimburse us for a portion of these costs, there is no assurance that these tenants will make such payments or agree to pay these costs upon renewal or new tenants will agree to pay these costs. If operating expenses increase in our markets, we may not be able to increase rents or reimbursements in all of these markets to offset the increased expenses, without at the same time decreasing occupancy rates. If this occurs, our ability to make distributions to shareholders and service indebtedness could be adversely affected.

Our ability to achieve growth in operating income depends in part on our ability to develop additional properties.

We intend to continue to develop properties where warranted by market conditions. We have a number of ongoing development and land projects being readied for commencement.

Additionally, general construction and development activities include the following risks:

construction and leasing of a property may not be completed on schedule, which could result in increased expenses and construction costs, and would result in reduced profitability for that property;

construction costs may exceed original estimates due to increases in interest rates and increased cost of materials, labor or other costs, possibly making the property less profitable because of inability to increase rents to compensate for the increase in construction costs;

some developments may fail to achieve expectations, possibly making them less profitable;

we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;

we may abandon development opportunities after the initial exploration, which may result in failure to recover costs already incurred. If we determine to alter or discontinue its development efforts, future costs of the investment may be expensed as incurred rather than capitalized and we may determine the investment is impaired resulting in a loss;

we may expend funds on and devote management's time to projects which will not be completed; and

occupancy rates and rents at newly-completed properties may fluctuate depending on various factors including market and economic conditions, and may result in lower than projected rental rates and reduced income from operations.

We face risks associated with property acquisitions.

We acquire individual properties and various portfolios of properties and intend to continue to do so. Acquisition activities are subject to the following risks:

when we are able to locate a desired property, competition from other real estate investors may significantly increase the seller's offering price;

acquired properties may fail to perform as expected;

the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;

acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and

we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

We may acquire properties subject to liabilities and without any recourse, or with limited recourse, with respect to unknown liabilities. However, if an unknown liability was later asserted against the acquired properties, we might be required to pay substantial sums to settle it, which could adversely affect cash flow.

Many of our properties are concentrated in our primary markets and the Company may suffer economic harm as a result of adverse conditions in those markets.

Our properties are located principally in specific geographic areas in the southwestern, southeastern, and mid-western United States. The Company's overall performance is largely dependent on economic conditions in those regions.

We are leveraged and may not be able to meet our debt service obligations.

We had total indebtedness at December 31, 2011 of approximately \$868.3 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company's ability to pursue other business opportunities in the future.

We may not be able to access financial markets to obtain capital on a timely basis, or on acceptable terms.

We rely on proceeds from property dispositions and third party capital sources for a portion of our capital needs, including capital for acquisitions and development. The public debt and equity markets are among the sources upon which the Company relies. There is no guarantee that we will be able to access these markets or any other source of capital. The ability to access the public debt and equity markets depends on a variety of factors, including:

general economic conditions affecting these markets;

our own financial structure and performance;

the market's opinion of real estate companies in general; and

the market's opinion of real estate companies that own similar properties.

We may suffer adverse effects as a result of terms and covenants relating to the Company's indebtedness.

Required payments on our indebtedness generally are not reduced if the economic performance of the portfolio declines. If the economic performance declines, net income, cash flow from operations and cash available for distribution to stockholders may be reduced. If payments on debt cannot be made, we could sustain a loss or suffer judgments, or in the case of mortgages, suffer foreclosures by mortgagees. Further, some obligations contain cross-default and/or cross-acceleration provisions, which means that a default on one obligation may constitute a default on other obligations.

We anticipate only a small portion of the principal of its debt will be repaid prior to maturity. Therefore, we are likely to refinance a portion of its outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or the terms of any refinancing will not be as favorable as the terms of the maturing debt. If principal balances due at maturity cannot be refinanced, extended, or repaid with proceeds from other sources, such as the proceeds of sales of assets or new equity capital, cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due.

Our credit facilities and unsecured debt contain customary restrictions, requirements and other limitations on the ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios, and minimum ratios of unencumbered assets to unsecured debt. Our continued ability to borrow is subject to compliance with financial and other covenants. In addition, failure to comply with such covenants could cause a default under credit facilities, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available, or be available only on unattractive terms.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock.

The degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. The degree of leverage could also make us more vulnerable to a downturn in business or the general economy.

An increase in interest rates would increase interest costs on variable rate debt and could adversely impact the ability to refinance existing debt.

We currently have, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will the interest costs, which could adversely affect cash flow and the ability to pay principal and interest on our debt and the ability to make distributions to shareholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures.

Unbudgeted capital expenditures or cost overruns could adversely affect business operations and cash flow.

If capital expenditures for ongoing or planned development projects or renovations exceed expectations, the additional cost of these expenditures could have an adverse effect on business operations and cash flow. In addition, we might not have access to funds on a timely basis to pay the unexpected expenditures.

Construction costs are funded in large part through construction financing, which the Company may guarantee and the Company's obligation to pay interest on this financing continues until the rental project is completed, leased up and permanent financing is obtained, or the for sale project is sold or the construction loan is otherwise paid. Unexpected delays in completion of one or more ongoing projects could also have a significant adverse impact on business operations and cash flow.

We may need to sell properties from time to time for cash flow purposes.

Because of the lack of liquidity of real estate investments generally, our ability to respond to changing circumstances may be limited. Real estate investments generally cannot be sold quickly. In the event that we must sell assets to generate cash flow, we cannot predict whether there will be a market for those assets in the time period desired, or whether we will be able to sell the assets at a price that will allow the Company to fully recoup its investment. We may not be able to realize the full potential value of the assets and may incur costs related to the early pay-off of the debt secured by such assets.

We intend to devote resources to the development of new projects.

We plan to continue developing new projects as opportunities arise in the future. Development and construction activities entail a number of risks, including but not limited to the following:

we may abandon a project after spending time and money determining its feasibility;

construction costs may materially exceed original estimates;

the revenue from a new project may not be enough to make it profitable or generate a positive cash flow;

we may not be able to obtain financing on favorable terms for development of a property, if at all;

we may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs; and

we may not be able to obtain, or may be delayed in obtaining, necessary governmental permits.

The overall business is subject to all of the risks associated with the real estate industry.

We are subject to all risks incident to investment in real estate, many of which relate to the general lack of liquidity of real estate investments, including, but not limited to:

our real estate assets are concentrated primarily in the southwest and any deterioration in the general economic conditions of this region could have an adverse effect;

changes in interest rates may make the ability to satisfy debt service requirements more burdensome;

lack of availability of financing may render the purchase, sale or refinancing of a property more difficult or unattractive;

changes in real estate and zoning laws;

increases in real estate taxes and insurance costs;

federal or local economic or rent control;

acts of terrorism; and

hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry.

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Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

downturns in the national, regional and local economic conditions (particularly increases in unemployment);

competition from other office and commercial buildings;

local real estate market conditions, such as oversupply or reduction in demand for office or other commercial space;

changes in interest rates and availability of financing;

vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;

increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;

civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;

declines in the financial condition of our tenants and our ability to collect rents from our tenants; and

decreases in the underlying value of our real estate.

Adverse economic conditions and dislocations in the credit markets could have a material adverse effect on our results of operations, and financial condition.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the current dislocations in the credit markets and general global economic recession. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, and financial condition as a result of the following, among other potential consequences:

the financial condition of our tenants may be adversely affected which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

significant job losses within our tenants may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;

our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;

reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and

one or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

Real estate investments are illiquid, and we may not be able to sell properties if and when it is appropriate to do so.

Real estate generally cannot be sold quickly. We may not be able to dispose of properties promptly in response to economic or other conditions. In addition, provisions of the Internal Revenue Code may limit our ability to sell properties (without incurring significant tax costs) in some situations when it may be otherwise economically advantageous to do so, thereby adversely affecting returns to stockholders and adversely impacting our ability to meet our obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On December 31, 2011, our portfolio consisted of 66 income producing properties consisting of 50 apartments totaling 9,317 units, 16 commercial properties consisting of 11 office buildings, one industrial warehouse, three retail centers, and one parking garage. In addition, we own or control 4,720 acres of improved and unimproved land for future development or sale. The average annual dollar per square foot for the Company's apartment/residential portfolio is \$11.68 and \$9.58 for the commercial portfolio. The table below shows information relating to those properties in which we own or have an ownership interest in:

Apartments	Location	Units	Occupancy
Anderson Estates	Oxford, MS	48	100.00%
Blue Lake Villas I	Waxahachie, TX	186	95.70%
Blue Lake Villas II	Waxahachie, TX	70	94.30%
Blue Ridge	Midland, TX	290	99.30%
Breakwater Bay	Beaumont, TX	176	91.50%
Bridgewood Ranch	Kaufman, TX	106	95.30%
Capitol Hill	Little Rock, AR	156	92.30%
Curtis Moore Estates	Greenwood, MS	104	92.30%
Dakota Arms	Lubbock, TX	208	94.20%
David Jordan Phase II	Greenwood, MS	32	93.80%
David Jordan Phase III	Greenwood, MS	40	92.50%
Desoto Ranch	DeSoto, TX	248	87.90%
Dorado Ranch	Odessa, TX	224	99.10%
Falcon Lakes	Arlington, TX	248	95.60%
Heather Creek	Mesquite, TX	200	96.00%
Huntington Ridge	DeSoto, TX	198	96.00%
Laguna Vista	Dallas, TX	206	98.10%
Lake Forest	Houston, TX	240	90.80%
Legends of El Paso	El Paso, TX	240	94.60%
Lodge at Pecan Creek ⁽¹⁾	Denton, TX	192	35.40%
Mansions of Mansfield	Mansfield, TX	208	98.60%
Mariposa Villas	Dallas, TX	216	95.40%
Mission Oaks	San Antonio, TX	228	91.20%
Monticello Estate	Monticello, AR	32	90.60%
Northside on Travis	Sherman, TX	200	96.50%
Paramount Terrace	Amarillo, TX	181	92.80%
Parc at Clarksville	Clarksville, TN	168	93.50%
Parc at Denham Springs ⁽¹⁾	Denham Springs, LA	224	81.70%
Parc at Maumelle	Little Rock, AR	240	95.00%
Parc at Metro Center	Nashville, TN	144	100.00%
Parc at Rogers	Rogers, AR	250	98.40%
Pecan Pointe	Temple, TX	232	94.00%
Portofino	Farmers Branch, TX	224	96.40%
Preserve at Pecan Creek	Denton, TX	192	93.80%
River Oaks	Wylie, TX	180	98.30%
Riverwalk Phase I	Greenville, MS	32	90.60%
Riverwalk Phase II	Greenville, MS	72	93.10%
Savoy of Garland	Garland, TX	144	96.50%
Sonoma Court ⁽¹⁾	Rockwall, TX	124	79.80%
Stonebridge at City Park	Houston, TX	240	91.30%
Sugar Mill	Baton Rouge, LA	160	91.90%
Toulon ⁽¹⁾	Gautier, MS	240	46.70%
Treehouse	Irving, TX	160	93.80%
Verandas at City View	Fort Worth, TX	314	97.80%
Vistas of Pinnacle Park	Dallas, TX	332	93.10%
Vistas of Vance Jackson	San Antonio, TX	240	97.50%
Whispering Pines	Topeka, KS	320	90.60%
Windsong	Fort Worth, TX	188	93.10%
Total Apartment Units		8,897	

Apartments Subject to Sales Contract	Location	Units	Occupancy
Quail Hollow	Holland, OH	200	98.50%
Total Apartments Subject to Sale		200	
Apartments Held for Sale	Location	Units	Occupancy
Wildflower Villas	Temple, TX	220	93.20%
Total Apartments Held for Sale		220	
Total Apartments		9,317	

(1) These properties had construction completed in 2011 and are currently in lease-up.

Office Buildings	Location	SqFt	Occupancy
225 Baronne ⁽¹⁾	New Orleans, LA	422,037	0.00%
305 Baronne	New Orleans, LA	37,081	34.48%
600 Las Colinas	Las Colinas, TX	510,173	66.67%
1010 Common	New Orleans, LA	512,593	42.38%
Amoco Building	New Orleans, LA	378,895	68.67%
Browning Place (Park West I)	Farmers Branch, TX	625,463	87.72%
Ergon Office Building	Jackson, MS	26,000	0.00%
Eton Square ⁽²⁾	Tulsa, OK	43,695	36.13%
Senlac (VHP)	Farmers Branch, TX	2,812	100.00%
Sesame Square	Anchorage, AK	20,715	87.52%
Stanford Center	Dallas, TX	336,632	98.33%
Total Office Buildings		2,916,096	

Parking Garage	Location	SqFt	Occupancy
Clark Garage	New Orleans, LA	6,207	34.44%
Total Parking Garage		6,207	

Retail Centers	Location	SqFt	Occupancy
Bridgeview Plaza	LaCrosse, WI	122,205	90.45%
Dunes Plaza	Michigan City, IN	220,439	22.54%
Fruitland Plaza	Fruitland Park, FL	6,722	0.00%
Total Retail Centers		349,366	

Retail Centers Subject to Sales Contract	Location	SqFt	Occupancy
Eton Square ⁽²⁾	Tulsa, OK	181,871	75.21%
Total Retail Centers Subject to Sales Contract		181,871	

Industrial Warehouses Subject to Sales Contract	Location	SqFt	Occupancy
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Thermalloy	Farmers Branch, TX	177,805	100.00%
	<i>Total Industrial Warehouses Subject to Sales Contract</i>	177,805	
	<i>Total Commercial</i>	3,631,345	

- (1) Vacant since 2005 s hurricane Katrina. Plans to renovate in the future.
- (2) Eton Square is considered one commercial property that includes both office and retail space.

Lease Expirations

The table below shows the lease expirations of the commercial properties over a ten-year period (dollars in thousands):

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized ⁽¹⁾ Contractual Rent Under Expiring Leases	Current Annualized ⁽¹⁾ Contractual Rent Under Expiring Leases (P.S.F.)	Percentage of Total Square Feet	Percentage of Gross Rentals
2012	465,589	\$ 8,551,296	\$ 18.37	9.4%	26.5%
2013	390,551	\$ 8,213,306	\$ 21.03	7.8%	25.5%
2014	457,973	\$ 4,143,329	\$ 9.05	9.2%	12.9%
2015	105,098	\$ 1,475,434	\$ 14.04	2.1%	4.6%
2016	436,642	\$ 3,967,917	\$ 9.09	8.8%	12.3%
2017	169,564	\$ 2,982,006	\$ 17.59	3.4%	9.3%
2018	23,098	\$ 404,350	\$ 17.51	0.5%	1.3%
2019	98,761	\$ 2,125,700	\$ 21.52	2.0%	6.6%
2020		\$	\$	0.0%	0.0%
Thereafter	20,121	\$ 349,235	\$ 17.36	0.4%	1.0%
Total	2,167,397	\$ 32,212,573		43.6%	100%

⁽¹⁾ Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2011 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

Land	Location	Acres
1013 Common St	New Orleans, LA	0.41
Audubon	Adams County, MS	48.20
Copperridge	Dallas, TX	3.90
Denham Springs	Denham Springs, LA	4.38
Dunes Plaza Vacant Land	Michigan City, IN	14.62
Gautier Land	Gautier, MS	40.06
Hollywood Casino Land Tract II	Farmers Branch, TX	13.85
Hunter Equities Land	Dallas, TX	2.56
Jackson Capital City Center	Jackson, MS	7.95
Kinwest Manor	Irving, TX	7.98
Lacy Longhorn Land	Farmers Branch, TX	17.12
LaDue Land	Farmers Branch, TX	8.01
Lake Shore Villas	Humble, TX	19.51
Lubbock Land	Lubbock, TX	2.86
Luna (Carr)	Farmers Branch, TX	2.60
Manhattan Land	Farmers Branch, TX	36.75
Marine Creek	Forth Worth, TX	44.17
McKinney 36	Collin County, TX	34.05
McKinney Ranch Land	McKinney, TX	169.74
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35
Ocean Estates	Gulfport, MS	12.00
Southwood Plantation 1394	Tallahassee, FL	14.52
Texas Plaza Land	Irving, TX	10.33
Travelers Land	Farmers Branch, TX	193.17

Land	Location	Acres
Travis Ranch Land	Kaufman County, TX	10.00
Travis Ranch Retail	Kaufman County, TX	8.13
Union Pacific Railroad Land	Dallas, TX	0.04
US Virgin Islands Land	US Virgin Islands	96.60
Valley View 34 (Mercer Crossing)	Farmers Branch, TX	2.19
Valley View/Senlac	Farmers Branch, TX	3.45
Waco 151 Land	Waco, TX	151.40
Waco Swanson	Waco, TX	340.65
Walker Land	Dallas County, TX	82.59
Willowick Land	Pensacola, TX	39.78
Windmill Farms Land	Kaufman County, TX	2,900.00
	Total Land/Development	4,344.72

Land Subject to Sales Contract	Location	Acres
Dedeaux	Gulfport, MS	10.00
Denton (Andrew B)	Denton, TX	22.90
Denton (Andrew C)	Denton, TX	5.20
Denton Coonrod	Denton, TX	82.80
Desoto Ranch	Desoto, TX	8.02
Dominion Tract	Dallas, TX	10.59
Hollywood Casino Land Tract I	Farmers Branch, TX	19.71
Luna Ventures	Farmers Branch, TX	26.74
Mansfield Land	Mansfield, TX	21.89
Pioneer Crossing Tract II	Austin, TX	38.54
Senlac Land Tract II	Farmers Branch, TX	11.94
Sheffield Village	Grand Prairie, TX	13.90
Stanley Tools	Farmers Branch, TX	23.76
Whorton Land	Bentonville, AR	79.70
	Total Land Subject to Sales Contract	375.69
	Total Land	4,720.41

ITEM 3. LEGAL PROCEEDINGS

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

During the fourth quarter of the fiscal year covered by this Report, no proceeding previously reported was terminated.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

TCI's Common Stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol TCI . The following table sets forth the high and low sales prices as reported in the consolidated reporting system of the NYSE for the quarters ended:

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 7.20	\$ 3.26	\$ 13.13	\$ 10.58
Second Quarter	\$ 4.34	\$ 2.06	\$ 12.30	\$ 8.04
Third Quarter	\$ 3.91	\$ 1.70	\$ 10.50	\$ 8.48
Fourth Quarter	\$ 2.35	\$ 1.56	\$ 9.45	\$ 6.05

On March 22, 2012, the closing price of TCI's Common Stock as reported in the consolidated reporting system of the NYSE was \$1.86 per share, and was held by approximately 3,700 holders of record.

Performance Graph

The following performance graph compares the cumulative total stockholder return on TCI's shares of Common Stock with the Dow Jones Industrial Average (Dow Jones Industrial) and the Real Estate Investment Index (Real Estate Index). The comparison assumes that \$100 was invested on December 31, 2006, in TCI's shares of Common Stock and in each of the indices and further assumes the reinvestment of all distributions. Past performance is not necessarily an indicator of future performance.

\$100 invested on 12/31/06 in stock or index-including reinvestment of dividends.

Fiscal year ending December 31:

	12/06	12/07	12/08	12/09	12/10	12/11
Transcontinental Realty Investors, Inc.	\$ 100.00	\$ 111.22	\$ 82.73	\$ 85.68	\$ 48.27	\$ 11.80
Dow Jones Industrial	\$ 100.00	\$ 106.43	\$ 70.42	\$ 83.67	\$ 92.89	\$ 98.03
Dow Jones US Real Estate	\$ 100.00	\$ 80.15	\$ 47.65	\$ 62.22	\$ 78.76	\$ 83.12

TCI's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. No dividends on TCI's common stock were declared for 2011, 2010, or 2009. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

In December 1989, the Board of Directors approved a share repurchase program, authorizing the repurchase of a total of 687,000 shares of TCI s Common Stock. In June 2000, the Board increased this authorization to 1,387,000 shares. On August 10, 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,637,000 shares of our common stock. This repurchase program has no termination date. The following table represents shares repurchased during each of the three months of the last quarter ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance at September 30, 2011			1,230,535	406,465
October 31, 2011		\$	1,230,535	406,465
November 30, 2011		\$	1,230,535	406,465
December 31, 2011		\$	1,230,535	406,465
Total				

ITEM 6. SELECTED FINANCIAL DATA**TRANSCONTINENTAL REALTY INVESTORS, INC.**

	2011	For the Years Ended December 31,			2007
		2010	2009	2008	
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	\$ 114,087	\$ 110,281	\$ 107,286	\$ 96,583	\$ 78,600
Total operating expenses	145,038	126,888	147,623	104,626	87,488
Operating loss	(30,951)	(16,607)	(40,337)	(8,043)	(8,888)
Other expenses	(45,535)	(42,569)	(45,314)	(48,731)	(9,671)
Loss before gain on land sales, non-controlling interest, and income tax benefit	(76,486)	(59,176)	(85,651)	(56,774)	(18,559)
Gain (loss) on land sales	17,011	(15,155)	6,296	4,798	
Income tax benefit	4,505	2,563	(76)	39,246	8,251
Net loss from continuing operations	(54,970)	(71,768)	(79,431)	(12,730)	(10,308)
Net income (loss) from discontinuing operations, net of non-controlling interest	8,367	4,670	(142)	44,285	21,369
Net income (loss)	(46,603)	(67,098)	(79,573)	31,555	11,061
Net (income) loss attributable to non-controlling interest	282	(98)	(125)	654	50
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	(46,321)	(67,196)	(79,698)	32,209	11,111
Preferred dividend requirement	(1,110)	(1,073)	(1,023)	(975)	(925)
Net income (loss) applicable to common shares	\$ (47,431)	\$ (68,269)	\$ (80,721)	\$ 31,234	\$ 10,186
PER SHARE DATA					
Earnings per share basic					
Loss from continuing operations	\$ (6.67)	\$ (8.99)	\$ (9.93)	\$ (1.61)	\$ (1.41)
Income (loss) from discontinued operations	1.00	0.58	(0.02)	5.48	2.69
Net income (loss) applicable to common shares	\$ (5.66)	\$ (8.41)	\$ (9.95)	\$ 3.87	\$ 1.28
Weighted average common share used in computing earnings per share	8,370,729	8,113,575	8,113,669	8,086,640	7,953,676
Earnings per share diluted					
Loss from continuing operations	\$ (6.67)	\$ (8.99)	\$ (9.93)	\$ (1.61)	\$ (1.41)
Income (loss) from discontinued operations	1.00	0.58	(0.02)	5.48	2.69
Net income (loss) applicable to common shares	\$ (5.66)	\$ (8.41)	\$ (9.95)	\$ 3.87	\$ 1.28
Weighted average common share used in computing diluted earnings per share	8,370,729	8,113,575	8,113,669	8,086,640	8,188,602
BALANCE SHEET DATA					
Real estate, net	\$ 988,339	\$ 1,213,114	\$ 1,447,184	\$ 1,480,791	\$ 1,364,426
Notes and interest receivable, net	77,371	67,025	45,247	39,120	32,699
Total assets	1,160,324	1,384,761	1,608,287	1,640,067	1,521,189
Notes and interest payables	884,305	1,022,015	1,188,625	1,168,015	1,177,586
Stockholders' equity	141,284	183,448	245,416	324,696	287,102

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Book value per share	\$	16.88	\$	22.61	\$	30.25	\$	40.15	\$	36.10
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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments;

failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

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

costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;

potential liability for uninsured losses and environmental contamination;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-K, including those described under the caption Risk Factors.

The risks included here are not exhaustive. Other sections of this report, including Part I Item 1A. Risk Factors, include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual

results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. The Company's portfolio of income-producing properties includes residential apartment communities, office buildings and other commercial properties. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in in-fill locations or high-growth suburban markets. We are an active buyer and seller and during 2011 acquired \$45.5 million and sold \$288.5 million of land and income-producing properties. As of December 31, 2011, we owned 9,317 units in 50 residential apartment communities, 16 commercial properties comprising approximately 3.6 million rentable square feet. In addition, we own 4,720 acres of land held for development. The Company currently owns income-producing properties and land in 13 states as well as in the U.S. Virgin Islands.

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

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

Prior to April 30, 2011, we were advised by Prime under a contractual arrangement that is reviewed annually by our Board of Directors. Effective April 30, 2011, Pillar became the Company's external Advisor and Cash Manager under the same terms as the previous agreement with Prime. Prior to December 31, 2010, Triad Realty Services, L.P. (Triad) managed the Company's commercial properties and Regis Realty I, LLC (Regis I) provided brokerage services. Triad and Regis I are affiliates of Prime. Effective January 1, 2011, Regis Realty Prime, LLC (Regis), an affiliate of Pillar, manages our commercial properties and provides brokerage services under the same terms as the previous agreements with Triad and Regis I for a term of five years. We currently contract with third-party companies to lease and manage our apartment communities.

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States (GAAP). In June 2009, the Financial Accounting Standards Board (FASB) completed its accounting guidance codification project. The FASB Accounting Standards Codification (ASC) became effective for our financial statements issued subsequent to June 30, 2009 and is the single source of authoritative

accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating its accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC Codification as the sole source of authoritative literature.

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

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

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities are included in consolidated net income. TCI's investments in ARL and Garden Centura, L.P. are accounted for under the equity method. On December 28, 2011, we sold our investment in Garden Centura, L.P.

Real Estate

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

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

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

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

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

Depreciation and Impairment

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

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

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

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 Interest Capitalization of Interest and ASC Topic 970 Real Estate - General. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries

and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Investment in Unconsolidated Real Estate Ventures

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

Recognition of Rental Income

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

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

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

Revenue Recognition on the Sale of Real Estate

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

Non-performing Notes Receivable

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

Interest Recognition on Notes Receivable

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

Allowance for Estimated Losses

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

Fair Value of Financial Instruments

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

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

- Level 1 Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.
 - Level 2 Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
 - Level 3 Unobservable inputs that are significant to the fair value measurement.
- A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties, and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each

phase of the project, we lease-up that phase and include those revenues in our continued operations. Once a developed property becomes leased-up and is held the entire period for both years under comparison, it is considered to be included in the same property portfolio. Income producing properties that we have sold during the year are reclassified to discontinuing operations for all periods presented.

The following discussion is based on our Consolidated Statements of Operations Years Ended December 31, 2011, 2010, and 2009 as included in Item 8. Financial Statements and Supplementary Data . The prior year's property portfolios have been adjusted for subsequent sales. Continued operations relates to income producing properties that were held during those years as adjusted for sales in the subsequent years.

At December 31, 2011, 2010 and 2009, we owned or had interests in a portfolio of 66, 72 and 86 income producing properties, respectively. For discussion purposes, we broke this out between continued operations and discontinued operations. The total property portfolio represents all income producing properties held as of December 31 for the year end presented. Sales subsequent to year end represent properties that were held as of year-end for the years presented, but sold in the next year. Continued operations represents all properties that have not been reclassified to discontinued operations as of December 31, 2011 for the year presented. The table below shows the number of income producing properties held by year:

	2011	2010	2009
Continued operations	65	58	59
Sales subsequent to year end	1	14	27
Total property portfolio	66	72	86

Comparison of the year ended December 31, 2011 to the same period ended 2010:

We had a net loss applicable to common shares of \$47.4 million in 2011, which includes gain on land sales of \$17.0 million and net income from discontinued operations of \$8.4 million, as compared to the prior year net loss applicable to common shares of \$68.3 million, which includes loss on land sales of \$15.2 million and net gain from discontinued operations of \$4.7 million. This was offset by an increase in provision on impairment of investment in real estate partnerships and real estate assets.

Revenues

Rental and other property revenues were \$114.1 million for the twelve months ended December 31, 2011. This represents an increase of \$3.8 million, as compared to the prior year revenues of \$110.3 million. This change, by segment, is an increase in the apartment portfolio of \$9.6 million, offset by a decrease in the commercial portfolio of \$5.8 million. Within the apartment portfolio, the same property portfolio increased by \$3.3 million, the acquired properties increased by \$1.5 million and the developed properties increased by \$4.8 million. Within the commercial portfolio, the same property portfolio decreased by \$5.8 million due to an increase in vacancy, which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are also continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Property operating expenses were \$63.5 million for the twelve months ended December 31, 2011. This represents an increase of \$1.4 million as compared to the prior year operating expenses of \$62.1 million. This change, by segment, is an increase in the apartment portfolio of \$3.3 million offset by a decrease in the land and other portfolio of \$1.0 million and a decrease in the commercial portfolio of \$0.9 million. The decrease in the land portfolio was due to land sales. Within the apartment portfolio, the same apartment properties decreased \$0.2 million due to lower overall operating costs and additional repair and maintenance. The developed apartments increased expenses by \$2.4 million and the acquired properties increased expenses by \$1.1 million.

Depreciation and amortization expense was \$20.6 million for the twelve months ended December 31, 2011. This represents a decrease of \$1.6 million, as compared to the prior year expense of \$22.2 million. This change, by segment, is an increase in the apartment portfolio of \$0.8 million offset by a decrease in the commercial portfolio of \$2.4 million. Within the apartment portfolio, the same property portfolio decreased by \$0.5 million, the acquired properties increased by \$0.1 million and the developed properties in the lease-up phase increased by \$1.2 million. Once the apartment complex is considered stabilized, we begin to depreciate the assets.

General and administrative expenses were \$9.2 million for the twelve months ended December 31, 2011. This represents an increase of \$1.1 million as compared to the prior year expenses of \$8.1 million. This change is due to an increase in administrative expenses and professional services.

The current year provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets was \$41.8 million. This was an increase of \$19.2 million as compared to the prior year expense of \$22.6 million. In the current year, impairment was recorded as an additional loss in the investment portfolio of \$5.2 in apartments we currently hold, \$5.3 million in commercial properties we currently hold, \$22.4 million in land we currently hold, \$0.4 million in impairment on our investments in unconsolidated entities, and the remainder was land sold during the current period or subsequent to year end. The majority of the impairment losses were taken on the properties that are treated as subject to sales contract where, subsequent to the sale to a related party under common control, negotiations have occurred for the property ownership to transfer to the lender and estimated current property values are lower than our current basis. In the prior year, impairment was recorded as an additional loss in the investment portfolio of \$18.3 million in land we sold during the current period or subsequent to year end and \$4.3 million in impairment on notes receivable.

Other income (expense)

Other income was \$2.1 million for the twelve months ended December 31, 2011. This represents a decrease of \$6.3 million as compared to the prior year income of \$8.4 million. The decrease was due to revenue received in prior year from an incentive fee from Regis I.

Interest income was \$5.7 million for the twelve months ended December 31, 2011. This represents an increase of \$0.5 million, as compared to the prior year income of \$5.2 million. This change was due to the receipt of interest payments due on our Unified Housing surplus cash flow notes. Interest is recognized when interest payments are received.

Mortgage and loan interest expense was \$53.1 million for the twelve months ended December 31, 2011. This represents a decrease of \$2.1 million, as compared to the prior year expense of \$55.2 million. This change, by segment, is a decrease in the commercial portfolio of \$0.2 million, a decrease in the land and other portfolio of \$1.5 million and a decrease in the apartment portfolio of \$0.4 million. Within the apartment portfolio, the same apartment portfolio decreased \$3.3 million, the acquired properties increased by \$0.3 million and the developed properties increased \$2.6 million due to properties in the lease-up phase. Once an apartment is completed, the interest expense is no longer capitalized. The decrease in the land and other portfolio was due to land sales.

Gain on land sales increased in the current year. In the current year, we sold 3,809.49 acres of land in 34 separate transactions for an aggregate sales price of \$163.1 million and recorded a gain of \$17.0 million. The average sales price was \$42,801 per acre. In the prior year, we sold 1,227.53 acres of land in 13 separate transactions for an aggregate sales price of \$23.1 million, receiving \$8,984 in cash and recorded a loss of \$15.1 million. The average sales price was \$18,823 per acre.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale as of the respective year end. Included in discontinued operations are a total of 13 and 22 income-producing properties as of 2011 and 2010, respectively and one held for sale as of 2011. In 2011, we sold 11 commercial properties (Addison Hanger I, Addison Hanger II, Alpenloan, Fenton Center, One Hickory, Parkway North, Signature, Teleport Blvd, Two Hickory, Westgrove Air Plaza and Willowbrook Village), one apartment complex (Spyglass), 13 acres of land with a storage warehouse (Eagle Crest), and one apartment complex held for sale (Wildflower Villas). In 2010, we sold seven apartment complexes (Baywalk, Foxwood, Island Bay, Kingsland Ranch, Longfellow Arms, Marina Landing and Mason Park), one commercial building (217 Rampart), and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). In addition, we recognized the deferred gains on the sales of six apartment complexes (Bridges on Kinsey, Limestone Canyon, Limestone Ranch, Longfellow Arms, Sendero Ridge and Tivoli) and four commercial properties (2010 Valley View, Cullman Shopping Center, Kmart Cary and Parkway Centre) that were sold in prior years in accordance with the requirements per ASC Topic 360-20 Property, Plant, and Equipment Real Estate Sales. The gains on sale of the properties sold are also included in the discontinued operations for those years as shown in the table below (dollars in thousands):

	For Years Ended December 31,	
	2011	2010
Revenues		
Rental	\$ 10,685	\$ 30,850
Property operations	6,492	17,465
	4,193	13,385
Expenses		
Other income	49	3,697
Interest	(3,509)	(12,303)
General and administration	(966)	(530)
Depreciation	(2,416)	(6,125)
Provision on impairment of real estate assets	(3,231)	(1,923)
	(10,073)	(17,184)
Net loss from discontinued operations before gains on sale of real estate, taxes and fees	(5,880)	(3,799)
Gain on sale of discontinued operations	18,300	10,781
Equity in investee	452	203
Income from discontinued operations	12,872	7,185
Tax expense	(4,505)	(2,515)
Income from discontinued operations	\$ 8,367	\$ 4,670

Comparison of the year ended December 31, 2010 to the same period ended 2009:

We had a net loss applicable to common shares of \$68.3 million in 2010, which includes loss on land sales of \$15.2 million and net income from discontinued operations of \$4.7 million, as compared to the prior year net loss applicable to common shares of \$80.7 million, which includes gain on land sales of \$6.3 million and net loss from discontinued operations of \$0.1 million. The majority of the decrease in our net loss applicable to common shares is primarily due to our impairment on notes receivable and real estate assets of \$22.6 million in 2010, as compared to \$42.5 million in the prior year. This was offset by other income received from an incentive fee from Regis I.

Revenues

Rental and other property revenues were \$110.3 million for the twelve months ended December 31, 2010. This represents an increase of \$3.0 million, as compared to the prior year revenues of \$107.3 million. This change, by segment, is an increase in the apartment portfolio of \$3.0 million, an increase in the other portfolio of \$1.4 million, offset by a decrease in the commercial portfolio of \$1.3 million and a decrease in the land portfolio of \$0.1 million. Within the apartment portfolio, the same property portfolio decreased by \$0.2 million and the developed properties increased by \$3.2 million. Within the commercial portfolio, the same property portfolio decreased by \$1.3 million due to an increase in vacancy which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are also continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were \$62.1 million for the twelve months ended December 31, 2010. This represents an increase of \$0.1 million as compared to the prior year operating expenses of \$62.0 million. This change, by segment, is an increase in the land and other portfolio of \$1.1 million offset by a decrease in the apartment portfolio of \$1.0 million. The increase within the land portfolio was primarily due to an adjustment in 2009 to correct over accrual of 2008 real estate property taxes, resulting in recording lower operating expenses in 2009. Within the apartment portfolio, the same apartment properties decreased \$1.5 million due to lower overall operating costs and additional repair and maintenance. The developed apartments increased expenses by \$0.5 million.

Depreciation and amortization expense was \$22.2 million for the twelve months ended December 31, 2010. This represents an increase of \$1.7 million, as compared to the prior year expense of \$20.5 million. This increase in the apartment portfolio was mainly from our developed properties in the lease-up phase. Once the apartment complex is considered stabilized, we begin to depreciate the assets.

General and administrative expenses were \$8.1 million for the twelve months ended December 31, 2010. This represents a decrease of \$2.6 million as compared to the prior year expenses of \$10.7 million. This change is due to a reduction in administrative expenses and cost reimbursements to our Advisor, in addition to reductions in professional services.

The 2010 provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets was \$22.6 million. This was a decrease of \$19.9 million as compared to the prior year expense of \$42.5 million. In 2010, impairment was recorded as an additional loss in the investment portfolio of \$18.3 million in land we sold subsequent to year end and \$4.3 million in impairment on notes receivable. In 2009, impairment was recorded as an additional loss in the investment portfolio of \$1.9 million in commercial properties we currently hold, \$2.4 million in land we currently hold and the remainder was land sold during the current period or subsequent to year end.

Other income (expense)

Other income was \$8.4 million for the twelve months ended December 31, 2010. This represents an increase of \$5.4 million as compared to the prior year income of \$3.0 million. The increase was due to revenue received from a consulting agreement with EurEnergy Resources Poland Sp.zoo.o. and an incentive fee from Regis I.

Interest income was \$5.2 million for the twelve months ended December 31, 2010. This represents a decrease of \$0.2 million, as compared to the prior year income of \$5.4 million. This change was due to the receipt of interest payments due on our Unified Housing surplus cash flow notes. Interest is recognized when interest payments are received.

Mortgage and loan interest expense was \$55.2 million for the twelve months ended December 31, 2010. This represents an increase of \$1.6 million, as compared to the prior year expense of \$53.6 million. This change,

by segment, is an increase in the apartment portfolio of \$3.4 million, an increase in the commercial portfolio of \$0.4 million, a decrease in the land portfolio of \$4.3 million and an increase in the other portfolio of \$2.1 million. Within the apartment portfolio, the same apartment portfolio increased \$1.6 million and the developed properties increased \$1.8 million due to properties in the lease-up phase. Once an apartment is completed, the interest expense is no longer capitalized. The land portfolio decrease was due to land sales.

Gain on land sales decreased by \$21.4 million. This decrease was in part due to the overall economic environment which, among other issues, resulted in the tightening of the credit markets, causing an inability of potential buyers to obtain financing. Thus, we have found it difficult to complete land transactions. In 2010, we sold 1,227.53 acres of land in 13 separate transactions for an aggregate sales price of \$23.1 million, receiving \$8,984 in cash and recorded a loss of \$15.1 million. The average sales price was \$18,823 per acre. In 2009, we sold 857.12 acres of land in seven separate transactions for an aggregate sales price of \$36.7 million, receiving \$9.5 million in cash and recorded a gain on sale of \$6.3 million. The average sales price was \$42,818 per acre.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale. Included in discontinued operations are a total of 23 and 29 income-producing properties as of 2010 and 2009, respectively. The prior periods discontinued operations have been adjusted to reflect properties held during those years that were subsequently sold or held for sale as of December 31, 2011. In 2010, we sold seven apartment complexes (Baywalk, Foxwood, Island Bay, Kingsland Ranch, Longfellow Arms, Marina Landing and Mason Park), one commercial building (217 Rampart) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). In addition, we also recognized the gains on the sales of four apartment complexes (Limestone Canyon, Limestone Ranch, Sendero Ridge and Tivoli) that were sold in the prior year in accordance with the requirements per ASC Topic 360-20 Property, Plant, and Equipment Real Estate Sales. In 2009, we sold one apartment complex (Bridges on Kinsey), and five commercial properties (2010 Valley View, 5000 Space Center, 5360 Tulane, Cullman Shopping Center and Parkway Centre). These were reclassified to prior year discontinued operations. 2010 Valley View and Parkway Centre operations began on July 17, 2009, when TCI began consolidating IOT. The gains on sale of the properties sold are also included in the discontinued operations for those years as shown in the table below (dollars in thousands):

	For Years Ended December 31,	
	2010	2009
Revenue		
Rental	\$ 30,850	\$ 48,778
Property operations	17,465	25,433
	13,385	23,345
Expenses		
Other income	3,697	702
Litigation settlement		(1)
Interest	(12,303)	(18,229)
General and administration	(530)	(381)
Depreciation	(6,125)	(9,342)
Provision on impairment of real estate assets	(1,923)	
	(17,184)	(27,251)
Net loss from discontinued operations before gains on sale of real estate, taxes and fees	(3,799)	(3,906)
Gain on sale of discontinued operations	10,781	3,524
Equity in investee	203	164
Income (loss) from discontinued operations	7,185	(218)
Tax expense	(2,515)	76
Income (loss) from discontinued operations	\$ 4,670	\$ (142)

Liquidity and Capital Resources

General

Our principal liquidity needs are:

fund normal recurring expenses;

meet debt service and principal repayment obligations including balloon payments on maturing debt;

fund capital expenditures, including tenant improvements and leasing costs;

fund development costs not covered under construction loans; and

fund possible property acquisitions.

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

property operations;

proceeds from land and income-producing property sales;

collection of mortgage notes receivable;

collections of receivables from affiliated companies;

refinancing of existing mortgage notes payable; and

additional borrowings, including mortgage notes payable, and lines of credit.

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks' willingness and/or ability to originate loans affects our ability to buy and sell property, and refinance existing debt. We are unable to foresee the extent and length of this down-turn. A continued and extended decline could materially impact our cash flows. We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans, which are converted to traditional mortgages upon completion of the project.

We may also issue additional equity securities, including common stock and preferred stock. Management anticipates that our cash as of December 31, 2011, along with cash that will be generated in 2012 from property operations, may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet its liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of the Company's current maturity obligations.

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Management reviews the carrying values of TCI's properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings. The note receivable review includes an evaluation of the collateral property securing such note. The property review generally includes: (1) selective property inspections; (2) a review of the property's current rents compared to market rents; (3) a review of the property's expenses; (4) a review of maintenance requirements; (5) a review of the property's cash flow; (6) discussions with the manager of the property; and (7) a review of properties in the surrounding area.

Cash flow summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows in Part II, Item 8. Consolidated Financial Statements and Supplementary Data and is not meant to be an all inclusive discussion of the changes in our cash flows for the periods presented below (dollars in thousands):

	2011	2010	Variance
Net cash provided by (used in) operating activities	\$ 6,538	\$ (7,198)	\$ 13,736
Net cash provided by investing activities	\$ 149,782	\$ 185,823	\$ (36,041)
Net cash used in financing activities	\$ (147,588)	\$ (173,031)	\$ 25,443

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have an affiliated account in which excess cash is transferred to or from. The majority of the overall increase in cash provided by operating activities is due to the reduction in obligations to our affiliates.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income producing properties, and capital improvements to existing properties. We used \$46.8 million on construction and development of five apartment projects during 2011. This is an increase of \$8.5 million from the prior year. We have discontinued certain projects and put some projects on hold, while continuing to development our apartment properties. We acquired approximately 2900 acres of land during 2011. We continue to make capital improvements on our existing properties but spent significantly less in 2011 on land development than in the prior year. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income producing properties. We sold 1 apartment complex and twelve commercial buildings, providing over \$116.9 million of sales proceeds along with 3,809.49 acres of land sales of providing \$122.7 million of sales proceeds. The majority of the sales proceeds were used to cover the loan obligations. Sales proceeds are gross of the loan assumptions.

Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. Proceeds from notes payable associated with the new loans and refinancing provided \$117.4 million. We used \$16.4 million to make recurring note payments, \$120.9 million for maturing notes, including payoffs required on sold properties and \$126.6 million assumption of debt related to the sales of income producing properties and land.

Equity Investments.

TCI has from time to time purchased shares of IOT and ARL. The Company may purchase additional equity securities of IOT and ARL through open market and negotiated transactions to the extent TCI's liquidity permits.

Equity securities of ARL and IOT held by TCI may be deemed restricted securities under Rule 144 of the Securities Act of 1933 (Securities Act). Accordingly, TCI may be unable to sell such equity securities other than in a registered public offering or pursuant to an exemption under the Securities Act for a one-year period after they are acquired. Such restrictions may reduce TCI's ability to realize the full fair value of such investments if TCI attempted to dispose of such securities in a short period of time.

Contractual Obligations

We have contractual obligations and commitments primarily with regards to the payment of mortgages. The following table aggregates our expected contractual obligations and commitments and includes items not accrued, per Generally Accepted Accounting Principles, through the term of the obligation such as interest expense and operating leases. Our aggregate obligations subsequent to December 31, 2011 are shown in the table below (dollars in thousands):

	Total	2012	2013	2014-2016	Thereafter
Long-term debt obligation ⁽¹⁾	\$ 1,551,053	\$ 239,184	\$ 131,552	\$ 138,762	\$ 1,041,555
Capital lease obligation					
Operating lease obligation	46,426	682	692	2,135	42,917
Purchase obligation					
Other long-term debt liabilities reflected on the Registrant's Balance Sheet under GAAP					
Total	\$ 1,597,479	\$ 239,866	\$ 132,244	\$ 140,897	\$ 1,084,472

⁽¹⁾ TCI's long-term debt may contain financial covenants that, if certain thresholds are not met, could allow the lender to accelerate principal payments or cause the note to become due immediately.

Environmental Matters

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

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

Inflation

The effects of inflation on TCI's operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, TCI's earnings from short-term investments, the cost of new financings and the cost of variable interest rate debt will be affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TCI's primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments that bear interest at variable rates that fluctuate with market interest rates and maturing debt that has to be refinanced. TCI's future operations, cash flow and fair values of financial instruments are also partially dependent on the then existing market interest rates and market equity prices.

As of December 31, 2011, our \$868.3 million debt portfolio consisted of approximately \$681.6 million of fixed-rate debt and approximately \$186.7 million of variable-rate debt with interest rates ranging from 1.1% to 12.5%. Our overall weighted average interest rate at December 31, 2011 and 2010 was 6.52% and 6.65%, respectively.

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TCI's interest rate sensitivity position is managed by the capital markets department. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. TCI's earnings are affected as changes in short-term interest rates affect its cost of variable-rate debt and maturing fixed-rate debt.

If market interest rates for variable-rate debt average 100 basis points more in 2012 than they did during 2011, TCI's interest expense would increase and net income would decrease by \$1.9 million. This amount is determined by considering the impact of hypothetical interest rates on TCI's borrowing cost. The analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in TCI's financial structure.

The following table contains only those exposures that existed at December 31, 2011. Anticipation of exposures or risk on positions that could possibly arise was not considered. TCI's ultimate interest rate risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars in thousands):

	2012	2013	2014	2015	2016	Thereafter	Total
Assets							
Market securities at fair value							\$
Note Receivable							
Variable interest rate fair value							\$
Instruments maturities	\$	\$	\$	\$	\$	\$	\$
Instruments amortization							
Interest							
Average Rate	0.00%	0.00%	0.00%	0.00%	0.00%		
Fixed interest rate fair value							\$
Instruments maturities	\$	\$	\$	\$	\$	\$	\$
Instruments amortization							
Interest							
Average Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.0%	
Notes Payable							
Variable interest rate fair value							\$ 204,605
Instruments maturities	\$ 161,438	\$ 10,823	\$	\$	\$ 191	\$ 28,407	\$ 200,859
Instruments amortization	1,801	651	303	318	208	465	3,746
Interest	2,557	1,529	1,169	1,154	1,135	14,214	21,758
Average Rate	3.87%	4.70%	4.72%	4.71%	4.71%	3.91%	
Fixed interest rate fair value							\$ 681,716
Instruments maturities	\$ 32,083	\$ 82,313	\$ 37,161	\$	\$ 256	\$ 56,746	\$ 208,559
Instruments amortization	7,479	6,163	5,589	5,722	5,967	442,237	473,157
Interest	34,685	30,833	28,637	26,774	26,456	530,286	677,671
Average Rate	5.55%	5.47%	5.43%	5.40%	5.40%	4.90%	

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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All other schedules are omitted because they are not required, are not applicable or the information required is included in the Financial Statements or the notes thereto.	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of and

Stockholders of Transcontinental Realty Investors, Inc.

Dallas, Texas

We have audited the accompanying consolidated balance sheets of Transcontinental Realty Investors, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows each for each of the years in the three-year period ended December 31, 2011. Transcontinental Realty Investors, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 16, Transcontinental Realty Investors, Inc.'s management intends to sell land and income producing properties and refinance or extend debt secured by real estate to meet the Company's liquidity needs.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transcontinental Realty Investors, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Schedules III and IV are presented for the purpose of complying with the Securities and Exchange Commission's rules and are not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

FARMER, FUQUA & HUFF, PC

Plano, Texas

March 30, 2011

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$ 1,069,699	\$ 1,074,635
Real estate held for sale at cost, net of depreciation (\$1752 in 2011 and \$0 in 2010)	15,015	
Real estate subject to sales contracts at cost, net of depreciation (\$7,213 in 2011 and \$58,579 in 2010)	52,555	232,495
Less accumulated depreciation	(148,930)	(94,016)
Total real estate	988,339	1,213,114
Notes and interest receivable		
Performing (including \$58,465 in 2011 and \$66,011 in 2010 from affiliates and related parties)	79,161	71,766
Non-Performing	2,152	
Less allowance for estimated losses (including \$2,097 in 2011 and \$3,061 in 2010 from affiliates and related parties)	(3,942)	(4,741)
Total notes and interest receivable	77,371	67,025
Cash and cash equivalents	19,991	11,259
Investments in unconsolidated subsidiaries and investees	6,362	8,146
Other assets	68,261	85,217
Total assets	\$ 1,160,324	\$ 1,384,761
Liabilities and Shareholders Equity		
Liabilities:		
Notes and interest payable	\$ 829,617	\$ 830,247
Notes related to assets held for sale	13,830	
Notes related to subject to sales contracts	38,376	190,693
Stock secured notes payable	2,482	1,075
Affiliate payables	17,465	47,261
Deferred revenue (from sales to related parties)	65,607	82,841
Accounts payable and other liabilities (including \$1,746 in 2011 and \$1,485 in 2010 from affiliates and related parties)	51,663	49,196
	1,019,040	1,201,313
Shareholders equity:		
Preferred Stock, Series C: \$.01 par value, authorized 10,000,000 shares, issued and outstanding 30,000 shares in 2011 and 2010 respectively (liquidation preference \$100 per share). Series D: \$.01 par value, authorized, issued and outstanding 100,000 shares in 2011 and 2010 respectively	1	1
Common Stock, \$.01 par value, authorized 10,000,000 shares; issued 8,413,669 in 2011 and 8,113,669 in 2010 and outstanding 8,413,469 in 2011 and 8,113,669 in 2010	84	81
Treasury stock at cost; 200 and 200 shares in 2011 and 2010	(2)	(2)
Paid-in capital	273,886	271,682
Retained earnings	(148,235)	(101,914)
Total Transcontinental Realty Investors, Inc. shareholders equity	125,734	169,848
Non-controlling interest	15,550	13,600
Total equity	141,284	183,448
Total liabilities and equity	\$ 1,160,324	\$ 1,384,761

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2011	2010	2009
	(dollars in thousands, except share and per share amounts)		
Revenues:			
Rental and other property revenues (including \$223 and \$564 and \$1,600 for the year ended 2011 and 2010 and 2009 respectively from affiliates and related parties)	\$ 114,087	\$ 110,281	\$ 107,286
Expenses:			
Property operating expenses (including \$1,117 and \$844 and \$1,431 for year ended 2011 and 2010 and 2009 respectively from affiliates and related parties)	63,473	62,108	62,027
Depreciation and amortization	20,618	22,189	20,471
General and administrative (including \$1,927 and \$3,065 and \$4,315 for the year ended 2011 and 2010 and 2009 respectively from affiliates and related parties)	9,213	8,093	10,709
Provision on impairment of notes receivable and real estate assets	41,776	22,579	42,513
Advisory fee to affiliate	9,958	11,919	11,903
Total operating expenses	145,038	126,888	147,623
Operating loss	(30,951)	(16,607)	(40,337)
Less allowance for estimated losses (including \$2,097 in 2011 and \$3,061 in 2010 from affiliates and related parties)			
Other income (expense):			
Interest income (including \$5,624 and \$4,406 and \$4,280 for the year ended 2011 and 2010 and 2009 respectively from affiliates and related parties)	5,720	5,187	5,407
Other income	2,149	8,406	3,011
Mortgage and loan interest (including \$1,696 and \$3,345 and \$2,566 for the year ended 2011 and 2010 and 2009 respectively from affiliates and related parties)	(53,133)	(55,204)	(53,638)
Loss on the sale of investments	(514)		
Earnings from unconsolidated subsidiaries and investees	243	(958)	(451)
Litigation Settlement			357
Total other expenses	(45,535)	(42,569)	(45,314)
Loss before gain on land sales, non-controlling interest, and tax	(76,486)	(59,176)	(85,651)
Gain (loss) on land sales	17,011	(15,155)	6,296
Loss from continuing operations before tax	(59,475)	(74,331)	(79,355)
Income tax benefit	4,505	2,563	(76)
Net loss from continuing operations	(54,970)	(71,768)	(79,431)
Discontinued operations:			
Loss from discontinued operations	(5,428)	(3,596)	(3,742)
Gain on sale of real estate from discontinued operations	18,300	10,781	3,524
Income tax expense from discontinued operations	(4,505)	(2,515)	76
Net income (loss) from discontinued operations	8,367	4,670	(142)
Net loss	(46,603)	(67,098)	(79,573)
Net (income) loss attributable to non-controlling interest	282	(98)	(125)
Net loss attributable to Transcontinental Realty Investors, Inc.	(46,321)	(67,196)	(79,698)
Preferred dividend requirement	(1,110)	(1,073)	(1,023)
Net loss applicable to common shares	\$ (47,431)	\$ (68,269)	\$ (80,721)

Earnings per share basic

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Loss from continuing operations	\$ (6.67)	\$ (8.99)	\$ (9.93)
Income (loss) from discontinued operations	1.00	0.58	(0.02)
Net loss applicable to common shares	\$ (5.67)	\$ (8.41)	\$ (9.95)
Earnings per share diluted			
Loss from continuing operations	\$ (6.67)	\$ (8.99)	\$ (9.93)
Income (loss) from discontinued operations	1.00	0.58	(0.02)
Net loss applicable to common shares	\$ (5.67)	\$ (8.41)	\$ (9.95)
Weighted average common share used in computing earnings per share	8,370,729	8,113,575	8,113,669
Weighted average common share used in computing diluted earnings per share	8,370,729	8,113,575	8,113,669
Amounts attributable to Transcontinental Realty Investors, Inc.			
Loss from continuing operations	\$ (54,970)	\$ (71,768)	\$ (79,431)
Income (loss) from discontinued operations	8,367	4,670	(142)
Net loss	\$ (46,603)	\$ (67,098)	\$ (79,573)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

For the Three Years Ended December 31, 2011

(dollars in thousands)

	Common Stock						Accumulated Other Comprehensive		Non-Controlling Interest
	Total	Income (Loss)	Preferred Stock	Shares	Treasury Stock	Paid-in Capital	Retained Earnings	Income (Loss)	
Balance, December 31, 2008	\$ 324,696	\$ 44,124	\$ 1	8,113,669	\$ 81	\$ 263,290	\$ 44,980	\$ 2,575	\$ 13,769
Unrealized gain on investment securities	(2,575)	(2,575)						(2,575)	
Series D preferred stock dividends (7% per year)	(813)					(813)			
Series C preferred stock dividends	(210)					(210)			
Net income (loss)	(79,573)	(79,573)					(79,698)		125
Sale of controlling interest	(149)					(149)			
Acquisition of controlling interest	4,040								4,040
Repurchase/sale of treasury shares, net									
Balance, December 31, 2009	\$ 245,416	\$ (38,024)	\$ 1	8,113,669	\$ 81	\$ 262,118	\$ (34,718)	\$	\$ 17,934
Series D preferred stock dividends (7% per year)	(863)					(863)			
Series C preferred stock dividends (8.5% per year)	(210)					(210)			
Net income (loss)	(67,098)	(67,098)					(67,196)		98
Sale of controlling interest	49					27			22
Acquisition of controlling interest	6,202					10,610			(4,408)
Distributions to non-controlling interests	(46)								(46)
Repurchase/sale of treasury shares, net	(2)					(2)			
Balance, December 31, 2010	\$ 183,448	\$ (105,122)	\$ 1	8,113,669	\$ 81	\$ (2)	\$ 271,682	\$ (101,914)	\$ 13,600
Series D preferred stock dividends (7% per year)	(900)					(900)			
Series C preferred stock dividends (8.5% per year)	(210)					(210)			
Net income (loss)	(46,603)	(45,930)					(46,321)		(282)

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Issuance of common stock	1,530			300,000	3		1,527		
Sale of controlling interest	4,019						1,787		2,232
Balance, December 31, 2011	\$ 141,284	\$ (151,052)	\$ 1	8,413,669	\$ 84	\$ (2)	\$ 273,886	\$ (148,235)	\$ 15,550

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net loss	\$ (46,603)	\$ (67,098)	\$ (79,573)
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:			
(Gain) loss on sale of land	(17,011)	15,155	(6,296)
Gain on sale of income producing properties	(18,300)	(10,781)	(3,524)
Depreciation and amortization	23,034	28,302	29,813
Provision on impairment of notes receivable and real estate assets	52,128	24,502	42,513
Amortization of deferred borrowing costs	2,365	2,613	3,698
Earnings due to non-controlling interest			4,040
Earnings from unconsolidated subsidiaries and investees	(695)	754	287
(Increase) decrease in assets:			
Accrued interest receivable	(4,050)	(1,869)	2,018
Other assets	(799)	8,971	(2,783)
Prepaid expense	2,083	551	(494)
Escrow	18,837	8,476	(3,222)
Earnest money	1,385	850	(1,723)
Rent receivables	(6,158)	(2,276)	(422)
Increase (decrease) in liabilities:			
Accrued interest payable	8,743	1,764	(2,217)
Affiliate payables	(29,795)	(2,902)	(12,204)
Other liabilities	717	(14,210)	3,526
Net cash provided by (used in) operating activities	6,538	(7,198)	(26,563)
Cash Flow From Investing Activities:			
Proceeds from notes receivables	16,924	3,967	8,000
Originations of notes receivables	(22,421)	(29,455)	
Acquisition of land held for development	(43,193)	(4,937)	(11,844)
Acquisition of income producing properties	6,526		
Proceeds from sales of income producing properties	123,105	206,143	34,647
Proceeds from sale of land	137,214	55,171	36,289
Proceeds from sale of investment in unconsolidated real estate entities	(9)		
Proceeds from sale of investments	586		
Investment in unconsolidated real estate entities	(319)	458	16,495
Improvement of land held for development	(1,562)	(4,834)	(10,115)
Improvement of income producing properties	(3,657)	(2,277)	(2,220)
Acquisition of non-controlling interest			
Sale of controlling interest	4,019	22	
Investment in marketable equity securities		(89)	2,775
Acquisition of income producing properties			(5,971)
Construction and development of new properties	(46,774)	(38,346)	(26,134)
Net cash provided by investing activities	149,782	185,823	41,922
Cash Flow From Financing Activities:			
Proceeds from notes payable	117,441	182,849	55,508
Recurring amortization of principal on notes payable	(16,383)	(10,655)	(18,588)
Payments on maturing notes payable	(120,922)	(242,795)	(49,522)
Debt assumption by buyer	(126,589)	(97,772)	
Deferred financing costs	(1,555)	(3,539)	(2,052)
Distributions to non-controlling interests		(46)	
Common stock issuance	1,530		
Preferred stock dividends Series C	(210)	(210)	(210)
Preferred stock dividends Series D	(900)	(863)	(813)
Net cash used in financing activities	(147,588)	(173,031)	(15,677)

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Net increase (decrease) in cash and cash equivalents	8,732	5,594	(318)
Cash and cash equivalents, beginning of period	11,259	5,665	5,983
Cash and cash equivalents, end of period	\$ 19,991	\$ 11,259	\$ 5,665

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 56,641	\$ 61,439	\$ 67,995
Cash paid for income taxes, net of refunds	\$	\$ (48)	\$ 1,728

Schedule of noncash investing and financing activities:

Affiliate payables release of obligation for cost basis adjustment	\$ (34,234)	\$	\$
Sales proceeds increase for cost basis adjustment	\$ 34,234	\$	\$
Unrealized loss on marketable securities	\$	\$	\$ (2,575)
Note receivable allowance	\$	\$ (1,937)	\$
Notes receivable received from affiliate	\$ 20,387	\$ 28,554	\$ 2,341
Note paydown from right to build sale	\$	\$	\$ 1,500
Acquisition of real estate to satisfy note receivable	\$	\$	\$ (7,748)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

For the Three Years Ended December 31,

	2011	2010	2009
	(dollars in thousands)		
Net loss	\$ (46,603)	\$ (67,098)	\$ (79,573)
Other comprehensive loss			
Unrealized gain on investment securities			(2,575)
Total other comprehensive loss	(46,603)	(67,098)	(82,148)
Comprehensive loss	(93,206)	(134,196)	(161,721)
Comprehensive (income) loss attributable to non-controlling interest	282	(98)	(125)
Comprehensive loss attributable to Transcontinental Realty Investors, Inc.	\$ (92,924)	\$ (134,294)	\$ (161,846)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Transcontinental Realty Investors, Inc. and consolidated entities have been prepared in conformity with accounting principles generally accepted in the United States of America, the most significant of which are described in Note 1.

Summary of Significant Accounting Policies. The Notes to Consolidated Financial Statements are an integral part of the Consolidated Financial Statements. The data presented in the Notes to Consolidated Financial Statements are as of December 31 of each year and for the year then ended, unless otherwise indicated. Dollar amounts in tables are in thousands, except per share amounts.

Certain balances for 2009 and 2010 have been reclassified to conform to the 2011 presentation.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization and business. TCI, a Nevada corporation, is the successor to a California business trust that was organized on September 6, 1983 and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired all of the outstanding shares of beneficial interest of Continental Mortgage and Equity Trust (CMET), a real estate company, in a tax-free exchange of shares, issuing 1,181 shares of its Common Stock for each outstanding CMET share. Prior to January 1, 2000, TCI elected to be treated as a Real Estate Investment Trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). During the third quarter of 2000, due to a concentration of ownership TCI no longer met the requirement for tax treatment as a REIT. Effective March 31, 2003, TCI financial results were consolidated in the American Realty Investors, Inc. (ARL) Form 10-K and related consolidated financial statements. As of December 31, 2011, ARL through subsidiaries owned 82.7% of the outstanding TCI common shares.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange (NYSE) under the symbol (TCI). TCI is a C corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL.

On July 17, 2009, the Company acquired from Syntek West, Inc., (SWI), 2,518,934 shares of Common Stock, par value \$0.01 per share of Income Opportunity Realty Investors, Inc. (IOT) at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by the Company through an assumption of an aggregate amount of indebtedness of \$17,884,431 on the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT Common Stock acquired by the Company constituted approximately 60.4% of the issued and outstanding Common Stock of IOT. The Company had owned for several years an aggregate of 1,037,184 shares of Common Stock of IOT (approximately 25% of the issued and outstanding). After giving effect to the transaction on July 17, 2009, TCI owned an aggregate of 3,556,118 shares of IOT common stock which constituted over 80% of the shares of common stock of IOT outstanding. As of December 31, 2011 TCI owned 82.6% of the outstanding IOT common shares. Shares of IOT are traded on the American Stock Exchange (AMEX) under the symbol (IOT).

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

With the Company's acquisition of the additional shares on July 17, 2009, which increased the aggregate ownership to in excess of 80%, beginning in July 2009, IOT's results of operations are now consolidated with those of the Company for tax and financial reporting purposes. At the time of the acquisition, the historical accounting value of IOT's assets was \$112 million and liabilities were \$43 million. In that the shares of IOT acquired by TCI were from a related party, the values recorded by TCI are IOT's historical accounting values at the date of transfer. The Company's fair valuation of IOT's assets and liabilities at the acquisition date approximated IOT's book value. The net difference between the purchase price and historical accounting basis of the assets and liabilities acquired was \$26.9 million and has been reflected by TCI as deferred income. The deferred income will be recognized upon the sale of the land that IOT held on its books as of the date of sale, to an independent third party.

TCI's Board of Directors represents the Company's shareholders and is responsible for directing the overall affairs of TCI and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc., a Nevada corporation (Pillar) under a written Advisory Agreement that is reviewed annually by TCI's Board of Directors. The directors of TCI are also directors of ARL and IOT. The Chairman of the Board of Directors of TCI also serves as the Chairman of the Board of Directors of ARL and IOT. The officers of TCI also serve as officers of ARL, IOT and Pillar.

Prior to April 30, 2011, the Company's contractual Advisor and Cash Manager was Prime Income Asset Management, LLC (Prime). Effective April 30, 2011, Pillar, a Nevada corporation, the sole stockholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, the sole stockholder of which is Realty Advisors Management, Inc., a Nevada corporation which is owned 100% by a Trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for TCI's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. As the contractual advisor, Pillar is compensated by TCI under an Advisory Agreement that is more fully described in Part III, Item 10. Directors, Executive Officers and Corporate Governance The Advisor. TCI has no employees. Employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Prior to December 31, 2010, Triad Realty Services, L.P. (Triad), an affiliate of Prime, provided management services for our commercial properties. Triad subcontracted the property-level management and leasing of our commercial properties (office buildings, shopping centers and industrial warehouses) to Regis Realty I, LLC (Regis I). Effective January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC (Regis), the sole member of which is Realty Advisors, LLC, manages our commercial properties and provides brokerage services under the same terms as the previous agreements with Triad and Regis Realty I for a term of five years. Regis receives property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. Directors, Executive Officers and Corporate Governance Property Management. TCI engages third-party companies to lease and manage its apartment properties.

Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate properties. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents and leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

agencies. We also generate revenues from gains on sales of income-producing properties and land. At December 31, 2011, we owned 50 residential apartment communities comprising of 9,317 units, 16 commercial properties comprising an aggregate of approximately 3.6 million square feet, and an investment in 4,709 acres of undeveloped and partially developed land.

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

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

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

Real estate, depreciation, and impairment. Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements 10-40 years; furniture, fixtures and equipment 5-10 years). We continually evaluate the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360,

Property, Plant and Equipment. Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset's net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Real estate held for sale. We periodically classify real estate assets as held for sale. An asset is classified as held for sale after the approval of the Company's board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying consolidated balance sheets. Upon a decision to no longer market as an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying statements of operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

Cost Capitalization. Costs related to planning, developing, leasing and constructing a property are capitalized and classified as Properties in the Consolidated Balance Sheets. We capitalize interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, we first use the interest incurred on specific project debt, if any, and next use the weighted average interest rate of non-project specific debt.

We capitalize interest, real estate taxes and certain operating expenses until building construction is substantially complete and the building is ready for its intended use, but no later than one year from the cessation of major construction activity.

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

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

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

- Level 1 Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.
- Level 2 Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Unobservable inputs that are significant to the fair value measurement.

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

Recognition of revenue. Our revenues, which are composed largely of rental income, include rents reported on a straight-line basis over the lease term. In accordance with ASC 805 Business Combinations, we recognize rental revenue of acquired in-place above- and below-market leases at their fair values over the terms of the respective leases.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

Cash equivalents. For purposes of the Consolidated Statements of Cash Flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Earnings per share. Income (loss) per share is presented in accordance with ASC 620 Earnings per Share. Income (loss) per share is computed based upon the weighted average number of shares of common stock outstanding during each year.

Use of estimates. In the preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America, it is necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expense for the year ended. Actual results could differ from those estimates.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Income Taxes. TCI is a C Corporation for U.S. federal income tax purposes. TCI files an annual consolidated income tax return with ARL and IOT and their subsidiaries. ARL is the common parent for the consolidated group. TCI is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOT and their subsidiaries that was entered into in July of 2009. Prior to 2009, ARL and TCI and their subsidiaries were in a tax sharing and compensating agreement with respect to federal income taxes and IOT was the parent company of its own consolidated filing group. The agreement specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

Recent Accounting Pronouncements. There were no recent accounting pronouncements that our company has not implemented that materially affect our financial statements.

NOTE 2. REAL ESTATE

A summary of our real estate owned as of the end of the year is listed below (dollars in thousands):

	2011	2010
Apartments	\$ 657,586	\$ 608,335
Apartments under construction		47,178
Commercial properties	241,736	215,386
Land held for development	170,573	203,736
Real estate held for sale	16,767	
Real estate subject to sales contract	59,572	291,074
Total real estate	1,146,234	1,365,709
Less accumulated depreciation	(157,895)	(152,595)
	\$ 988,339	\$ 1,213,114

Expenditures for repairs and maintenance are charged to operations as incurred. Significant betterments are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

Depreciation is computed on a straight line basis over the estimated useful lives of the assets as follows:

Land improvements	25 to 40 years
Buildings and improvements	10 to 40 years
Tenant improvements	Shorter of useful life or terms of related lease
Furniture, fixtures and equipment	3 to 7 years
Provision for Asset Impairments:	

In 2011, the provision for allowance and impairments was related to our investments in real estate assets and our investments in unconsolidated entities and other investees. Provision for allowance on notes receivable and impairment was \$41.8 million for the twelve months ended December 31, 2011. Impairment was recorded as an additional loss in the investment portfolio of \$5.2 million in apartment properties we currently hold, \$5.3 million in commercial properties we currently hold, \$22.4 million in land we currently hold, \$0.4 million in impairment on our investments in unconsolidated entities and the remainder was land sold during the current year or subsequent to year end. In 2010, we recorded a \$22.4 million in land parcels we currently hold.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

The following is a brief description of the most significant property acquisitions and sales in 2011.

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

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

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

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

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

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

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

The Company had a 75.0% limited partner interest in Woodmont TCI Group XIII, LP, a partnership that owned 8.91 acres of land known as Las Colinas Station land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On February 4, 2011 the partnership transferred ownership of the property to the existing lender and TCI recognized deferred gain of \$2.2 million on the transfer.

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

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

March 23, 2016. The buyer assumed the existing mortgage of \$1.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On January 3, 2012, ownership of Denton Coonrod land was transferred to the lender to satisfy the debt secured by this property and partial credit against debt related to another property. Any impairment necessary related to the inability to recover our original investment has been realized in 2011 and the sale that was deferred will be recognized in the first quarter of 2012, when ownership transferred to a third party.

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

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

On March 30, 2011, we sold six parcels, comprising approximately 195.52 acres of undeveloped land known as Dominion land, Hollywood Casino land, Stanley Tools land and Wilmer 88 land, all located in Dallas County, Texas, and Creekside land and Crowley land, both located in Fort Worth, Texas, to T Sorrento, Inc., a related party under common control, for a sales price of \$16.6 million. We provided \$9.3 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 30, 2016. The buyer assumed the existing mortgage of \$7.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On April 5, 2011, we recognized the sale of Creekside land, Crowley land and Wilmer 88 land when ownership of the property transferred to the existing lender.

On April 1, 2011, we sold of 6.80 acres of land known as Travis Ranch land located in Kaufman, Texas, to Kelly Lot Development, Inc., a related party under common control, for a sales price of \$0.8 million. There was no gain or loss recorded on the sale of the land parcel.

On April 1, 2011, we purchased 100% of the general and limited partnership interest in Garden Whispering Pines, LP, which owns Whispering Pines apartments, a 320-unit complex located in Topeka, Kansas, from ARL, a related party under common control, for \$1.4 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$9.5 million.

On April 1, 2011, we purchased 100% of the membership interest in EQK Sesame Square, LLC, which owns Sesame Square, a 20,715 square-foot office building located in Anchorage, Alaska, from ARL, a related party under common control, for \$0.6 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$1.1 million.

On April 5, 2011, we recognized the July 30, 2009 sale of 13.22 acres of land known as Hackberry land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of \$3.9 million. The buyer assumed the existing mortgage of \$3.9 million secured by the property. We recorded a gain on sale of \$3.3 million when ownership of the property transferred to the existing lender.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

On June 7, 2011, we recognized the June 2, 2011 sale of Alpenloan, a 28,594 square foot building and 8.16 acres of land, located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of \$0.4 million. We recorded a loss on sale of \$0.9 million when ownership of the property transferred to the existing lender.

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

On June 7, 2011, we recognized the December 22, 2010 sale of Fenton Center, a 707,559 square foot building and 4.70 acres of land, located in Dallas, Texas to ABCLD Properties, LLC, a related party under common control, for a sales price of \$67.0 million. We recorded a loss on sale of \$8.3 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 27.11 acres of land known as Kinwest land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$4.1 million. The buyer assumed the existing mortgage of \$4.0 million secured by the property. We recorded a gain on sale of \$3.1 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 20.85 acres of land known as McKinney Ranch land located in McKinney, Texas to Fenton Real Estate, Inc., a related party under common control, for a

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

sales price of \$5.4 million. The buyer assumed the existing mortgage of \$5.4 million secured by the property. We recorded a gain on sale of \$0.8 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 109.85 acres of land known as Payne North land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$14.1 million. The buyer assumed the existing mortgage of \$12.0 million secured by the property. We recorded a gain on sale of \$5.2 million when ownership of the property transferred to the existing lender.

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

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

On July 5, 2011, we recognized the March 28, 2011 sale of One Hickory Center, a 97,361 square-foot office building and Two Hickory Center, a 96,539 square-foot office building, both located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$19.5 million. The buyer assumed the existing mortgage of \$19.4 million secured by the property. We recorded a gain on sale of \$4.2 million when ownership transferred to the existing lender.

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

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

On August 2, 2011, we recognized the March 23, 2011 sale of 10.08 acres of land known as Centura land located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$13.0 million. The buyer assumed the existing mortgage of \$7.2 million secured by the property. There was no gain or loss recorded when ownership transferred to the existing lender.

On August 2, 2011, we recognized the April 25, 2011 sale of seven land parcels, comprising approximately 2,713.68 acres of undeveloped land known as Diplomat land, Kaufman Cogen land, Kaufman Stagliano land, Kaufman Taylor land, Payne South land, Senlac VHP land and Valley Ranch land located in Dallas County, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$24.0 million. The buyer assumed the existing mortgage of \$8.1 million secured by the property. We recorded a loss on sale of \$0.9 million when ownership transferred to the existing lender.

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

The Company had a 75.0% limited partner interest in Woodmont TCI Group XII, LP, a partnership that owned 16.18 acres of land known as Las Colinas Village land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On August 2, 2011 the partnership transferred ownership of the property to the existing lender and TCI recognized a deferred gain of \$7.5 million on the sale.

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

On September 1, 2011, we sold seven land parcels, comprising approximately 107.73 acres of undeveloped land located in Austin, Texas, Dallas County, Texas, Denton County, Texas and Tarrant County, Texas, known as Andrew B land, Andrew C land, DeSoto Ranch land, Mansfield land, Pioneer Crossing land, Senlac land and Sheffield land, to TCI Luna Ventures, LLC, a related party under common control, for a sales price of \$10.6 million. We provided \$6.4 million in seller financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 1, 2016. The buyer assumed the existing mortgage of \$4.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. In first quarter of 2012, ownership of the Andrew B land and DeSoto Ranch land was transferred to the existing lender to satisfy a portion of the multi-tract collateral debt.

On September 21, 2011, we sold our investment in TCI Dedeaux Road, Inc. to One Realco Corporation, a related party under common control, for a sales price of \$1,000. This entity owns 9.97 acres of undeveloped land located in Gulfport, Mississippi, known as Dedeaux land. The buyer assumed the existing mortgage of \$2.0 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 27, 2011, we sold a 256-unit apartment complex known as Spyglass apartments, located in Dallas, Texas, for a sales price of \$21.6 million. The buyer assumed the existing mortgage of \$15.5 million secured by the property. We recorded a gain on sale of \$5.7 million on the apartment sale.

On October 12, 2011, we recognized the January 26, 2011 sale of Willowbrook Village, a 179,741 square foot retail shopping center located in Coldwater, Michigan, to TX LTS Investments, Inc., a related party under common control, for a sales price of \$7.8 million. The buyer assumed the existing mortgage of \$5.6 million, secured by the property. We recorded a loss on sale of \$2.5 million when ownership transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group VIII, LP, a partnership that owned 7.37 acres of land known as Keller Springs Lofts land located in Addison, Texas. The partnership was consolidated in accordance with ASC 810. On October 20, 2011, the partnership sold the property for a sales price of \$4.2 million. We recorded a loss on sale of \$2.1 million on the land parcel.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

On November 1, 2011, we acquired 100% of the membership interest in Bridgeview Plaza, LLC. On September 21, 2010, we sold our investment in EQK Bridgeview Plaza, Inc. to Warren Road Farm, Inc. (WRF), a related party under common control, for a sales price of \$8.3 million to be paid via an assumption of debt of \$6.2 million and seller financing of \$2.1 million. On October 4, 2010, WRF filed a voluntary petition seeking relief under Chapter 11 of the bankruptcy code. The approved bankruptcy plan was effective November 1, 2011, whereby TCI, for its contribution to the plan was given 100% equity ownership in the entity. During the period of time that WRF owned the equity interest, it had also acquired 2900 acres of land known as Windmill Farms land located in Kaufman, TX, previously held by ARL, for a sales price of \$64.5 million. ARL provided \$33.8 million in seller financing with a five-year note receivable. The note accrues interest at 6.0% and is payable at maturity on September 21, 2015. WRF assumed the existing mortgage of \$30.7 million, secured by the property.

On November 2, 2011, we recognized the September 3, 2004 sale of Addison Hanger I, a 25,102 square foot industrial warehouse and Addison Hanger II, a 24,000 square foot industrial warehouse located in Addison, Texas, for a sales price of \$4.5 million. At the time of the sale, TCI entered into a 10-year triple-net lease with the buyer. Therefore, this transaction was accounted for under the financing method and the properties continued to be consolidated. As of November 12, 2011, the lease with the buyer was terminated. Due to ongoing litigation related to the lease, TCI has deferred the gain recognition until the matter is resolved.

On November 30, 2011, we recognized the March 23, 2011 sale of 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$1.1 million. The existing mortgage of \$0.5 million, secured by the property, was paid in full. We recorded a loss on sale of \$0.6 million on the land parcel.

On December 21, 2011, we sold 17.07 acres of land known as Lamar Palmer Lane land located in Austin, Texas for a sales price of \$1.4 million. The existing mortgage of \$1.3 million, secured by the property, was paid in full. We recorded a loss on sale of \$0.8 million on the land parcel.

On December 28, 2011, we sold 100% of our common stock of Centura-Ewing, Inc. and Garden Centura, Inc. to Realty Advisors Management, Inc., a related party under common control, for a sales price of \$20.4 million. These entities own a 1% general manager partnership interests and a 4% limited partnership interest in Garden Centura L.P., which owns 412,215 square foot office building known as Centura Tower located in Dallas, Texas. Centura-Ewing, Inc. has an option to purchase the remaining 95% limited partner interest in Garden Centura, L.P. TCI received a 5-year promissory note for the full sales price. Interest at 30 day LIBOR plus 2% is due quarterly with the principal due at maturity on December 28, 2016. We recorded a gain on sale of \$0.3 million when the stock was subsequently sold to an unrelated party.

In December 2010, there were various commercial and land holdings sold to FRE Real Estate, Inc. a related party under common control. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. and disclosed in the transactions above. As of December 31, 2011, there is one commercial building, Thermalloy, that remains in FRE Real Estate, Inc. We have deferred the recognition of the sales in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

The properties that we have sold to a related party under common control and have deferred the recognition of the sale are treated as subject to sales contract on the Consolidated Balance Sheets and are listed in detail in Schedule III, Real Estate and Accumulated Depreciation . These properties were sold to a related party in order

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3. NOTES AND INTEREST RECEIVABLE

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

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
Miscellaneous non-related party notes	Various	Various	\$ 251	Various secured interest
Miscellaneous related party notes ⁽¹⁾	Various	Various	665	Various secured interest
Ocean Beach Partners, L.P. ⁽¹⁾	12/11	7.00%	3,279	Folsom Land (36 acres in Farmers Branch, TX)
Realty Advisors Management, Inc. ⁽¹⁾	12/16	4.00%	20,387	Unsecured
Unified Housing Foundation, Inc. (Cliffs of El Dorado) ⁽¹⁾	09/10	15.00%	2,990	100% Interest in Unified Housing of McKinney, LLC
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/27	5.25%	2,000	Unsecured
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/27	5.25%	6,363	Membership interest in Housing for Seniors of Humble, LLC
Unified Housing Foundation, Inc. (Echo Station) ⁽¹⁾	12/27	5.25%	1,481	100% Interest in Unified Housing of Temple, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) ⁽¹⁾	12/27	5.25%	4,663	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) ⁽¹⁾	07/15	5.25%	3,057	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/27	5.25%	6,000	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/27	5.25%	2,250	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Parkside Crossing) ⁽¹⁾	12/27	5.25%	1,936	100% Interest in Unified Housing of Parkside Crossing, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) ⁽¹⁾	12/27	5.25%	4,812	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) ⁽¹⁾	12/27	5.25%	5,174	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Timbers of Terrell) ⁽¹⁾	12/27	5.25%	1,323	100% Interest in Unified Housing of Terrell, LLC
Unified Housing Foundation, Inc. (Tivoli) ⁽¹⁾	12/27	5.25%	7,965	100% Interest in Unified Housing of Tivoli, LLC
Accrued interest			4,507	
Total Performing			\$ 79,103	
Non-Performing loans:				
130 Windmill Farms, L.P.	10/11	7.00%	507	Unsecured
Dallas Fund XVII LP ⁽²⁾	10/09	9.00%	1,432	Assignment of partnership interest
Miscellaneous non-related party notes	Various	Various	133	Various secured interest
Accrued interest			138	
			\$ 2,210	
Allowance for estimated losses			(3,942)	
Total			\$ 77,371	

(1) Related party notes

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, we are currently in default on these mortgages primarily due to lack of payment although we are actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis.

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

Junior Mortgage Loans. We may invest in junior mortgage loans, secured by mortgages that are subordinate to one or more prior liens either on the fee or a leasehold interest in real estate. Recourse on such loans ordinarily includes the real estate on which the loan is made, other collateral and personal guarantees by the borrower. The Board of Directors restricts investment in junior mortgage loans, excluding wraparound mortgage loans, to not more than 10.0% of our assets. At December 31, 2011, 6.6% of our assets were invested in junior and wraparound mortgage loans.

Effective 2009, interest income is recorded on cash flow notes receivable when cash is received, and no accrued interest income is recorded on non-performing notes receivable. If the notes for the years 2011 and 2010 had been performing and if interest was recorded as accrued, an additional interest income totaling \$1.1 million and \$2.7 million, respectively, would have been recognized.

As of December 31, 2011, the obligors on \$74.3 million or 97% of the mortgage notes receivable portfolio were due from affiliated entities.

NOTE 4. ALLOWANCE FOR ESTIMATED LOSSES

The allowance account was reviewed and there were no additional allowances recorded for receivables in 2011. The decrease in 2011 is due to a loan payment that had an allowance. The allowance account was reviewed and increased in 2010. The table below shows our allowance for estimated losses (dollars in thousands):

	2011	2010	2009
Balance January 1,	\$ 4,741	\$ 2,804	\$ 3,293
(Decrease) Increase in provision	(799)	1,937	(489)
Balance December 31,	\$ 3,942	\$ 4,741	\$ 2,804

NOTE 5. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

	Percentage ownership as of December 31,		
	2011	2010	2009
American Realty Investors, Inc. ⁽¹⁾	2.05%	2.47%	2.46%
Garden Centura, L.P. ⁽²⁾	0.00%	5.00%	5.00%

⁽¹⁾ Unconsolidated Investment in Parent Company

⁽²⁾ Other Investees sold as of December 28, 2011

Our interest in the common stock of ARL and our partnership interest in Garden Centura, L.P., in the amount of 2.05% and 5.0% respectively, are accounted for under the equity method because we exercise significant influence over the operations and financial activities. Accordingly, the investments are carried at cost, adjusted for the companies' proportionate share of earnings or losses. On December 28, 2011, we sold our investment in Garden Centura, L.P.

The market values, other than unconsolidated subsidiaries, as of the year ended December 31, 2011, 2010 and 2009 were not determinable as there were no readily traded markets for these entities.

The following is a summary of the financial position and results of operations from our unconsolidated subsidiaries and investees (dollars in thousands):

2011	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	60,703	\$ 71,987	\$ 132,690
Notes Receivable	27,447	\$	27,447
Other assets	138,927	4,441	143,368
Notes payable	(59,744)	(47,091)	(106,835)
Other liabilities	(88,647)	(2,849)	(91,496)
Shareholders equity/partners' capital	(78,686)	\$ (26,488)	\$ (105,174)
Rents and interest and other income	\$ 10,150	\$ 7,096	\$ 17,246
Depreciation	(5)	(3,133)	(3,138)
Operating expenses	(22,119)	(3,999)	(26,118)
Gain on land sales	23,646		23,646
Interest expense	(7,810)	(2,307)	(10,117)
Income (loss) from continuing operations	3,862	(2,343)	1,519
Income from discontinued operations	21,968		21,968
Net income (loss)	\$ 25,830	\$ (2,343)	\$ 23,487
Company's proportionate share of earnings	\$ 530	\$ (117)	\$ 413

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

	Unconsolidated Subsidiaries	Other Investees	Total
2010			
Real estate, net of accumulated depreciation	\$ 203,367	\$ 74,573	\$ 277,940
Notes Receivable	24,868		24,868
Other assets	184,735	5,333	190,068
Notes payable	(232,952)	(48,258)	(281,210)
Other liabilities	(119,425)	(2,815)	(122,240)
Shareholders equity/partners capital	\$ (60,593)	\$ (28,833)	\$ (89,426)
Rents and interest and other income	\$ 10,531	\$ 6,428	\$ 16,959
Depreciation	(327)	(3,089)	(3,416)
Operating expenses	(41,209)	(3,858)	(45,067)
Gain on land sales	5,335		5,335
Interest expense	(11,255)	(3,271)	(14,526)
Loss from continuing operations	(36,925)	(3,790)	(40,715)
Income from discontinued operations	(3,889)		(3,889)
Net loss	\$ (40,814)	\$ (3,790)	\$ (44,604)
Company's proportionate share of earnings	\$ (1,010)	\$ (190)	\$ (1,200)
	Unconsolidated Subsidiaries	Other Investees	Total
2009			
Real estate, net of accumulated depreciation	\$ 236,413	\$ 77,043	\$ 313,456
Notes Receivable	41,176		41,176
Other assets	174,038	6,466	180,504
Notes payable	(233,490)	(48,261)	(281,751)
Other liabilities	(111,779)	(2,625)	(114,404)
Shareholders equity/partners capital	\$ (106,358)	\$ (32,623)	\$ (138,981)
Rents and interest and other income	\$ 12,198	\$ 9,819	\$ 22,017
Depreciation	(273)	(3,215)	(3,488)
Operating expenses	(14,348)	(3,912)	(18,260)
Gain on land sales	5,309		5,309
Interest expense	(12,347)	(3,157)	(15,504)
Income from continuing operations	(9,461)	(465)	(9,926)
Income from discontinued operations	3,938		3,938
Net income	\$ (5,523)	\$ (465)	\$ (5,988)
Company's proportionate share of earnings	\$ (136)	\$ (23)	\$ (159)

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6. NOTES AND INTEREST PAYABLE

The scheduled principal payments of our notes payable over the next five years and thereafter are due as follows (dollars in thousands):

2012	\$ 202,705
2013	99,950
2014	43,053
2015	6,041
2016	6,623
Thereafter	509,974
	\$ 868,346

Interest payable at December 31, 2011 was \$15.7 million. Interest accrues at rates ranging from 1.1% to 12.5% per annum, and mature between 2012 and 2051. The mortgages were collateralized by deeds of trust on real estate having a net carrying value of \$1.0 billion. Of the total notes payable, the senior debt is \$849.1 million, junior debt is \$14.9 million, and other debt is \$4.3 million. Included in other debt are property tax loans of \$0.8 million.

With respect to the additional notes payable due to the acquisition of properties or refinancing of existing mortgages, a summary of some of the more significant transactions are discussed below:

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

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

On April 1, 2011, we purchased 100% of the general and limited partnership interest in Garden Whispering Pines, LP, which owns Whispering Pines apartments, a 320-unit complex located in Topeka, Kansas, from ARL, a related party under common control, for \$1.4 million. We assumed the current mortgage of \$9.5 million. The note accrues interest at 4.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on June 1, 2043.

On April 1, 2011, we purchased 100% of the membership interest in EQK Sesame Square, LLC, which owns Sesame Square, a 20,715 square-foot office building located in Anchorage, Alaska, from ARL, a related party under common control, for \$0.6 million. We assumed the current mortgage of \$1.1 million. The note accrues interest at 3.86% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on May 3, 2016.

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

On November 1, 2011, we acquired 100% of the membership interest in Bridgeview Plaza, LLC. On September 21, 2010, we sold our investment in EQK Bridgeview Plaza, Inc. to Warren Road Farm, Inc. (WRF), a related party under common control, for a sales price of \$8.3 million to be paid via an assumption of debt of \$6.2 million and seller financing of \$2.1 million. On October 4, 2010, WRF filed a voluntary petition seeking relief under Chapter 11 of the bankruptcy code. The approved bankruptcy plan was effective November 1, 2011, whereby TCI, for its contribution to the plan was given 100% equity ownership in the entity. During the period of time that WRF owned the equity interest, it had also acquired 2900 acres of land known as Windmill Farms land located in Kaufman, TX, previously held by ARL, for a sales price of \$64.5 million. ARL provided \$33.8 million in seller financing with a five-year note receivable. The note accrues interest at 6.0% and is payable at maturity on September 21, 2015. WRF assumed the existing mortgage of \$30.7 million, secured by the property. The note accrues interest at 50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on October 31, 2014.

NOTE 7. RELATED PARTY TRANSACTIONS AND FEES

The Advisory Agreement provides for Prime or an affiliate of Prime to receive fees and cost reimbursements as defined in Part III, Item 10.

Directors, Executive Officers and Corporate Governance The Advisor . Cost reimbursements are allocated based on the relative market values of the Company's assets. The fees paid to our advisor and cost reimbursements are detailed below (dollars in thousands):

	2011	2010	2009
	(dollars in thousands)		
Fees:			
Advisory fee	\$ 9,957	\$ 11,919	\$ 11,903
Construction supervision	2,429	1,761	941
Mortgage brokerage and equity refinancing	812	1,569	592
Net income fee	54	99	115
Property acquisition		31	41
	\$ 13,252	\$ 15,379	\$ 13,592
Cost reimbursements	\$ 2,908	\$ 3,250	\$ 3,733
Rent revenue	\$ 434	\$ 2,248	\$ 3,434
Interest paid (received)	\$ 1,048	\$ 2,350	\$ 1,593

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Fees paid to Regis, Regis I and Triad:

	2011	2010	2009
	(dollars in thousands)		
Fees:			
Property acquisition	\$	\$ 106	\$ 136
Property and construction management and leasing commissions	1,759	1,905	2,124
Real estate brokerage		1,497	1,129
	\$ 1,759	\$ 3,508	\$ 3,389

Rents received from Prime, Pillar and affiliates for TCI-owned properties in 2011, 2010, and 2009 include Addison Hanger, Browning Place, Eagle Crest, One Hickory, Senlac, Thermalloy, and Two Hickory.

As of December 31, 2011, TCI has notes and interest receivable of \$78.9 million due from related parties. See discussion in Part 2, Item 8. Note 3. Notes and Interest Receivable .

The following table reconciles the beginning and ending balances of affiliated accounts as of December 31, 2011 (dollars in thousands):

	Prime	Pillar	ARL	Total
Balance, December 31, 2010	\$	\$	\$ (47,261)	\$ (47,261)
Cash transfers	3,660	5,419		9,079
Advisory fees	(3,528)	(6,429)		(9,957)
Net income fee		(54)		(54)
Commissions to Pillar/Regis	(470)	(342)		(812)
Construction supervision fees		(2,429)		(2,429)
Cost reimbursements	(1,658)	(1,250)		(2,908)
Interest (to) from advisor	(1,407)	(123)		(1,530)
POA fees	(11)	(42)		(53)
Expenses paid by advisor	(1,321)	1,624		303
Financing (mortgage payments)	(373)	(5,638)		(6,011)
Note receivable with affiliate	8,016	2,654		10,670
Sales/Purchases transactions	888	30,632		31,520
Intercompany property transfers	8,543	(6,565)		1,978
Purchase of obligations	(12,339)	(17,457)	29,796	
Balance, December 31, 2011	\$	\$	\$ (17,465)	\$ (17,465)

Below are sales and acquisitions that involve a related party:

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

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

On March 23, 2011, we sold 82.20 acres of land known as Denton Coonrod land located in Denton, Texas and 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$2.9 million. We provided \$1.6 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 23, 2016. The buyer assumed the existing mortgage of \$1.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On January 3, 2012, ownership of Denton Coonrod land was transferred to the lender to satisfy the debt secured by this property and partial credit against debt related to another property. Any impairment necessary related to the inability to recover our original investment has been realized in 2011 and the sale that was deferred will be recognized in the first quarter of 2012, when ownership transferred to a third party.

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

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

On March 30, 2011, we sold six parcels, comprising approximately 195.52 acres of undeveloped land known as Dominion land, Hollywood Casino land, Stanley Tools land and Wilmer 88 land, all located in Dallas County, Texas, and Creekside land and Crowley land, both located in Fort Worth, Texas, to T Sorrento, Inc., a related party under common control, for a sales price of \$16.6 million. We provided \$9.3 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 30, 2016. The buyer assumed the existing mortgage of \$7.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On April 5, 2011, we recognized the sale of Creekside land, Crowley land and Wilmer 88 land when ownership of the property transferred to the existing lender.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

On April 1, 2011, we sold of 6.80 acres of land known as Travis Ranch land located in Kaufman, Texas, to Kelly Lot Development, Inc., a related party under common control, for a sales price of \$0.8 million. There was no gain or loss recorded on the sale of the land parcel.

On April 1, 2011, we purchased 100% of the general and limited partnership interest in Garden Whispering Pines, LP, which owns Whispering Pines apartments, a 320-unit complex located in Topeka, Kansas, from ARL, a related party under common control, for \$1.4 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$9.5 million.

On April 1, 2011, we purchased 100% of the membership interest in EQK Sesame Square, LLC, which owns Sesame Square, a 20,715 square-foot office building located in Anchorage, Alaska, from ARL, a related party under common control, for \$0.6 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$1.1 million.

On April 5, 2011, we recognized the July 30, 2009 sale of 13.22 acres of land known as Hackberry land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of \$3.9 million. The buyer assumed the existing mortgage of \$3.9 million secured by the property. We recorded a gain on sale of \$3.3 million when ownership of the property transferred to the existing lender.

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

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

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

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

On June 7, 2011, we recognized the June 2, 2011 sale of Alpenloan, a 28,594 square foot building and 8.16 acres of land, located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of \$0.4 million. We recorded a loss on sale of \$0.9 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the June 2, 2011 sale of 5.34 acres of land known as Archon land located in Irving, Texas and 1.31 acres of land known as Ackerley land located in Dallas, Texas to One Realco Retail, Inc.,

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

a related party under common control, for a sales price of \$0.7 million. The buyer assumed the existing mortgage of \$0.7 million secured by the property. We recorded a loss on sale of \$0.7 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 22, 2010 sale of Fenton Center, a 707,559 square foot building and 4.70 acres of land, located in Dallas, Texas to ABCLD Properties, LLC, a related party under common control, for a sales price of \$67.0 million. We recorded a loss on sale of \$8.3 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 27.11 acres of land known as Kinwest land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$4.1 million. The buyer assumed the existing mortgage of \$4.0 million secured by the property. We recorded a gain on sale of \$3.1 million when ownership of the property transferred to the existing lender.

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

On June 7, 2011, we recognized the December 23, 2010 sale of 109.85 acres of land known as Payne North land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$14.1 million. The buyer assumed the existing mortgage of \$12.0 million secured by the property. We recorded a gain on sale of \$5.2 million when ownership of the property transferred to the existing lender.

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

On July 5, 2011, we recognized the March 28, 2011 sale of One Hickory Center, a 97,361 square-foot office building and Two Hickory Center, a 96,539 square-foot office building, both located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$19.5 million. The buyer assumed the existing mortgage of \$19.4 million secured by the property. We recorded a gain on sale of \$4.2 million when ownership transferred to the existing lender.

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

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

On August 2, 2011, we recognized the March 23, 2011 sale of 10.08 acres of land known as Centura land located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$13.0 million. The buyer assumed the existing mortgage of \$7.2 million secured by the property. There was no gain or loss recorded when ownership transferred to the existing lender.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

On August 2, 2011, we recognized the April 25, 2011 sale of seven land parcels, comprising approximately 2,713.68 acres of undeveloped land known as Diplomat land, Kaufman Cogen land, Kaufman Stagliano land, Kaufman Taylor land, Payne South land, Senlac VHP land and Valley Ranch land located in Dallas County, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$24.0 million. The buyer assumed the existing mortgage of \$8.1 million secured by the property. We recorded a loss on sale of \$0.9 million when ownership transferred to the existing lender.

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

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

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

On September 1, 2011, we sold seven land parcels, comprising approximately 107.73 acres of undeveloped land located in Austin, Texas, Dallas County, Texas, Denton County, Texas and Tarrant County, Texas, known as Andrew B land, Andrew C land, DeSoto Ranch land, Mansfield land, Pioneer Crossing land, Senlac land and Sheffield land, to TCI Luna Ventures, LLC, a related party under common control, for a sales price of \$10.6 million. We provided \$6.4 million in seller financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 1, 2016. The buyer assumed the existing mortgage of \$4.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. In first quarter of 2012, ownership of the Andrew B land and DeSoto Ranch land was transferred to the existing lender to satisfy a portion of the multi-tract collateral debt.

On September 21, 2011, we sold our investment in TCI Dedeaux Road, Inc. to One Realco Corporation, a related party under common control, for a sales price of \$1,000. This entity owns 9.97 acres of undeveloped land located in Gulfport, Mississippi, known as Dedeaux land. The buyer assumed the existing mortgage of \$2.0 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On October 12, 2011, we recognized the January 26, 2011 sale of Willowbrook Village, a 179,741 square foot retail shopping center located in Coldwater, Michigan, to TX LTS Investments, Inc., a related party under common control, for a sales price of \$7.8 million. The buyer assumed the existing mortgage of \$5.6 million, secured by the property. We recorded a loss on sale of \$2.5 million when ownership transferred to the existing lender.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

On November 1, 2011, we acquired 100% of the membership interest in Bridgeview Plaza, LLC. On September 21, 2010, we sold our investment in EQK Bridgeview Plaza, Inc. to Warren Road Farm, Inc. (WRF), a related party under common control, for a sales price of \$8.3 million to be paid via an assumption of debt of \$6.2 million and seller financing of \$2.1 million. On October 4, 2010, WRF filed a voluntary petition seeking relief under Chapter 11 of the bankruptcy code. The approved bankruptcy plan was effective November 1, 2011, whereby TCI, for its contribution to the plan was given 100% equity ownership in the entity. During the period of time that WRF owned the equity interest, it had also acquired 2900 acres of land known as Windmill Farms land located in Kaufman, TX, previously held by ARL, for a sales price of \$64.5 million. ARL provided \$33.8 million in seller financing with a five-year note receivable. The note accrues interest at 6.0% and is payable at maturity on September 21, 2015. WRF assumed the existing mortgage of \$30.7 million, secured by the property.

On November 2, 2011, we recognized the September 3, 2004 sale of Addison Hanger I, a 25,102 square foot industrial warehouse and Addison Hanger II, a 24,000 square foot industrial warehouse located in Addison, Texas, for a sales price of \$4.5 million. At the time of the sale, TCI entered into a 10-year triple-net lease with the buyer. Therefore, this transaction was accounted for under the financing method and the properties continued to be consolidated. As of November 12, 2011, the lease with the buyer was terminated. Due to ongoing litigation related to the lease, TCI has deferred the gain recognition until the matter is resolved.

On November 30, 2011, we recognized the March 23, 2011 sale of 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$1.1 million. The existing mortgage of \$0.5 million, secured by the property, was paid in full. We recorded a loss on sale of \$0.6 million on the land parcel.

On December 28, 2011, we sold 100% of our common stock of Centura-Ewing, Inc. and Garden Centura, Inc. to Realty Advisors Management, Inc., a related party under common control, for a sales price of \$20.4 million. These entities own a 1% general manager partnership interests and a 4% limited partnership interest in Garden Centura L.P., which owns 412,215 square foot office building known as Centura Tower located in Dallas, Texas. Centura-Ewing, Inc. has an option to purchase the remaining 95% limited partner interest in Garden Centura, L.P. TCI received a 5-year promissory note for the full sales price. Interest at 30 day LIBOR plus 2% is due quarterly with the principal due at maturity on December 28, 2016. We recorded a gain on sale of \$0.3 million when the stock was subsequently sold to an unrelated party.

In December 2010, there were various commercial and land holdings sold to FRE Real Estate, Inc. a related party under common control. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. and disclosed in the transactions above. As of December 31, 2011, there is one commercial building, Thermalloy, that remains in FRE Real Estate, Inc. We have deferred the recognition of the sales in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

NOTE 8. DIVIDENDS

TCI's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on TCI's common stock were declared for 2011, 2010, or 2009. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

NOTE 9. PREFERRED STOCK

TCI issued 30,000 shares of Series C Preferred Stock. TCI's Series C Cumulative Convertible Preferred Stock consists of a maximum of 30,000 shares with a liquidation preference of \$100.00 per share. Dividends are payable at the annual rate of \$7.00 per share annually or \$1.75 per quarter. After September 30, 2006, the Series C Preferred Stock may be converted into Common Stock at 90.0% of the daily average closing price of the Common Stock for the prior five trading days. The Series C Preferred Stock is redeemable for cash at any time at the option of TCI. At December 31, 2011, 30,000 shares of Series C Preferred Stock were issued and outstanding.

In November 2006, TCI issued 100,000 shares of Series D Preferred Stock with a liquidation preference of \$100 per share. The preferred stock is not convertible into any other security, requires dividends payable at the initial rate of 7% annually. The dividend rate increases ratably from 7% to 9% in future periods and can be redeemed at any point after September 30, 2011. In the fourth quarter, the preferred stockholders submitted a redemption request that is currently in dispute and we believe will be resolved in 2012 for no more than the original preferred stock issuance.

NOTE 10. STOCK OPTIONS

In October 2000, TCI's stockholders approved the Director's Stock Option Plan (the Director's Plan) which provides for options to purchase up to 140,000 shares of TCI's Common Stock. Options granted pursuant to the Director's Plan are immediately exercisable and expire on the earlier of the first anniversary of the date on which a Director ceases to be a Director or 10 years from the date of grant. Effective December 15, 2005 the plan was terminated. As of December 31, 2011, there were 10,000 stock options outstanding which were exercisable at \$14.25 per share, 5,000 of which expired on January 31, 2012 and 5,000 of which will expire January 1, 2015, if not exercised.

NOTE 11. INCOME TAXES

For 2011, 2010 and 2009, TCI had net losses for federal tax purposes.

During 2009, TCI acquired stock of Income Opportunity Realty Investors, Inc. (IOT), such that more than 80% of IOT was owned by TCI. As a result, IOT joined the ARL consolidated group and joined a Tax Sharing and Compensating Agreement with TCI and ARL. The income tax expense (benefit) for 2011, 2010 and 2009 in

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

the accompanying financial statement was calculated under the Tax Sharing and Compensating Agreement. For 2011, TCI had net losses while ARL and IOT had net income. For 2010, ARL, TCI and IOT had net losses. For 2009, ARL and TCI had net losses and IOT had net income. For 2011, 2010 and 2009 TCI recorded no federal tax (benefit) or expense. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 35%.

Current income tax expense is attributable to:

	2011	2010	2009
Income from continuing operations	\$ (14,460)	\$ (26,645)	\$ (28,614)
Income from discontinued operations	14,460	26,645	28,614
	\$	\$	\$

There was no deferred tax expense (benefit) recorded for the period as a result of the uncertainty of the future use of the deferred tax asset.

The Federal income tax expense differs from the amount computed by the applying the corporate tax rate of 35% to the income before income taxes as follows:

	2011	2010	2009
Computed expected income tax (benefit) expense	\$ (11,870)	\$ (24,627)	\$ (27,315)
Book to tax differences for partnerships not consolidated for tax purposes	(6,442)	(3,636)	9,428
Book to tax differences of depreciation and amortization	1,140	1,544	1,467
Book to tax differences in gains on sale of property	(7,020)	6,056	(12,216)
Book to tax differences from insurance proceeds			
Use of net operating loss carryforward			
Book provision for loss	10,132	8,576	3,990
Partial valuation allowance against current net operating loss benefit	14,460	11,324	24,148
Other	(400)	763	498
	\$	\$	\$
Alternative Minimum Tax	\$	\$	\$

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

The tax effect of temporary differences that give rise to the deferred tax asset are as follows:

	2011	2010	2009
Net operating losses	\$ 42,337	\$ 55,746	\$ 46,380
ATM credits	1,374	1,374	1,374
Basis difference of			
Real estate holdings	(22,448)	(38,495)	(46,124)
Notes receivable	1,663	6,678	5,899
Investments	(5,346)	(5,495)	(5,691)
Notes payable	22,966	41,565	52,007
Net deferred tax asset from IOT			
Deferred gains	15,106	26,025	15,078
Total	\$ 55,652	\$ 87,398	\$ 68,923
Deferred tax valuation allowance	(55,652)	(87,398)	(68,923)
Net deferred tax asset	\$	\$	\$

TCI has tax net operating loss carryforwards of approximately \$108.6 million expiring through the year 2031.

NOTE 12. FUTURE MINIMUM RENTAL INCOME UNDER OPERATING LEASES

TCI's real estate operations include the leasing of commercial properties (office buildings, industrial warehouses and shopping centers). The leases thereon expire at various dates through 2024. The following is a schedule of minimum future rents on non-cancelable operating leases at December 31, 2011 (dollars in thousands):

2012	\$ 21,397
2013	14,619
2014	10,688
2015	7,454
2016	5,522
Thereafter	6,740
	\$ 66,420

NOTE 13. OPERATING SEGMENTS

Our segments are based on management's method of internal reporting which classifies its operations by property type. The segments are commercial, apartments, hotels, land and other. Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Presented below is the Company's reportable segments' operating income including segment assets and expenditures for the years 2011, 2010 and 2009 (dollars in thousands):

	Commercial Properties	Apartments	Hotels	Land	Other	Total
For year ended 12/31/11						
Operating revenues	\$ 34,801	\$ 78,722	\$	\$ 291	\$ 273	\$ 114,087
Operating expenses	21,572	40,104		1,598	199	63,473
Depreciation and amortization	5,708	14,910				20,618
Mortgage and loan interest	10,911	30,262		8,373	3,587	53,133
Interest income					5,720	5,720
Gain on land sales				17,011		17,011
Segment operating income (loss)	\$ (3,390)	\$ (6,554)	\$	\$ 7,331	\$ 2,207	\$ (406)
Capital expenditures	3,285	1,320		4,103		8,708
Assets	183,663	592,360		197,301		973,324
Property Sales						
Sales price	\$ 103,811	\$ 21,590	\$	\$ 163,050	\$	\$ 288,451
Cost of sale	108,243	14,933		154,122		277,298
Deferred current gain						
Recognized prior deferred gain	7,287	8,788		8,083		24,158
Gain on sale	\$ 2,855	\$ 15,445	\$	\$ 17,011	\$	\$ 35,311
For year ended 12/31/10						
Operating revenues	\$ 40,631	\$ 69,144	\$	\$ 368	\$ 138	\$ 110,281
Operating expenses	22,512	36,853		2,793	(50)	62,108
Depreciation and amortization	8,112	14,077				22,189
Mortgage and loan interest	11,105	30,643		9,361	4,095	55,204
Interest income					5,187	5,187
Gain on land sales				(15,155)		(15,155)
Segment operating income (loss)	\$ (1,098)	\$ (12,429)	\$	\$ (26,941)	\$ 1,280	\$ (39,188)
Capital expenditures	835	760		477		2,072
Assets	199,517	579,093		311,860	(400)	1,090,070
Property Sales						
Sales price	\$ 6,470	\$ 191,617	\$	\$ 28,357	\$	\$ 226,444
Cost of sale	8,376	150,127		43,509		202,012
Deferred current gain		28,803		3		28,806
Recognized prior deferred gain						
Gain on sale	\$ (1,906)	\$ 12,687	\$	\$ (15,155)	\$	\$ (4,374)

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

	Commercial Properties	Apartments	Hotels	Land	Other	Total
For year ended 12/31/09						
Operating revenues	\$ 41,980	\$ 66,160	\$	\$ 460	\$ (1,314)	\$ 107,286
Operating expenses	22,534	37,895		1,516	82	62,027
Depreciation and amortization	8,219	12,347		40	(135)	20,471
Mortgage and loan interest	10,738	27,233		13,628	2,039	53,638
Interest income					5,407	5,407
Gain on land sales				6,296		6,296
Segment operating loss	\$ 489	\$ (11,315)	\$	\$ (8,428)	\$ 2,107	\$ (17,147)
Capital expenditures	747	338		(190)		895
Assets	206,918	534,204		395,764	(400)	1,136,486
Property Sales						
Sales price	\$ 8,000	\$ 20,500	\$	\$ 37,678	\$	\$ 66,178
Cost of sale	3,053	15,310		31,382		49,745
Deferred current gain	1,955	5,190				7,145
Recognized prior deferred gain					532	532
Gain on sale	\$ 2,992	\$	\$	\$ 6,296	\$ 532	\$ 9,820

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Statements of Operations (dollars in thousands):

	2011	2010	2009
Segment operating loss	\$ (406)	\$ (39,188)	\$ (17,147)
Other non-segment items of income (expense)			
General and administrative	(9,213)	(8,093)	(10,709)
Advisory fees	(9,958)	(11,919)	(11,903)
Litigation			357
Provision on impairment of notes receivable and real estate assets	(41,776)	(22,579)	(42,513)
Other income	2,149	8,406	3,011
Loss on sale of investments	(514)		
Equity in earnings of investees	243	(958)	(451)
Deferred tax benefit	4,505	2,563	(76)
Loss from continuing operations	\$ (54,970)	\$ (71,768)	\$ (79,431)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Balance Sheets (dollars in thousands):

	2011	2010	2009
Segment assets	\$ 973,324	\$ 1,090,070	\$ 1,136,486
Investments in real estate partnerships	6,362	8,146	9,358
Other assets	165,623	269,288	434,958

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Assets held for sale	15,015	17,257 ⁽¹⁾	17,605 ⁽¹⁾
Total assets	\$ 1,160,324	\$ 1,384,761	\$ 1,598,407

(1) Wildflower Villas has been reclassified to discontinued operations in 2011

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 14. DISCONTINUED OPERATIONS

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

Discontinued operations relates to properties that were either sold or repositioned as held for sale as of the year ended 2011, 2010 and 2009. Income from discontinued operations relates to 14, 23, and 29 properties that were sold or held for sale in 2011, 2010 and 2009, respectively. The following table summarizes revenue and expense information for these properties sold and held-for-sale (dollars in thousands):

	For Years Ended December 31,		
	2011	2010	2009
Revenues			
Rental	\$ 10,685	\$ 30,850	\$ 48,778
Property operations	6,492	17,465	25,433
	4,193	13,385	23,345
Expenses			
Other income	49	3,697	702
Litigation settlement expense			(1)
Interest	(3,509)	(12,303)	(18,229)
General and administration	(966)	(530)	(380)
Depreciation	(2,416)	(6,125)	(9,342)
Provision on impairment of real estate assets	(3,231)	(1,923)	
	(10,073)	(17,184)	(27,250)
Net loss from discontinued operations before gains on sale of real estate, taxes and fees	(5,880)	(3,799)	(3,905)
Gain on sale of discontinued operations	18,300	10,781	3,523
Equity in investee	452	203	164
Income (loss) from discontinued operations	12,872	7,185	(218)
Tax expense	(4,505)	(2,515)	76
Income (loss) from discontinued operations	\$ 8,367	\$ 4,670	\$ (142)

The Company's application of ASC Topic 360 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2011, 2010 and 2009 as income from discontinued operations. The application of ASC Topic 360 does not have an impact on net income available to common shareholders. ASC Topic 360 only impacts the presentation of these properties within the Consolidated Statements of Operations.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 15. QUARTERLY RESULTS OF OPERATIONS

The following is a tabulation of TCI's quarterly results of operations for the years 2011, 2010 and 2009 (unaudited, dollars in thousands):

	March 31,	Three Months Ended 2011		
		June 30,	September 30,	December 31,
(dollars in thousands, except share and per share amounts)				
2011				
Total operating revenues	\$ 27,334	\$ 29,444	\$ 30,508	\$ 26,801
Total operating expenses	30,521	39,927	27,624	46,966
Operating (loss) income	(3,187)	(10,483)	2,884	(20,165)
Other income (expense)	(11,064)	(12,513)	(11,440)	(10,064)
Income (loss) before gain on land sales, non-controlling interest, and taxes	(14,251)	(22,996)	(8,556)	(30,229)
Gain on land sales	796	10,537	10,103	(4,425)
Income tax benefit (expense)	492	(3,481)	2,657	4,737
Net income (loss) from continuing operations	(12,963)	(15,940)	4,204	(29,917)
Net income (loss) from discontinuing operations, net of non-controlling interest	915	(6,918)	4,935	9,081
Net income (loss)	(12,048)	(22,858)	9,139	(20,836)
Less: net income (loss) attributable to non-controlling interest	85	45	384	(232)
Preferred dividend requirement	(274)	(278)	(279)	(279)
Net income (loss) applicable to common shares	\$ (12,237)	\$ (23,091)	\$ 9,244	\$ (21,347)
PER SHARE DATA				
Earnings per share basic				
Income (loss) from continuing operations	\$ (1.60)	\$ (1.92)	\$ 0.51	\$ (3.61)
Discontinued operations	0.11	(0.82)	0.59	1.07
Net income (loss) applicable to common shares	\$ (1.49)	\$ (2.74)	\$ 1.10	\$ (2.54)
Weighted average common shares used in computing earnings per share	8,240,136	8,413,469	8,413,469	8,413,469
Earnings per share diluted				
Income (loss) from continuing operations	\$ (1.60)	\$ (1.92)	\$ 0.51	\$ (3.61)
Discontinued operations	0.11	(0.82)	0.59	1.07
Net income (loss) applicable to common shares	\$ (1.49)	\$ (2.74)	\$ 1.10	\$ (2.54)
Weighted average common shares used in computing diluted earnings per share	8,240,136	8,413,469	9,761,905	8,413,469

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

	Three Months Ended 2010			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
2010				
Total operating revenues	\$ 27,701	\$ 27,917	\$ 27,260	\$ 27,403
Total operating expenses	26,071	26,801	25,666	48,350
Operating (loss) income	1,630	1,116	1,594	(20,947)
Other income (expense)	(12,253)	(13,850)	(11,738)	(4,728)
Income (loss) before gain on land sales, non-controlling interest, and taxes	(10,623)	(12,734)	(10,144)	(25,675)
Gain on land sales	6	(5,640)	(371)	(9,150)
Income tax benefit (expense)	245	(744)	484	2,578
Net income (loss) from continuing operations	(10,372)	(19,118)	(10,031)	(32,247)
Net income (loss) from discontinuing operations, net of non-controlling interest	366	(1,383)	898	4,789
Net income (loss)	(10,006)	(20,501)	(9,133)	(27,458)
Less: net income (loss) attributable to non-controlling interest	(273)	113	178	(116)
Preferred dividend requirement	(262)	(265)	(267)	(279)
Net income (loss) applicable to common shares	\$ (10,541)	\$ (20,653)	\$ (9,222)	\$ (27,853)
PER SHARE DATA				
Earnings per share basic				
Income (loss) from continuing operations	\$ (1.35)	\$ (2.38)	\$ (1.24)	\$ (4.02)
Discontinued operations	0.05	(0.17)	0.11	0.59
Net income (loss) applicable to common shares	\$ (1.30)	\$ (2.55)	\$ (1.13)	\$ (3.43)
Weighted average common shares used in computing earnings per share				
	8,113,669	8,113,669	8,113,495	8,113,469
Earnings per share diluted				
Income (loss) from continuing operations	\$ (1.35)	\$ (2.38)	\$ (1.24)	\$ (4.02)
Discontinued operations	0.05	(0.17)	0.11	0.59
Net income (loss) applicable to common shares	\$ (1.30)	\$ (2.55)	\$ (1.13)	\$ (3.43)
Weighted average common shares used in computing diluted earnings per share				
	8,113,669	8,113,669	8,113,495	8,113,469

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

	Three Months Ended 2009			
	March 31,	June 30,	September 30,	December 31,
(dollars in thousands, except share and per share amounts)				
2009				
Total operating revenues	\$ 27,344	\$ 27,401	\$ 26,929	\$ 25,612
Total operating expenses	25,182	53,352	28,475	40,614
Operating (loss) income	2,162	(25,951)	(1,546)	(15,002)
Other income (expense)	(9,845)	(13,545)	(12,235)	(9,689)
Income (loss) before gain on land sales, non-controlling interest, and taxes	(7,683)	(39,496)	(13,781)	(24,691)
Gain on land sales	(252)	6,548		
Income tax benefit (expense)	(1,156)	277	563	240
Net income (loss) from continuing operations	(9,091)	(32,671)	(13,218)	(24,451)
Net income (loss) from discontinuing operations, net of non-controlling interest	(2,146)	255	2,695	(946)
Net income (loss)	(11,237)	(32,416)	(10,523)	(25,397)
Less: net income (loss) attributable to non-controlling interest	109	89	(62)	(261)
Preferred dividend requirement	(250)	(252)	(254)	(267)
Net income (loss) applicable to common shares	\$ (11,378)	\$ (32,579)	\$ (10,839)	\$ (25,925)
PER SHARE DATA				
Earnings per share - basic				
Income (loss) from continuing operations	\$ (1.14)	\$ (4.06)	\$ (1.67)	\$ (3.08)
Discontinued operations	(0.26)	0.03	0.33	(0.12)
Net income (loss) applicable to common shares	\$ (1.40)	\$ (4.03)	\$ (1.34)	\$ (3.20)
Weighted average common shares used in computing earnings per share	8,113,669	8,113,669	8,113,669	8,113,669
Earnings per share - diluted				
Income (loss) from continuing operations	\$ (1.13)	\$ (4.06)	\$ (1.67)	\$ (3.08)
Discontinued operations	(0.26)	0.03	0.33	(0.12)
Net income (loss) applicable to common shares	\$ (1.39)	\$ (4.03)	\$ (1.34)	\$ (3.20)
Weighted average common shares used in computing diluted earnings per share	8,113,669	8,113,669	8,113,669	8,113,669

Quarterly results presented differ from those previously reported in TCI's Form 10-Q due to the reclassification of the operations of properties sold or held for sale to discontinued operations in accordance with ASC Topic 360.

NOTE 16. COMMITMENTS AND CONTINGENCIES AND LIQUIDITY

Liquidity. Management believes that TCI will generate excess cash from property operations in 2012; such excess, however, will not be sufficient to discharge all of TCI's obligations as they become due. Management intends to sell income producing assets, refinance real estate and

obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Partnership Buyouts. TCI is the limited partner in various partnerships related the construction of residential properties. As permitted in the respective partnership agreements, TCI intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buy out the nonaffiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

Other Litigation. TCI is also involved in various other lawsuits arising in the ordinary course of business. Management is of the opinion that the outcome of these lawsuits will have no material impact on TCI's financial condition, results of operations or liquidity.

NOTE 17. EARNINGS PER SHARE

Earnings per share. Earnings per share (EPS) have been computed pursuant to the provisions of ASC 260 Earnings Per Share. The computation of basic EPS is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding. We have 30,000 shares of Series C Cumulative Convertible Preferred Stock issued and outstanding. The stock has a liquidation preference of \$100.00 per share. After September 30, 2006, the stock may be converted into Common Stock at 90% of the daily average closing price of the Common Stock for the prior five trading days. The effects of the Series C Cumulative Convertible Preferred Stock are included in the dilutive earnings per share if applying the if-converted method is dilutive. As of December 31, 2011, we have 10,000 shares of stock options outstanding. Of the remaining options, 5,000 expired on January 31, 2012, and 5,000 will expire January 1, 2015, if not exercised. These options are considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. At December 31, 2011, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation.

NOTE 18. SUBSEQUENT EVENTS

On January 1, 2012, we refinanced the existing mortgage on Parc at Maumelle apartments, a 240-unit complex located in Little Rock, Arkansas, for a new mortgage of \$16.8 million. We paid off the existing mortgage of \$16.1 million and \$1.0 million in closing costs. The note accrues interest at 3.00% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on February 1, 2052.

On January 3, 2012, Denton Coonrod, 82.20 acres of land located in Denton, Texas, which was sold to a related party and treated as subject to sales contract, was transferred to the lender for credit against the loan balance. The sale that was deferred will be recognized in the first quarter of 2012, when ownership transferred to a third party.

On February 1, 2012, we refinanced the existing mortgage on Huntington Ridge apartments, a 198-unit complex located in DeSoto, Texas, for a new mortgage of \$15.0 million. We paid off the existing mortgage of \$14.6 million and \$0.8 million in closing costs. The note accrues interest at 3.03% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2052.

On February 1, 2012, we refinanced the existing mortgage on Laguna Vista apartments, a 206-unit complex located in Farmers Branch, Texas, for a new mortgage of \$17.7 million. We paid off the existing mortgage of \$17.0 million and \$1.1 million in closing costs. The note accrues interest at 3.03% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2052.

On February 1, 2012, we refinanced the existing mortgage on Savoy of Garland apartments, a 144-unit complex located in Garland, Texas, for a new mortgage of \$10.3 million. We paid off the existing mortgage of \$10.2 million and \$0.8 million in closing costs. The note accrues interest at 3.03% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2052.

On February 2, 2012, TCI and its subsidiary, 1340 Poydras, LLC, executed a guarantor settlement and consent agreement with the lender for the Amoco building, Petra CRE CDO 2007-1, Ltd (Petra) to transfer ownership of the Amoco building to a new entity, 1340 Owner, LLC, which is affiliated with the existing lender, Petra. Regis will continue to manage the property while under Petra's ownership and TCI will have an option to repurchase the property during the option term which shall end two years following the commencement of the agreement. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement related to the obligations under the note and guaranty agreements and the repurchase option.

On February 3, 2012, 22.92 acres of land known as Andrew B land, located in Denton, Texas, which was sold to a related party and treated as subject to sales contract , was transferred to the lender for credit against the loan balance. The sale that was deferred will be recognized in the first quarter of 2012, when ownership transferred to a third party.

On February 23, 2012, we sold a 220 unit apartment complex known as Wildflower Villas located in Temple, Texas for a sales price of \$19.6 million. The buyer assumed the existing debt of \$13.7 million secured by the property.

On March 6, 2012, 7.39 acres of land known as DeSoto Ranch land, located in DeSoto, Texas, which was sold to a related party and treated as subject to sales contract , was transferred to the lender for credit against the loan balance. The sale that was deferred will be recognized in the first quarter of 2012, when ownership transferred to a third party.

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amounts of Which Carried at End of Year			Accumulated Depreciation	Date of Construction Acquired	Date	Life on Which Depreciation In Latest Statement of Operation is Computed
		Land	Building & Asset Improvements	Impairment	Improvements	Land	Building & Improvements	Total				
Properties Held for Investment												
Apartments												
Anderson Estates, Oxford, MS	\$ 907	\$ 378	\$ 2,683	\$	\$ 313	\$ 691	\$ 2,683	\$ 3,373	\$ 397	2003	01/06	40 years
Blue Lake Villas I, Waxahachie, TX	10,580	526	10,784		201	526	10,985	11,511	2,439	2003	01/02	40 years
Blue Lake Villas II, Waxahachie, TX	3,885	287	4,451			287	4,451	4,738	455	2004	01/04	40 years
Blue Ridge, Midland, TX	23,275	2,259	22,299			2,259	22,299	24,558	358	2011	02/10	40 years
Breakwater Bay, Beaumont, TX	9,237	740	10,435			740	10,435	11,175	1,798	2004	05/03	40 years
Bridgewood Ranch, Kaufman, TX	4,886	762	6,856			762	6,856	7,618	691	2007	04/08	40 years
Capitol Hill, Little Rock, AR	8,876	1,860	7,948			1,860	7,948	9,807	1,492	2003	03/03	40 years
Curtis Moore Estates, Greenwood, MS	1,628	186	5,733		757	902	5,774	6,676	990	2003	01/06	40 years
Dakota Arms, Lubbock, TX	12,405	921	12,644		231	921	12,875	13,796	2,246	2004	01/04	40 years
David Jordan Phase II, Greenwood, MS	610	51	1,521		225	277	1,521	1,798	260	1999	01/06	40 years
David Jordan Phase III, Greenwood, MS	638	83	2,115		356	439	2,115	2,554	313	2003	01/06	40 years
Desoto Ranch, DeSoto, TX	16,063	1,472	17,856		11	1,472	17,866	19,338	3,509	2002	05/02	40 years
Dorado Ranch, Odessa, TX	16,350	761	18,492		24	761	18,516	19,277	1,312	2009	07/07	40 years
Falcon Lakes, Arlington, TX	13,424	1,438	15,094		327	1,438	15,420	16,858	3,652	2001	10/01	40 years
Heather Creek, Mesquite, TX	11,892	1,326	12,015			1,326	12,015	13,341	2,103	2003	03/03	40 years
Huntington Ridge, DeSoto, TX	14,651	1,693	15,927		40	1,693	15,967	17,660	1,326	2007	10/04	40 years
Laguna Vista, Dallas, TX	16,999	288	20,743		497	370	21,158	21,528	2,727	2006	12/04	40 years
Lake Forest, Houston, TX	12,112	335	12,267		1,435	335	13,702	14,037	2,169	2004	01/04	40 years
Legends Of El Paso, El Paso, TX	15,418	1,318	17,215		697	1,318	17,912	19,230	2,006	2006	07/05	40 years

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Initial Cost		Asset Impairment	Cost Capitalized Subsequent to Acquisition		Gross Amounts of Which Carried at End of Year		Accumulated Depreciation	Date of Construction Acquired	Life on Which Depreciation In Latest Statement of Operation is Computed	
		Building & Improvements	Land		Building & Improvements	Land	Building & Improvements	Land				
Apartments (cont d)												
Lodge at Pecan Creek, Denton, TX	15,605	1,349	15,067			1,349	15,067	16,416	29	2011	10/05	40 years
Mansions of Mansfield, Mansfield, TX	15,920	977	17,799			977	17,799	18,775	1,223	2009	09/05	40 years
Mariposa Villas, Dallas, TX	12,301	788	13,131			788	13,131	13,918	2,064	2002	01/02	40 years
Mission Oaks, San Antonio, TX	14,950	1,266	16,627		212	1,266	16,839	18,105	1,948	2005	05/05	40 years
Monticello Estate, Monticello, AR	502	36	1,493		263	285	1,508	1,793	236	2001	01/06	40 years
Northside on Travis, Sherman, TX	13,655	1,301	14,525			1,301	14,525	15,826	851	2009	10/07	40 years
Paramount Terrace, Amarillo, TX	2,841	340	3,061			340	3,061	3,402	1,030	1983	05/00	40 years
Park at Clarksville, Clarksville, TN	13,080	571	14,390		102	571	14,492	15,063	1,179	2007	06/02	40 years
Parc at Denham Springs, Denham Springs, LA	19,517	1,022	19,819			1,022	19,819	20,841	485	2011	07/07	40 years
Parc at Maumelle, Little Rock, AR	16,074	1,153	17,688		617	1,153	18,305	19,458	2,235	2006	12/04	40 years
Parc at Metro Center, Nashville, TN	10,579	960	12,226		486	960	12,713	13,673	1,631	2006	05/05	40 years
Parc at Rogers, Rogers, AR	17,370	1,482	22,993	(3,180)	266	1,749	19,813	21,562	1,921	2007	04/04	40 years
Pecan Pointe, Temple, TX	16,417	1,744	16,876		144	1,744	17,020	18,764	1,498	2007	10/06	40 years
Portofino, Farmers Branch, TX	19,865	1,729	23,037		13	1,729	23,050	24,779	1,916	2007	09/06	40 years
Preserve at Pecan Creek, Denton, TX	14,772	885	16,626		17	902	16,626	17,528	1,378	2008	10/05	40 years
River Oaks, Wylie, TX	9,743	590	11,674		148	590	11,822	12,412	2,604	2002	10/01	40 years
Riverwalk Phase I, Greenville, MS	324	23	1,537		175	198	1,537	1,736	270	2003	01/06	40 years
Riverwalk Phase II, Greenville, MS	1,237	52	4,007		363	297	4,126	4,423	962	2003	01/06	40 years

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Initial Cost		Asset Impairment	Cost Capitalized Subsequent to Acquisition	Gross Amounts of Which Carried at End of Year			Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation In Latest Statement of Operation is Computed
		Building & Improvements	Land			Building & Improvements	Land	Total				
Apartments (cont d)												
Savoy of Garland, Garland, TX	10,183	760	11,524		147	760	11,671	12,431	657	2009	10/06	40 years
Sonoma Court, Rockwall, TX	10,578	941	10,369			941	10,369	11,310	92	2011	07/10	40 years
Stonebridge at City Park, Houston, TX	14,515	1,545	14,786		97	1,545	14,883	16,428	2,562	2004	01/04	40 years
Sugar Mill, Baton Rouge, LA	11,834	1,882	13,272		135	1,882	13,407	15,289	758	2009	08/08	40 years
Toulon, Gautier, MS	20,078	1,621	19,075			1,993	18,703	20,696	226	2011	09/09	40 years
Treehouse, Irving, TX	5,040	297	2,672			297	2,672	2,969	526	1974	05/04	40 years
Verandas at City View, Fort Worth, TX	18,384	2,005	19,463		1,267	2,005	20,730	22,735	4,130	2003	09/01	40 years
Vistas of Pinnacle Park, Dallas, TX	18,907	1,750	19,808		111	1,750	19,920	21,670	3,701	2002	10/02	40 years
Vistas of Vance Jackson, San Antonio, TX	15,955	1,265	16,540		189	1,327	16,666	17,993	2,627	2004	01/04	40 years
Whispering Pines, Topeka, KS	9,335	244	6,160			244	6,160	6,404	4,882	1974	04/11	40 years
Windsong, Fort Worth, TX	10,649	790	11,526			790	11,526	12,316	2,261	2002	07/03	40 years
	\$ 554,046	\$ 46,052	\$ 604,848	\$ (3,180)	\$ 9,867	\$ 49,130	\$ 608,456	\$ 657,586	\$ 76,125			
Commercial												
225 Baronne, New Orleans, LA	\$	\$ 1,162	\$ 1,444	\$	\$ 7,355	\$ 1,162	\$ 8,799	\$ 9,961	\$ 7,713	1960	03/98	40 years
305 Baronne, New Orleans, LA	5,093	211	1,953		452	211	2,405	2,616	362	1902	08/06	40 years
600 Las Colinas, Las Colinas, TX	34,142	5,751	51,759		5,913	5,751	57,672	63,423	11,479	1984	08/05	40 years

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Initial Cost		Impairment	Cost Capitalized Subsequent to Acquisition	Gross Amounts of Which Carried at End of Year		Accumulated Depreciation	Date Construction Acquired	Date	Life on Which Depreciation In Latest Statement of Operation is Computed	
		Building & Asset	Improvements			Building & Improvements	Total					
Commercial (cont d)												
1010 Common, New Orleans, LA	14,171	2,895	13,811		22,613	2,895	36,423	39,319	26,549	1971	03/98	40 years
Amoco Building, New Orleans, LA	18,750	1,233	3,826		6,602	1,233	10,428	11,661	7,748	1974	07/97	40 years
Bridgeview Plaza, LaCrosse, WI	6,244				326		326	326	195	1979	03/03	40 years
Browning Place (Park West I), Farmers Branch, TX	31,704	5,096	45,868		8,066	5,096	53,933	59,030	9,498	1984	04/05	40 years
Clark Garage, New Orleans, LA		1,033	9,293	(3,300)	26	1,033	6,019	7,052	1,042		08/06	40 years
Dunes Plaza, Michigan City, IN	3,599	1,343	5,264	(1,851)	1,541	1,529	4,767	6,296	3,342	1978	03/92	40 years
Ergon Office Building, Jackson, MS	1,878	201	1,914	(1,963)		152		152	152		11/08	40 years
Fruitland Plaza, Fruitland Park, FL		23			16	23	16	39	16		05/92	40 years
Senlac VHP, Farmers Branch, TX	662	622			142	622	142	765	90		08/05	40 years
Sesame Square, Anchorage, AK	1,055	562	1,538			562	1,538	2,101	1,437	1981	04/11	40 years
Stanford Center, Dallas, TX	23,612	3,878	34,862		258	3,878	35,120	38,998	3,182		06/08	40 years
	\$ 140,910	\$ 24,011	\$ 171,530	\$ (7,114)	\$ 53,308	\$ 24,148	\$ 217,588	\$ 241,739	\$ 72,805			
Land												
1013 Common St, New Orleans, LA	\$	\$ 579	\$	\$	\$ 159	738	\$	\$ 738	\$		08/98	
Audubon, Adams County, MS		519			297	815		815			03/07	
Copperridge, Dallas, TX	2,504	6,392		(4,547)	1,705	3,550		3,550			01/08	

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Initial Cost	Cost Capitalized Subsequent to Acquisition		Gross Amounts of Which Carried at End of Year			Life on Which Depreciation In Latest Statement of Operation is Computed				
		Building & Asset	Improvements	Land	Improvements	Total Depreciation					
	Encumbrances	Land	Improvements	Impairment	Improvements	Land	Improvements	Total Depreciation	Construction Date	Acquired	Computed
Land (cont d)											
Denham Springs, Denham Springs, LA	198	339				339	339				08/08
Gautier Land, Gautier, MS	732	2,526			128	2,654	2,654				07/98
Hollywood Casino Land Tract II, Farmers Branch, TX	3,597	3,131			397	3,529	3,529				03/08
Hunter Equities Land, Dallas, TX		398				398	398				07/08
Jackson Capital City Center, Jackson, MS	4,751	8,986	(1,310)	4,824	12,500	12,500	12,500				11/08
Kinwest Manor, Irving, TX	1,020	1,819	(1,517)	1,825	2,128	2,128	2,128				10/06
Lacy Longhorn Land, Farmers Branch, TX	1,764	1,304				1,304	1,304				06/04
LaDue Land, Farmers Branch, TX	562	1,810				1,810	1,810				07/98
Lake Shore Villas, Humble, TX		81		3	84	84	84				03/02
LCLLP (Kinwest/Hackberry), Irving, TX		196				196	196				12/04
Lubbock Land, Lubbock, TX	20	234				234	234				01/04
Luna (Carr), Farmers Branch, TX	392	589				589	589				07/05
Manhattan Land, Farmers Branch, TX	80	5,450		53	5,503	5,503	5,503				02/00
Marine Creek, Ft. Worth, TX	1,699	2,923	(1,500)	243	1,666	1,666	1,666				06/02
McKinney 36, Collin County, TX	3,898	1,948				1,948	1,948				01/98
McKinney Ranch Land, McKinney, TX	14,256	21,402	(3,418)	744	18,728	18,728	18,728				12/05
Mira Lago, Farmers Branch, TX		59		15	74	74	74				05/01

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition	Gross Amounts of Which Carried at End of Year		Accumulated Depreciation	Date Construction Acquired	Life on Which Depreciation In Latest Statement of Operation is Computed
		Building & Asset Improvements	Land	Impairment	Improvements	Land			
Land (cont d)									
Nakash, Malden, MO			113			113	113		01/93
Nicholson Croslin, Dallas, TX	118	63			63		63		10/98
Nicholson Mendoza, Dallas, TX	50	27			27		27		10/98
Ocean Estates, Gulfport, MS		1,418		390	1,808		1,808		10/07
Southwood Plantation 1394, Tallahassee, FL	600	1,209		119	1,329		1,329		02/06
Texas Plaza Land, Irving, TX	409	1,738			1,738		1,738		12/06
Travelers Land, Farmers Branch, TX	26,543	24,511			24,511		24,511		11/06
Travelers Land, Farmers Branch, TX	2,456	1,913			1,913		1,913		11/06
Travis Ranch Land, Kaufman County, TX	751	1,030			1,030		1,030		08/08
Travis Ranch Retail, Kaufman City, TX		950			950		950		08/08
Union Pacific Railroad Land, Dallas, TX		130			130		130		03/04
US Virgin Islands Pearl, US Virgin Islands	3,318	14,031		2,360	16,391		16,391		10/08
Valley View 34 (Mercer Crossing), Farmers Branch, TX	358	228			228		228		08/08
Valley View/Senlac, Farmers Branch, TX	624	780			780		780		12/05
Waco 151 Land, Waco, TX	1,257	2,106			2,106		2,106		04/07
Waco Swanson, Waco, TX	1,525	2,725			2,725		2,725		08/06
Walker Land, Dallas County, TX	8,069	12,613			12,613		12,613		09/06
Willowick Land, Pensacola, FL		137			137		137		01/95

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Land	Initial Cost		Cost Capitalized Subsequent to Acquisition	Gross Amounts of Which Carried at End of Year		Total	Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation In Latest Statement of Operation is Computed
			Building & Improvements	Asset Impairment		Land	Building & Improvements					
Land (cont d)												
Windmill Farms Land, Kaufman County, TX	30,700	49,879	14,218	(21,009)	105	43,193		43,193				11/11
	\$ 112,251	\$ 176,286	\$ 14,218	\$ (33,300)	\$ 13,368	\$ 170,572	\$	\$ 170,572	\$			
Corporate Departments/Investments/Misc.												
TCI Corporate	\$ 11,322	\$	\$	\$	\$	\$	\$	\$	\$			
	\$ 11,322	\$	\$	\$	\$	\$	\$	\$	\$			
Total Properties Held for Investment	\$ 818,529	\$ 246,349	\$ 790,597	\$ (43,595)	\$ 76,543	\$ 243,850	\$ 826,044	\$ 1,069,899	\$ 148,930			
Properties Held for Sale												
Apartments												
Wildflower Villas, Temple, TX	\$ 13,781	\$ 1,119	\$ 15,526	\$	\$ 122	\$ 1,119	\$ 15,648	\$ 16,767	\$ 1,752	2005	04/04	40 years
	\$ 13,781	\$ 1,119	\$ 15,526	\$	\$ 122	\$ 1,119	\$ 15,648	\$ 16,767	\$ 1,752			
Total Properties Held for Sale	\$ 13,781	\$ 1,119	\$ 15,526	\$	\$ 122	\$ 1,119	\$ 15,648	\$ 16,767	\$ 1,752			
Properties Subject to Sales												
Contract												
Apartments												
Quail Hollow, Holland, OH	\$ 11,129	\$ 1,406	\$ 12,650	\$ (1,998)	\$	\$ 1,406	\$ 10,653	\$ 12,058	\$ 1,160	2000	04/08	40 years
	\$ 11,129	\$ 1,406	\$ 12,650	\$ (1,998)	\$	\$ 1,406	\$ 10,653	\$ 12,058	\$ 1,160			
Commercial												
Eton Square, Tulsa, OK	\$ 9,213	\$ 1,469	\$ 13,219	\$	\$ 4,246	\$ 1,469	\$ 17,465	\$ 18,934	\$ 5,958	1985	09/99	40 years

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Land	Improvements	Asset Impairment	Cost Capitalized Subsequent to Acquisition	Gross Amounts of Which Carried at End of Year		Accumulated Depreciation	Date Acquired	Life on Which Depreciation In Latest Statement of Operation is Computed	
						Building & Improvements	Building & Improvements				
Commercial (cont d)											
Thermalloy, Farmers Branch, TX	127	791	1,061			791	1,061	1,852	95	05/08	40 years
	\$ 9,340	\$ 2,260	\$ 14,281	\$	\$ 4,246	\$ 2,260	\$ 18,526	\$ 20,786	\$ 6,053		
Land											
Dedeaux, Gulfport, MS	\$ 1,520	\$ 1,612	\$	\$	\$ 46	\$ 1,658	\$	\$ 1,658	\$	10/06	
Denton (Andrew B), Denton, TX	451	895			8	903		903		12/05	
Denton (Andrew C), Denton, TX	93	318				318		318		12/05	
Denton Coonrod, Denton, TX	755	1,848		(703)		1,145		1,145		07/09	
Desoto Ranch, DeSoto, TX	459	898			27	925		925		10/04	
Dominion Tract, Dallas, TX	1,221	2,393				2,393		2,393		03/99	
Hollywood Casino Tract I, Farmers Branch, TX	2,124	4,249			135	4,383		4,383		06/02	
Luna Ventures, Farmers Branch TX	1,028	2,934				2,934		2,934		04/08	
Mansfield Land, Mansfield, TX	848	543			3	546		546		09/05	
Pioneer Crossing Tract II, Austin, TX	1,144	614		(72)	952	1,494		1,494		03/06	
Senlac Land Tract II, Farmers Branch, TX	303	656				656		656		08/05	
Sheffield Village, Grand Prairie, TX	872	1,643			428	2,071		2,071		09/03	
Stanley Tools, Farmers Branch, TX	1,324	5,373				5,373		5,373		02/04	

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

Property/Location	Encumbrances	Land	Initial Cost		Asset Impairment	Cost Capitalized Subsequent to Acquisition	Gross Amounts of Which Carried at End of Year		Total	Accumulated Depreciation	Date of Construction	Life on Which Depreciation In Latest Statement of Operation is Computed
			Building & Improvements	Land			Building & Improvements	Land				
Land (cont d)												
Whorton Land, Bentonville, AR	3,423	4,291		(2,367)	6	1,929		1,929			06/05	
	\$ 15,565	\$ 28,267	\$	\$ (3,142)	\$ 1,604	\$ 26,728	\$	\$ 26,728	\$			
Total Properties Subject to Sales Contract	\$ 36,034	\$ 31,932	\$ 26,931	\$ (5,140)	\$ 5,850	\$ 30,393	\$ 29,179	\$ 59,572	\$ 7,213			
TOTAL: Real Estate	\$ 868,344	\$ 279,400	\$ 833,054	\$ (48,735)	\$ 82,515	\$ 275,362	\$ 870,871	\$ 1,146,238	\$ 157,895			

TRANSCONTINENTAL REALTY INVESTORS, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION

As of December 31,

SCHEDULE III

(Continued)

	2011	2010 (dollars in thousands)	2009
Reconciliation of Real Estate			
Balance at January 1,	\$ 1,365,709	\$ 1,599,475	\$ 1,607,423
Additions			
Acquisitions, improvements and construction	83,493	49,742	93,991
Deductions			
Sale of real estate	(312,944)	(263,349)	(59,025)
Asset impairments	9,976	(20,159)	(42,914)
Balance at December 31,	\$ 1,146,234	\$ 1,365,709	\$ 1,599,475
Reconciliation of Accumulated Depreciation			
Balance at January 1,	\$ 152,595	\$ 152,291	\$ 126,632
Additions			
Depreciation	27,166	26,753	31,604
Deductions			
Sale of real estate	(21,866)	(26,449)	(5,945)
Balance at December 31,	\$ 157,895	\$ 152,595	\$ 152,291

TRANSCONTINENTAL REALTY INVESTORS, INC.

MORTGAGE LOANS ON REAL ESTATE

December 31, 2011

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgage (dollars in thousands)	Carrying Amount of Mortgage	Principal Amounts of Loans Subject To Delinquent Principal or Interest
JUNIOR MORTGAGE LOANS							
Dallas Fund XVII ⁽¹⁾	9.00%	10/09	Principal and Interest due at maturity		1,432	1,432	
Secured by an assignment of partnership interests and litigation proceeds.							
OTHER							
130 Windmill Farms, L.P.	7.00%	10/11			507	507	
Housing for Seniors of Humble, LLC (Lakeshore Villas)	5.25%	12/27	Excess cash flow	16,462	8,363	8,363	
Unsecured							
Miscellaneous non-related party notes	various	various			526	526	
Miscellaneous related party notes	various	various			6,043	523	
Ocean Beach Partners	7.00%	12/11			3,279	3,279	
Secured by Folsom Land (36 acres in Farmers Branch, TX).							
Realty Advisors Management, Inc.	4.00%	12/16			20,387	20,387	
Unsecured							
Unified Housing Foundation, Inc. (Cliffs of El Dorado)	15.00%	9/10	Excess cash flow	9,046	2,990	2,990	
100% Interest in UH of McKinney, LLC							
Unified Housing Foundation, Inc. (Echo Station)	5.25%	12/27	Excess cash flow	10,169	1,668	1,481	
100% Interest in UH of Temple, LLC							
Unified Housing Foundation, Inc. (Limestone Canyon)	5.25%	12/27	Excess cash flow	13,798	7,720	7,720	
100% Interest in UH of Austin, LLC							
Unified Housing Foundation, Inc. (Limestone Ranch)	5.25%	12/27	Excess cash flow	12,833	8,250	8,250	
100% Interest in UH of Vista Ridge, LLC							
Unified Housing Foundation, Inc. (Parkside Crossing)	5.25%	12/27	Excess cash flow	11,342	1,936	1,936	
100% Interest in UH of Parkside Crossing, LLC							
	5.25%	12/27	Excess cash flow	24,121	9,986	9,986	

**Unified Housing Foundation, Inc.
(Sendero Ridge)**

100% Interest in UH of Sendero Ridge, LLC

Unified Housing Foundation, Inc. (Timbers of Terrell)	5.25%	12/27	Excess cash flow	7,679	1,323	1,323
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100% Interest in UH of Terrell, LLC

SCHEDULE IV

(Continued)

TRANSCONTINENTAL REALTY INVESTORS, INC.

MORTGAGE LOANS ON REAL ESTATE

December 31, 2011

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgage (dollars in thousands)	Carrying Amount of Mortgage	Principal Amounts of Loans Subject To Delinquent Principal or Interest
Unified Housing Foundation, Inc. (Tivoli)	5.25%	12/27	Excess cash flow	10,533	7,966	7,965	
100% Interest in UH of Tivoli, LLC							
				\$ 115,983	\$ 82,376	\$ 76,668	\$
					Accrued interest	4,645	
					Allowance for estimated losses	(3,942)	
						\$ 77,371	

(1) This note is fully reserved.

SCHEDULE IV

(Continued)

TRANSCONTINENTAL REALTY INVESTORS, INC.

MORTGAGE LOANS ON REAL ESTATE

December 31, 2011

	2011	2010	2009
Balance at January 1	\$ 71,766	\$ 48,051	\$ 42,413
Additions			
New mortgages	22,168	29,310	32,096
Funding of existing loans		8,919	7,753
Conversion of accrued interest to principal			900
Increase of interest receivable on mortgage loans	1,467	3,967	2,240
Deductions			
Amounts paid	(8,018)	(10,962)	(37,328)
Non-cash reduction	(500)	(7,519)	(23)
Cost of mortgages sold	(5,570)		
Balance at December 31	\$ 81,313	\$ 71,766	\$ 48,051

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Principal Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention or overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessments and those criteria, management has concluded that Company's internal control over financial reporting was effective as of December 31, 2011.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial report. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

In preparation for management's report on internal control over financial reporting, we documented and tested the design and operating effectiveness of our internal control over financial reporting. There were no changes in our internal controls over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The affairs of TCI are managed by a Board of Directors. The Directors are elected at the annual meeting of stockholders or appointed by the incumbent Board and serve until the next annual meeting of stockholders or until a successor has been elected or approved.

It is the Board's objective that a majority of the Board consists of independent directors. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with TCI. The Board has established guidelines to assist it in determining director independence which conform to, or are more exacting than, the independence requirements in the New York Stock Exchange listing rules. The independence guidelines are set forth in TCI's Corporate Governance Guidelines. The text of this document has been posted on TCI's internet website at <http://www.transconrealty-invest.com> and is available in print to any shareholder who requests it. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independent determination.

TCI has adopted a code of conduct that applies to all Directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. Stockholders may find our code of conduct on our website by going to our website address at <http://www.transconrealty-invest.com>. We will post any amendments to the code of conduct, as well as any waivers that are required to be disclosed by the rules of the SEC or the New York Stock Exchange on our website.

Our Board of Directors has adopted charters for our Audit, Compensation and Governance and Nominating Committees of the Board of Directors. Stockholders may find these documents on our website by going to the website address at <http://www.transconrealty-invest.com>. You may also obtain a printed copy of the materials referred to by contacting us at the following address:

Transcontinental Realty Investors, Inc.

Attn: Investor Relations

1603 LBJ Freeway, Suite 800

Dallas, Texas 75234

Telephone: 469-522-4200

All members of the Audit Committee and Nominating and Corporate Governance Committees must be independent directors. Members of the Audit Committee must also satisfy additional independence requirements, which provide (i) that they may not accept, directly or indirectly, any consulting, advisory, or compensatory fee from TCI or any of its subsidiaries other than their director's compensation (other than in their capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board), and (ii) no member of the Audit Committee may be an affiliated person of TCI or any of its subsidiaries, as defined by the Securities and Exchange Commission.

Effective at the close of business of January 31, 2012, Sharon Hunt resigned as a Director and Chairman of the Compensation Committee of the Board of Directors of Transcontinental Realty Investors, Inc. Ms. Hunt had been a director of the Company since February 2004. At the time of her resignation as a Director, Ms. Hunt had no disagreement with the Registrant on any matter relating to the Registrant's operations, policies or practices.

On February 1, 2011, the Board of Directors of the Company elected Martha C. Stephens as a Director to fill the vacancy on the Board of Directors created by the resignation of Sharon Hunt. Ms. Stephens, currently retired, for more than five years prior to January 2007 was employed in various administrative capacities by Prime, the prior contractual advisor to the Company, TCI and IOT. Ms Stephens has been a Director (since

February 23, 2007) of IOT and Chairman of the Board (since May 21, 2009). She was also elected (on February 1, 2011) as a Director of TCI. On February 1, 2011, the Board of Directors of the Company elected RL S. Lemke as a director to fill a vacancy on the Board of Directors. Mr. Lemke was also elected as Vice President of the Company on that date. Mr. Lemke is Vice President, Project Development for Pillar, the contractual advisor to the Company, and its predecessor Prime. He has been so employed for more than the past five years. Mr. Lemke holds a Juris Doctor degree (1982) from Creighton University School of

Effective the close of business October 13, 2011, Martha C. Stephens resigned as Director of the Company and as Chairperson of the Governance and Nominating Committee. At the time of her resignation as a Director, Ms. Stephens had no disagreement with the Registrant on any matter relating to the Registrant's operations, policies or practices. Also, effective the close of business on October 13, 2011, RL S. Lemke resigned as a Director of the Company. At the time of his resignation as a Director, Mr. Lemke had no disagreement with the Registrant on any matter relating to the Registrant's operations, policies or practices.

On October 25, 2011, the Board of Directors re-elected Sharon Hunt as a Director to fill the vacancy created by the resignation of Martha C. Stephens.

The current directors of TCI are listed below, together with their ages, terms of service, all positions and offices with TCI, its former advisor Prime, or current advisor Pillar, which took over as contractual advisor for Prime on April 30, 2011, their principal occupations, business experience and directorships with other companies during the last five years or more. The designation "affiliated", when used below with respect to a director, means that the director is an officer, director or employee of Prime or Pillar, an officer of the Company, or an officer or director of an affiliate of the Company. The designation "independent", when used below with respect to a Director, means that the Director is neither an officer of the Company nor a director, officer or employee of Prime or Pillar (but may be a director of the Company, although the Company may have certain business or professional relationships with such Director as discussed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

HENRY BUTLER: Age 61, Director (Affiliated) (since December 2001) and Chairman of the Board (since May 2009)

Mr. Butler is Vice President Land Sales for Pillar Income Asset Management, LLC (Pillar) since April 30, 2011, and its predecessor, Prime (since July 2003). Mr. Butler was owner/operator (1989 to 1991) of Butler Interests, Inc. Mr. Butler is Chairman of the Board (since May 28, 2009) and a Director (since December 2001) of the Company. He is also Chairman of the Board (since May 28, 2009) and a Director (since July 2003) of ARL and a Director (December 2001 to July 2003) and again (since February 2011) of IOT.

ROBERT A. JAKUSZEWSKI: Age 49, Director (Independent) (since November 2005)

Mr. Jakuszewski is Vice President of Sales and Marketing (since September 1998) of New Horizons Communications, Inc. Mr. Jakuszewski was a Consultant (January 1998 to September 1998) for New Horizon Communications, Inc.; Regional Sales Manager (1996-1998) of Continental Funding; Territory Manager (1992-1996) of Sigvaris, Inc.; Senior Sales Representative (1988-1992) of Mead Johnson Nutritional Division, USPNG; Sales Representative (1986-1987) of Muro Pharmaceutical, Inc. Mr. Jakuszewski was elected a Director of the Company on November 22, 2005. He was also elected as a Director of ARL (since November 22, 2005), and a Director of IOT (since March 16, 2004).

SHARON HUNT: Age 69, Director (Independent) (since October 2011).

Ms. Hunt is a Licensed Realtor in Arkansas with Keystone Realty. She was President and Owner of Sharon's Pretzels, Inc. (until sold in 1997), a Dallas, Texas food products entity; Director (1991 to 2000) of a 501(c)(3) non-profit corporation involved in the acquisition, renovation and operation of real estate. Ms. Hunt was a Director of the Company from February 20, 2004 to January 31, 2011, and was re-elected as a Director Company on October 25, 2011. She was a Director (February 20, 2004 to January 31, 2011) and again (since October 25, 2011) of ARL and elected as a Director of IOT on October 25, 2011.

TED R. MUNSELLE: Age 56, Director (Independent) (since February 2004).

Mr. Munselle is Vice President and Chief Financial Officer (since October 1998) of Landmark Nurseries, Inc. On February 17, 2012, he was appointed as a member of the Board of Directors for Spindletop Oil & Gas Company and as Chairman of their Audit Committee. Spindletop's stock is traded on the Over-the-Counter (OTC) market. He was President (December 2004 to August 2007) of Applied Educational Opportunities LLC, an educational organization which had career training schools located in the cities of Richardson and Tyler, Texas. He is a certified public accountant (since 1980) who was employed as an Audit Partner in two Dallas, Texas based CPA firms (1986 to 1998), as an Audit Manager at Grant Thornton, LLP (1983 to 1986) and as Audit Staff to Audit Supervisor at Laventhol & Horwath (1977 to 1983). Mr. Munselle was elected as a director of the Company on February 20, 2004. He was also elected as a Director of ARL (since February 20, 2004) and a Director of IOT (since May 21, 2009). Mr. Munselle is qualified as an Audit Committee financial expert within the meaning of SEC regulations and the Board of Directors of TCI has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE.

Board Committees

The Board of Directors held eight meetings during 2011. For such year, no incumbent director attended fewer than 100% of the aggregate of (1) the total number of meetings held by the Board during the period for which he or she had been a director and (2) the total number of meetings held by all committees of the Board on which he or she served during the period that he served.

The Board of Directors has standing Audit, Compensation and Governance and Nominating Committees.

Audit Committee. The current Audit Committee was formed on February 19, 2004, and its function is to review TCI's operating and accounting procedures. A Charter of the Audit Committee has also been adopted by the Board. The charter of the Audit Committee was adopted on February 19, 2004, and is available on the Company's Investor Relations website (www.transconrealty-invest.com). The Audit Committee is an audit committee for purposes of Section 3(a)(58) of the Securities Exchange Act of 1934. The current members of the Audit Committee, all of whom are independent within the meaning of the SEC Regulations, the listing standards of the New York Stock Exchange, Inc. and TCI's Corporate Governance Guidelines, are Messrs. Jakuszewski and Munselle (Chairman) and Ms. Hunt. Mr. Ted R. Munselle, a member of the Committee, is qualified as an Audit Committee financial expert within the meaning of SEC Regulations, and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the New York Stock Exchange, Inc. All of the members of the Audit Committee meet the experience requirements of the listing standards of the New York Stock Exchange. The Audit Committee met eight times during 2011.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of TCI's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. The Charter of the Governance and Nominating Committee was adopted on March 22, 2004 and is available on the Company's Investor Relations website (www.transconrealty-invest.com). The current members of the Committee are Messrs. Munselle and Jakuszewski (Chairman) and Ms. Hunt. The Governance and Nominating Committee met once during 2011.

Compensation Committee. The Compensation Committee is responsible for overseeing the policies of the Company relating to compensation to be paid by the Company to the Company's principal executive officer and any other officers designated by the Board and make recommendations to the Board with respect to such policies, produce necessary reports and executive compensation for inclusion in the Company's Proxy Statement in accordance with applicable rules and regulations and to monitor the development and implementation of

succession plans for the principal executive officers and other key executives and make recommendations to the Board with respect to such plans. The charter of the Compensation Committee was adopted on March 22, 2004, and is available on the Company's Investor Relations website (www.transconrealty-invest.com). The current members of the Compensation Committee are Ms. Hunt (Chairman) and Messrs. Jakuszewski and Munselle. All of the members of the Compensation Committee are independent within the meaning of the listing standards of the NYSE and the Company's Corporate Governance Guidelines. The Compensation Committee is to be comprised of at least two directors who are independent of Management and the Company. The Compensation Committee met once during 2011.

The members of the Board of Directors on the date of this Report and the Committees of the Board on which they serve are identified below:

	Audit Committee	Governance and Nominating Committee	Compensation Committee
Sharon Hunt	X	X	Chair
Robert A. Jakuszewski	X	Chair	X
Ted R. Munselle	Chair	X	X
Henry A. Butler			
Presiding Director			

In March 2004, the Board created a new position of presiding director, whose primary responsibility is to preside over periodic executive sessions of the Board in which Management directors and other members of Management do not participate. The presiding director also advises the Chairman of the Board and, as appropriate, Committee Chairs with respect to agendas and information needs relating to Board and Committee meetings, provides advice with respect to the selection of Committee Chairs and performs other duties that the Board may from time to time delegate to assist the Board in fulfillment of its responsibilities.

In May 2011, the non-management members of the Board designated Ted R. Munselle as presiding director to serve in this position until the Company's annual meeting of stockholders to be held following the fiscal year ended December 31, 2012.

Determination of Director's Independence

In February 2004, the Board adopted its Corporate Governance Guidelines. The Guidelines adopted by the Board meet or exceed the new listing standards adopted during that year by the New York Stock Exchange. The full text of the Guidelines can be found on the Company's Investor Relations website (www.transcontrealty-invest.com).

Pursuant to the Guidelines, the Board undertook its annual review of director independence in March 2011 and during this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and TCI and its subsidiaries and affiliates, including those reported under Certain Relationships and Related Transactions below. The Board also examined transactions and relationship between directors or their affiliates and members of TCI's senior management or their affiliates. As provided in the Guidelines, the purpose of such review was to determine whether such relationships or transactions were inconsistent with the determination that the director is independent.

As a result of this review, the Board affirmatively determined of the then directors, Messrs. Munselle and Jakuszewski and Ms. Hunt are each independent of the Company and its Management under the standards set forth in the Corporate Governance Guidelines.

Executive Officers

Executive officers of the Company are listed below, all of whom are employed by Pillar. None of the executive officers receive any direct remuneration from the Company nor do any hold any options granted by the Company. Their positions with the Company are not subject to a vote of stockholders. In addition to the following executive officers, the Company has several vice presidents and assistant secretaries who are not listed herein. The ages, terms of service and all positions and offices with the Company, Pillar, Prime other affiliated entities, other principal occupations, business experience and directorships with other publicly-held companies during the last five years or more are set forth below. No family relationships exist among any of the executive officers or directors of the Company.

DANIEL J. MOOS, 62

President (since April 2007) and Chief Executive Officer (effective March 2010) of ARL, TCI, IOT and (effective March 2007) of Prime; and (effective April 30, 2011) of Pillar; Senior Vice President and Business Line Manager for U.S. Bancorp (NYSE:USB) working out of their offices in Houston, Texas from 2003 to April 2007; Executive Vice President and Chief Financial Officer, Fleetcor Technologies a privately held transaction processing company that was headquartered in New Orleans, Louisiana from 1998 to 2003; Senior Vice President and Chief Financial Officer, ICSA a privately held internet security and information company headquartered in Carlisle, Pennsylvania from 1996 to 1998; and for more than five years prior thereto was employed in various financial and operating roles for PhoneTel Technologies, Inc. which was a publicly traded telecommunication company on the American Stock Exchange headquartered in Cleveland, Ohio (1992-1996) and LDI Corporation which was a publicly traded computer equipment sales/service and asset leasing company listed on the NASDAQ and headquartered in Cleveland, Ohio.

GENE S. BERTCHER, 63

Executive Vice President (since February 2008) and Chief Financial Officer (since Oct. 28, 2009) of the Company, ARL and IOT. Mr. Bertcher is also Chief Executive Officer (from December 2006 to present), Chief Financial Officer (since November 1989) and a Director (from November 1989 to September 1996 and from June 1999 to present) of New Concept Energy, Inc. (NCE), a Nevada corporation which has its common stock listed on the AMEX. Mr. Bertcher has been employed by NCE since November 1989. He has been a Certified Public Accountant since 1973. Mr. Bertcher is also a Director, Vice President and Treasurer (since March 24, 2009) of First Equity Properties, Inc., a Nevada corporation with securities registered under Section 12(g) of the Exchange Act.

LOUIS J. CORNA, 64

Executive Vice President General Counsel/Tax Counsel and Secretary (since February 2004), Executive Vice President Tax (October 2001 to February 2004), Executive Vice President Tax and Chief Financial Officer (June 2001 to October 2001) and Senior Vice President Tax (December 2000 to June 2001) of the Company, ARL, IOT and BCM; Executive Vice President, General Counsel/Tax Counsel and Secretary (since February 2004), Executive Vice President Tax (July 2003 to February 2004) of Prime and PIAMI; Private Attorney (January 2000 to December 2000); Vice President Taxes and Assistant Treasurer (March 1998 to January 2000) of IMC Global, Inc.; Vice President Taxes (July 1991 to February 1998) of Whitman Corporation. Mr. Corna was also a Director and Vice President (June 2004 to December 2010) and Secretary (January 2005 to December 2010) of First Equity Properties, Inc., a Nevada corporation with securities registered under Section 12(g) of the Exchange Act.

ALFRED CROZIER, 59

Executive Vice President Residential Construction (since November 2006) of ARL, TCI and IOT; Managing Director of Development for Woodmont Investment Company GP, LLC of Dallas, Texas from November 2005 to November 2006; President of Sterling Builders, Inc. of Spring, Texas from October 2003 to

November 2005; Vice president of Westchase Construction, Ltd. of Houston, Texas from August 2001 to September 2003. For more than five years prior thereto, Mr. Crozier was employed by various firms in the construction industry including Trammell Crow Residential (February 1995 through February 2000) and The Finger Companies (August 1991 through February 1995). Mr. Crozier is a licensed architect.

Officers

Although not an executive officer of the Company, Daeho Kim currently serves as Treasurer. His position with the Company is not subject to a vote of stockholders. His age, term of service and all positions and offices with the Company, other principal occupations, business experience and relationships with other entities during the last five years or more are set forth below.

DAEHO KIM, 35

Treasurer (since October 29, 2008) of ARL, TCI and IOT. For more than five years prior thereto, Mr. Kim has been employed by Prime in various financial capacities including cash manager and Assistant Director of Capital Markets.

Code of Ethics

TCI has adopted a code of ethics entitled "Code of Business Conduct and Ethics" that applies to all directors, officers, and employees (including those of the contractual Advisor to TCI). In addition, TCI has adopted a code of ethics entitled "Code of Ethics for Senior Financial Officers" that applies to the principal executive officer, president, principal financial officer, chief financial officer, principal accounting officer, and controller. The text of these documents has been posted on TCI's internet website at <http://www.transconrealty-invest.com> and are available in print to any stockholder who requests them.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Under the securities laws of the United States, the directors, executive officers, and any persons holding more than 10% of TCI's shares of Common Stock are required to report their share ownership and any changes in that ownership to the Securities and Exchange Commission (the Commission). Specific due dates for these reports have been established and TCI is required to report any failure to file by these dates. All of these filing requirements were satisfied by TCI's directors, executive officers, and 10% holders during the fiscal year ending December 31, 2011. In making these statements, TCI has relied on the written representations of its incumbent directors and executive officers and its 10% holders and copies of the reports they have filed with the Commission.

The Advisor

TCI had an Advisory Agreement with Prime until April 30, 2011. Effective April 30, 2011, the agreement with Prime was terminated and an Advisory Agreement was entered into with Pillar on substantially the same terms as the agreement with Prime. Although the Board of Directors is directly responsible for managing the affairs of TCI and for setting the policies which guide it, the day-to-day operations of TCI are performed by Pillar, a contractual advisor, under the supervision of the Board. The duties of the advisor include, among other things, locating, investigating, evaluating and recommending real estate and mortgage loan investment and sales opportunities as well as financing and refinancing sources. Pillar also serves as a consultant in connection with TCI's business plan and investment policy decisions made by the Board.

Under the Advisory Agreement, Pillar is required to annually formulate and submit, for Board approval, a budget and business plan containing a twelve-month forecast of operations and cash flow, a general plan for asset sales and purchases, lending, foreclosure and borrowing activity, and other investments, and Pillar is required to report quarterly to the Board on TCI's performance against the business plan. In addition, all transactions require prior Board approval, unless they are explicitly provided for in the approved business plan or are made pursuant to authority expressly delegated to Pillar by the Board.

The Advisory Agreement also requires prior Board approval for the retention of all consultants and third party professionals, other than legal counsel. The Advisory Agreement provides that Pillar shall be deemed to be in a fiduciary relationship to the TCI stockholders; contains a broad standard governing Pillar's liability for losses incurred by TCI; and contains guidelines for Pillar's allocation of investment opportunities as among itself, TCI and other entities it advises.

The Advisory Agreement provides for Pillar to be responsible for the day-to-day operations of TCI and to receive, as compensation for basic management and advisory services, a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves).

In addition to base compensation, Pillar receives the following forms of additional compensation:

- (1) an annual net income fee equal to 7.5% of TCI's net income as an incentive for successful investment and management of the Company's assets;
- (2) an annual incentive sales fee to encourage periodic sales of appreciated real property at optimum value equal to 10.0% of the amount, if any, by which the aggregate sales consideration for all real estate sold by TCI during such fiscal year exceeds the sum of:
 - (a) the cost of each such property as originally recorded in TCI's books for tax purposes (without deduction for depreciation, amortization or reserve for losses);
 - (b) capital improvements made to such assets during the period owned; and
 - (c) all closing costs (including real estate commissions) incurred in the sale of such real estate; provided however, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an 8.0% simple annual return on the net investment including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration, and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5.0% higher in the current fiscal year than in the prior fiscal year;
- (3) an acquisition commission, from an unaffiliated party of any existing mortgage or loan, for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of:
 - (a) up to 1.0% of the cost of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers; or
 - (b) the compensation customarily charged in arm's-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property, provided that the aggregate purchase price of each property (including acquisition fees and real estate brokerage commissions) may not exceed such property's appraised value at acquisition;
- (4) a construction fee equal to 6.0% of the so-called "hard costs" only of any costs of construction on a completed basis, based upon amounts set forth as approved on any architect's certificate issued in connection with such construction, which fee is payable at such time as the applicable architect certifies other costs for payment to third parties. The phrase "hard costs" means all actual costs of construction paid to contractors, subcontractors and third parties for materials or labor performed as part of the construction but does not include items generally regarded as "soft costs," which are consulting fees, attorneys' fees, architectural fees, permit fees and fees of other professionals; and

- (5) reimbursement of certain expenses incurred by the advisor in the performance of advisory services.

The Advisory Agreement also provides that Pillar, or an affiliate of Pillar, receive the following forms of compensation:

- (1) a mortgage or loan acquisition fee with respect to the acquisition or purchase from an unaffiliated party of any existing mortgage loan by TCI equal to the lesser of:
 - (a) 1.0% of the amount of the mortgage or loan purchased; or
 - (b) a brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by TCI; and

- (2) a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of:
 - (a) 1.0% of the amount of the loan or the amount refinanced; or
 - (b) a brokerage or refinancing fee which is reasonable and fair under the circumstances; provided, however, that no such fee shall be paid on loans from Pillar, or an affiliate of Pillar, without the approval of TCI's Board of Directors. No fee shall be paid on loan extensions.

Under the Advisory Agreement, all or a portion of the annual advisory fee must be refunded by the Advisor if the operating expenses of TCI (as defined in the Advisory Agreement) exceed certain limits specified in the Advisory Agreement based on the book value, net asset value and net income of TCI during the fiscal year.

The Advisory Agreement requires Pillar or any affiliate of Pillar to pay to TCI, one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by TCI; provided, however, that the compensation retained by Pillar, or any affiliate of Pillar, shall not exceed the lesser of (1) 2.0% of the amount of the loan commitment or (2) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

If and to the extent that TCI shall request Pillar, or any director, officer, partner, or employee of Pillar, to render services for TCI other than those required to be rendered by the Advisory Agreement, Pillar or an affiliate of Pillar separately would be compensated for such additional services on terms to be agreed upon between such party and TCI from time to time. As discussed below, under Property Management and Real Estate Brokerage, effective January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC (Regis), the sole member of which is Realty Advisors, LLC, was hired to manage our commercial properties and provide brokerage services under the same terms as the previous agreements with Triad and Regis Realty I for a term of five years.

Effective July 1, 2005, the Company and Prime entered into a Cash Management Agreement to further define the administration of the Company's day-to-day investment operations, relationship contacts, flow of funds and deposit and borrowing of funds. Effective April 30, 2011, the Cash Management Agreement with Prime was terminated and ARL engaged Pillar as Cash Manager under substantially the same terms as under the Prime Agreement. Under the Cash Management Agreement, all funds of the Company are delivered to Pillar which has a deposit liability to the Company and is responsible for payment of all payables and investment of all excess funds which earn interest at the Wall Street Journal Prime Rate plus 1.0% per annum, as set quarterly on the first day of each calendar quarter. Borrowings for the benefit of the Company bear the same interest rate. The term of the Cash Management Agreement is coterminous with the Advisory Agreement, and is automatically renewed each year unless terminated with the Advisory Agreement.

The Advisory Agreement automatically renews from year-to-year unless terminated in accordance with its terms. TCI's management believes that the terms of the Advisory Agreement are at least as fair as could be obtained from unaffiliated third parties.

Situations may develop in which the interests of TCI are in conflict with those of one or more directors or officers in their individual capacities, or of Pillar, or of their respective affiliates. In addition to services performed for TCI, as described above, Pillar actively provides similar services as agent for, and advisor to, other real estate enterprises, including persons and entities involved in real estate development and financing, including ARL. The Advisory Agreement provides that Pillar may also serve as advisor to other entities.

As advisor, Pillar is a fiduciary of TCI's public investors. In determining to which entity a particular investment opportunity will be allocated, Pillar will consider the respective investment objectives of each entity and the appropriateness of a particular investment in light of each such entity's existing mortgage note and real estate portfolios and business plan. To the extent any particular investment opportunity is appropriate to more than one such entity, such investment opportunity will be allocated to the entity that has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among various entities. See Part III, Item 13 - Certain Relationships and Related Transactions, and Director Independence.

Pillar may assign the Advisory Agreement only with the prior consent of TCI.

The managers and principal executive officers of Pillar are set forth below.

Name	Managers/Officer(s)
Mickey N. Phillips	Manager
Ryan T. Phillips	Manager
Daniel J. Moos	President and Chief Executive Officer
Gene S. Bertcher	Executive Vice President, Chief Financial Officer
Louis J. Corna	Executive Vice President, Secretary, Tax Counsel, General Legal Counsel
Alfred Crozier	Executive Vice President, Residential Construction

Property Management

Affiliates of Pillar provide property management services to TCI's commercial properties. Prior to December 31, 2010, Triad Realty Services, L.P. ("Triad"), an affiliate of Prime, provided management services for our commercial properties. The general partner of Triad was PIAMI. The limited partner of Triad was HRSHLLC. Triad subcontracted the property-level management and leasing of our commercial properties (office buildings, shopping centers and industrial warehouses) to Regis Realty I, LLC ("Regis I"), the sole member of which was HRSHLLC, and was entitled to receive property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Effective January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial properties for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less under the same terms as the previous agreement with Triad I and Regis Realty I.

TCI engages third-party companies to lease and manage our apartment properties for a fee of 6.0% or less of the monthly gross rents collected on the residential properties under their management.

Real Estate Brokerage

Regis also provides real estate brokerage services to TCI on a non-exclusive basis, and is entitled to receive a real estate commission for property purchases and sales in accordance with the following sliding scale of total fees to be paid:

- (1) maximum fee of 4.5% on the first \$2.0 million of any purchase or sale transaction of which no more than 3.5% is to be paid to Regis Realty Prime, LLC or affiliates;
- (2) maximum fee of 3.5% on transaction amounts between \$2.0 million-\$5.0 million of which no more than 3.0% is to be paid to Regis Realty Prime, LLC or affiliates;

(3) maximum fee of 2.5% on transaction amounts between \$5.0 million-\$10.0 million of which no more than 2.0% is to be paid to Regis Realty Prime, LLC or affiliates; and

(4) a maximum fee of 2.0% on transaction amounts in excess of \$10.0 million of which no more than 1.5% is to be paid to Regis Realty Prime, LLC or affiliates.

Regis Realty Prime, LLC has waived all fees or commissions payable other than cost reimbursements to TCI during the first calendar year expiring December 31, 2011 of a five year agreement.

ITEM 11. EXECUTIVE COMPENSATION

TCI has no employees, payroll or benefit plans and pays no compensation to its executive officers. The executive officers of TCI, who are also officers or employees of Pillar, TCI's advisor, are compensated by Pillar. Such executive officers perform a variety of services for Pillar and the amount of their compensation is determined solely by Pillar. Pillar does not allocate the cash compensation of its officers among the various entities for which it serves as advisor. See Item 10. Directors, Executive Officers and Corporate Governance for a more detailed discussion of the compensation payable to Prime.

The only remuneration paid by TCI is to the directors who are not officers or employees of Pillar or its affiliated companies. The Independent Directors (1) review the business plan of TCI to determine that it is in the best interest of TCI's stockholders, (2) review the advisory contract, (3) supervise the performance of the advisor and review the reasonableness of the compensation paid to the advisor in terms of the nature and quality of services performed, (4) review the reasonableness of the total fees and expenses of TCI and (5) select, when necessary, a qualified independent real estate appraiser to appraise properties acquired.

Each Independent Director is entitled to receive compensation in the amount of \$30,000 per year, plus reimbursement for expenses. The Chairman of the Board is entitled to receive an additional fee of \$3,000 per year. In addition, each Independent Director receives an additional \$250 for each Audit Committee meeting attended, plus each Independent Director receives an additional fee of \$1,000 per day for any special services rendered by him to TCI outside of his ordinary duties as director, plus reimbursement of expenses. Effective January 4, 2010, the Board of Directors reduced their compensation to \$15,000 per annum and no Audit Committee fees, with the Audit Committee Chairman to receive a one-time annual fee of \$500. During 2011, \$58,770.50 was paid to non-employee Directors in total Directors' fees for current and prior years services including the annual fee for services during the period January 1, 2011 through December 31, 2011. The fees paid to the directors are as follows: Sharon Hunt, \$6,086.50; Robert A. Jakuszewski, \$20,250; Ted R. Munselle, \$20,750; Martha C. Stephens, \$10,964.

Director's Stock Option Plan

TCI established a Director's Stock Option Plan (Director's Plan) for the purpose of attracting and retaining Directors who are not officers or employees of TCI or Pillar. The Director's Plan provides for the grant of options that are exercisable at fair market value of TCI's Common Stock on the date of grant. The Director's Plan was approved by stockholders at their annual meeting on October 10, 2000, following which each then-serving Independent Director was granted options to purchase 5,000 shares of Common Stock of TCI. On January 1 of each year, each Independent Director receives options to purchase 5,000 shares of Common Stock. The options are immediately exercisable and expire on the earlier of the first anniversary of the date on which a Director ceases to be a Director or 10 years from the date of grant. The Director's Plan was terminated by the Board of Directors on December 15, 2005. As of December 31, 2011, there were 10,000 shares of stock options outstanding which were exercisable at \$14.25 per share, 5,000 of which expired on January 12, 2012, and 5,000 of which will expire January 1, 2015, if not exercised.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides information as of December 31, 2011 regarding compensation plans under which equity securities of TCI are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Compensation Plans (Excluding Securities Reflected in Column)(a) (c)
Equity compensation plans approved by security holders	10,000	\$ 14.25	

See Note 10. to the financial statements Stock Options for information regarding the material features of the above plans.

Security Ownership of Certain Beneficial Owners

The following table sets forth the ownership of TCI's Common Stock, both beneficially and of record, both individually and in the aggregate, for those persons or entities known to be beneficial owners of more than 5.0% of the outstanding shares of Common Stock as of the close of business on March 22, 2012.

	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
American Realty Investors, Inc. ⁽¹⁾⁽²⁾⁽³⁾ 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	6,957,420	82.69%
EQK Holdings, Inc. ⁽¹⁾⁽²⁾ 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	5,744,194	68.27%
Transcontinental Realty Acquisition Corporation ⁽²⁾ 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	1,213,226	14.42%

* Beneficial Ownership means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentage is based upon 8,413,469 shares of Common Stock outstanding at March 22, 2011.

(1) Includes 5,744,194 shares owned by EQK Holdings, Inc. (EQK) directly, over which the director of EQK, Daniel J. Moos, may be deemed to be beneficial owner by virtue of his position as sole director of EQK. The director of EQK disclaims beneficial ownership of such shares. EQK is a wholly-owned subsidiary of American Realty Investors, Inc. (ARL).

(2)

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Includes 1,213,226 shares owned by Transcontinental Realty Acquisition Corporation (TRAC), which is a wholly-owned subsidiary of ARL, over which each of the directors of TRAC, Daniel J. Moos and Gene S. Bertcher may be deemed to be beneficial owners by virtue of their positions as directors of TRAC. The directors of TRAC disclaim beneficial ownership of such shares.

⁽³⁾ Each of the directors of ARL, Henry A. Butler, Robert A. Jakuszewski, Ted R. Munselle and Sharon Hunt may be deemed to be the beneficial owners by virtue of their positions as current directors of ARL. The directors of ARL disclaim such beneficial ownership.

Security Ownership of Management.

The following table sets forth the ownership of TCI's Common Stock, both beneficially and of record, both individually and in the aggregate, for the directors and executive officers of TCI as of the close of business on March 22, 2012.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
Gene S. Bertcher	6,957,420 ⁽²⁾	82.69%
Henry A. Butler	6,957,420 ⁽²⁾	82.69%
Louis J. Corna	6,957,420 ⁽²⁾	82.69%
Alfred Crozier	6,957,420 ⁽²⁾	82.69%
Robert A. Jakuszewski	6,957,420 ⁽²⁾	82.69%
Daniel J. Moos	6,962,420 ⁽²⁾⁽³⁾	82.75%
Ted Munselle	6,962,420 ⁽¹⁾⁽²⁾	82.75%
Sharon Hunt	6,957,420 ⁽²⁾	82.69%
All Directors and Executive Officers as a group (8 individuals)	6,967,420 ⁽¹⁾⁽²⁾⁽³⁾	82.81%

* Beneficial Ownership means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentages are based upon 8,413,469 shares of Common Stock outstanding at March 22, 2011.

(1) Ted R. Munselle has options to purchase 5,000 shares of Common Stock which are presently exercisable.

(2) Includes 5,744,194 shares owned by EQK and 1,213,226 shares owned by TRAC, over which the executive officers and members of the Board of Directors of ARL may be deemed to be the beneficial owners by virtue of their positions as executive officers and members of the Board of Directors of ARL. The executive officers and current members of the Board of Directors of ARL disclaim beneficial ownership of such shares.

(3) Daniel J. Moos owns 5,000 shares of Common Stock

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
Policies with Respect to Certain Activities

Article 14 of TCI's Articles of Incorporation provides that TCI shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of TCI, (2) any director, officer or employee of the advisor, (3) the advisor, or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by TCI's Board of Directors or the appropriate committee thereof and (b) TCI's Board of Directors or committee thereof determines that such contract or transaction is fair to TCI and simultaneously authorizes or ratifies such contract or transaction by the affirmative vote of a majority of independent directors of TCI entitled to vote thereon.

Article 14 defines an Independent Director (for purposes of that Article) as one who is neither an officer or employee of TCI, nor a director, officer or employee of TCI's advisor.

TCI's policy is to have such contracts or transactions approved or ratified by a majority of the disinterested Directors with full knowledge of the character of such transactions, as being fair and reasonable to the stockholders at the time of such approval or ratification under the circumstances then prevailing. Such Directors also consider the fairness of such transactions to TCI. Management believes that, to date, such transactions have represented the best investments available at the time and they were at least as advantageous to TCI as other investments that could have been obtained.

TCI may enter into future transactions with entities, the officers, directors, or stockholders of which are also officers, directors, or stockholders of TCI, if such transactions would be beneficial to the operations of TCI and consistent with TCI's then-current investment objectives and policies, subject to approval by a majority of disinterested Directors as discussed above.

TCI does not prohibit its officers, directors, stockholders, or related parties from engaging in business activities of the types conducted by TCI.

Certain Business Relationships

On October 1, 2003, Prime, which is 100% owned by PIAMI, became the advisor to ARL and TCI. Prime also served as an advisor to IOT effective July 1, 2009. On April 30, 2011, Pillar replaced Prime as the advisor and cash manager to ARL, TCI and IOT.

Pillar, an affiliate, is the contractual advisor to TCI. Pillar is a Nevada corporation, the sole stockholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, the sole stockholder of which is Realty Advisors Management, Inc., a Nevada corporation which is owned 100% by a Trust known as the May Trust. Pillar is a company for which Messrs. Moos, Bertcher, Corna, and Crozier serve as executive officers. See Part III, Item 10. Directors, and Executive Officers and Corporate Governance.

Prime, an affiliate, was a single member Nevada limited liability company, the sole member of which is PIAMI, which is owned 100% by Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation which is owned 100% by a Trust known as the May Trust. Until early 2009, SWI, a Nevada corporation, which is 100% owned by Gene E. Phillips, owned 20% of PIAMI, which SWI exchanged to Realty Advisors, Inc. for certain securities originally issued by SWI. For the period ended December 31, 2009, Gene E. Phillips and SWI are each a related party for financial statement purposes because of the prior ownership arrangement of PIAMI. The May Trust is a Trust for the benefit of the children of Gene E. Phillips. Gene E. Phillips is not an officer, manager or director of Pillar, Prime, PIAMI, Realty Advisors, LLC, Realty Advisors, Inc. or TCI, nor is he a Trustee of the May Trust.

All of TCI's directors also serve as Directors of ARL and IOT. The executive officers of TCI also serve as executive officers of ARL and IOT. As such, they owe fiduciary duties to that entity as well as to Pillar under applicable law. ARL has the same relationship with Pillar, as does TCI. Mr. Bertcher is an officer, director and employee of NCE and as such also owes fiduciary duties to NCE as well as ARL, TCI and IOT under applicable law.

TCI contracts with affiliates of Pillar for commercial property management services. Regis provides commercial property management services. Regis also provides real estate brokerage services to TCI and receives brokerage commissions in accordance with the Brokerage Agreement. TCI engages third-party companies to lease and manage its apartment properties.

Prior to December 31, 2010, Triad, an affiliate, provided commercial property management services. The general partner of Triad is PIAMI. The limited partner of Triad is HRSHLLC, a related party. Triad subcontracted the property-level management of TCI's commercial properties (office buildings, shopping centers, and industrial warehouses) to Regis I, a related party. Regis I also provided real estate brokerage services to TCI and received brokerage commissions in accordance with the Advisory Agreement. The sole member of Regis I is HRSHLLC.

At December 31, 2011, TCI owned approximately 82.6% of the outstanding common shares of IOT. Pillar also serves as advisor to ARL and IOT.

Related Party Transactions

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

TCI paid advisory fees of \$10.0 million, construction supervision fees of \$2.4 million, net income fees of \$0.1 million, mortgage brokerage and equity refinancing fees of \$0.8 million, costs reimbursements of \$2.9 million, and interest of \$1.0 million to Pillar and Prime in 2011.

TCI paid property and construction management and leasing commissions of \$1.8 million to Regis in 2011.

As of December 31, 2011, TCI has notes and interest receivable of \$78.9 million due from related parties. See discussion in Part 2, Item 8. Note 3. Notes and Interest Receivable .

Below are sales and acquisitions that involve a related party:

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

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

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

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

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

On March 23, 2011, we sold 82.20 acres of land known as Denton Coonrod land located in Denton, Texas and 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$2.9 million. We provided \$1.6 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 23, 2016. The buyer assumed the existing mortgage of \$1.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On January 3, 2012, ownership of Denton Coonrod land was transferred to the lender to satisfy the debt secured by this property and partial credit against debt related to another property. Any impairment necessary related to the inability to recover our original

investment has been realized in 2011 and the sale that was deferred will be recognized in the first quarter of 2012, when ownership transferred to a third party.

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

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

On March 30, 2011, we sold six parcels, comprising approximately 195.52 acres of undeveloped land known as Dominion land, Hollywood Casino land, Stanley Tools land and Wilmer 88 land, all located in Dallas County, Texas, and Creekside land and Crowley land, both located in Fort Worth, Texas, to T Sorrento, Inc., a related party under common control, for a sales price of \$16.6 million. We provided \$9.3 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 30, 2016. The buyer assumed the existing mortgage of \$7.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On April 5, 2011, we recognized the sale of Creekside land, Crowley land and Wilmer 88 land when ownership of the property transferred to the existing lender.

On April 1, 2011, we sold of 6.80 acres of land known as Travis Ranch land located in Kaufman, Texas, to Kelly Lot Development, Inc., a related party under common control, for a sales price of \$0.8 million. There was no gain or loss recorded on the sale of the land parcel.

On April 1, 2011, we purchased 100% of the general and limited partnership interest in Garden Whispering Pines, LP, which owns Whispering Pines apartments, a 320-unit complex located in Topeka, Kansas, from ARL, a related party under common control, for \$1.4 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$9.5 million.

On April 1, 2011, we purchased 100% of the membership interest in EQK Sesame Square, LLC, which owns Sesame Square, a 20,715 square-foot office building located in Anchorage, Alaska, from ARL, a related party under common control, for \$0.6 million, which is equal to ARL's cost basis. We assumed the current mortgage of \$1.1 million.

On April 5, 2011, we recognized the July 30, 2009 sale of 13.22 acres of land known as Hackberry land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of \$3.9 million. The buyer assumed the existing mortgage of \$3.9 million secured by the property. We recorded a gain on sale of \$3.3 million when ownership of the property transferred to the existing lender.

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

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

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

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

On June 7, 2011, we recognized the June 2, 2011 sale of Alpenloan, a 28,594 square foot building and 8.16 acres of land, located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of \$0.4 million. We recorded a loss on sale of \$0.9 million when ownership of the property transferred to the existing lender.

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

On June 7, 2011, we recognized the December 22, 2010 sale of Fenton Center, a 707,559 square foot building and 4.70 acres of land, located in Dallas, Texas to ABCLD Properties, LLC, a related party under common control, for a sales price of \$67.0 million. We recorded a loss on sale of \$8.3 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 27.11 acres of land known as Kinwest land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$4.1 million. The buyer assumed the existing mortgage of \$4.0 million secured by the property. We recorded a gain on sale of \$3.1 million when ownership of the property transferred to the existing lender.

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

On June 7, 2011, we recognized the December 23, 2010 sale of 109.85 acres of land known as Payne North land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of \$14.1 million. The buyer assumed the existing mortgage of \$12.0 million secured by the property. We recorded a gain on sale of \$5.2 million when ownership of the property transferred to the existing lender.

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

On July 5, 2011, we recognized the March 28, 2011 sale of One Hickory Center, a 97,361 square-foot office building and Two Hickory Center, a 96,539 square-foot office building, both located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$19.5 million. The buyer assumed

the existing mortgage of \$19.4 million secured by the property. We recorded a gain on sale of \$4.2 million when ownership transferred to the existing lender.

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

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

On August 2, 2011, we recognized the March 23, 2011 sale of 10.08 acres of land known as Centura land located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$13.0 million. The buyer assumed the existing mortgage of \$7.2 million secured by the property. There was no gain or loss recorded when ownership transferred to the existing lender.

On August 2, 2011, we recognized the April 25, 2011 sale of seven land parcels, comprising approximately 2,713.68 acres of undeveloped land known as Diplomat land, Kaufman Cogen land, Kaufman Stagliano land, Kaufman Taylor land, Payne South land, Senlac VHP land and Valley Ranch land located in Dallas County, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of \$24.0 million. The buyer assumed the existing mortgage of \$8.1 million secured by the property. We recorded a loss on sale of \$0.9 million when ownership transferred to the existing lender.

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

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

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

On September 1, 2011, we sold seven land parcels, comprising approximately 107.73 acres of undeveloped land located in Austin, Texas, Dallas County, Texas, Denton County, Texas and Tarrant County, Texas, known as Andrew B land, Andrew C land, DeSoto Ranch land, Mansfield land, Pioneer Crossing land, Senlac land and Sheffield land, to TCI Luna Ventures, LLC, a related party under common control, for a sales price of \$10.6 million. We provided \$6.4 million in seller financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 1, 2016. The buyer assumed the existing mortgage of \$4.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. In first quarter of 2012, ownership of the Andrew B land and DeSoto Ranch land was transferred to the existing lender to satisfy a portion of the multi-tract collateral debt.

On September 21, 2011, we sold our investment in TCI Dedeaux Road, Inc. to One Realco Corporation, a related party under common control, for a sales price of \$1,000. This entity owns 9.97 acres of undeveloped land located in Gulfport, Mississippi, known as Dedeaux land. The buyer assumed the existing mortgage of \$2.0 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On October 12, 2011, we recognized the January 26, 2011 sale of Willowbrook Village, a 179,741 square foot retail shopping center located in Coldwater, Michigan, to TX LTS Investments, Inc., a related party under common control, for a sales price of \$7.8 million. The buyer assumed the existing mortgage of \$5.6 million, secured by the property. We recorded a loss on sale of \$2.5 million when ownership transferred to the existing lender.

On November 1, 2011, we acquired 100% of the membership interest in Bridgeview Plaza, LLC. On September 21, 2010, we sold our investment in EQK Bridgeview Plaza, Inc. to Warren Road Farm, Inc. (WRF), a related party under common control, for a sales price of \$8.3 million to be paid via an assumption of debt of \$6.2 million and seller financing of \$2.1 million. On October 4, 2010, WRF filed a voluntary petition seeking relief under Chapter 11 of the bankruptcy code. The approved bankruptcy plan was effective November 1, 2011, whereby TCI, for its contribution to the plan was given 100% equity ownership in the entity. During the period of time that WRF owned the equity interest, it had also acquired 2900 acres of land known as Windmill Farms land located in Kaufman, TX, previously held by ARL, for a sales price of \$64.5 million. ARL provided \$33.8 million in seller financing with a five-year note receivable. The note accrues interest at 6.0% and is payable at maturity on September 21, 2015. WRF assumed the existing mortgage of \$30.7 million, secured by the property.

On November 2, 2011, we recognized the September 3, 2004 sale of Addison Hanger I, a 25,102 square foot industrial warehouse and Addison Hanger II, a 24,000 square foot industrial warehouse located in Addison, Texas, for a sales price of \$4.5 million. At the time of the sale, TCI entered into a 10-year triple-net lease with the buyer. Therefore, this transaction was accounted for under the financing method and the properties continued to be consolidated. As of November 12, 2011, the lease with the buyer was terminated. Due to ongoing litigation related to the lease, TCI has deferred the gain recognition until the matter is resolved.

On November 30, 2011, we recognized the March 23, 2011 sale of 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of \$1.1 million. The existing mortgage of \$0.5 million, secured by the property, was paid in full. We recorded a loss on sale of \$0.6 million on the land parcel.

On December 28, 2011, we sold 100% of our common stock of Centura-Ewing, Inc. and Garden Centura, Inc. to Realty Advisors Management, Inc., a related party under common control, for a sales price of \$20.4 million. These entities own a 1% general manager partnership interests and a 4% limited partnership interest in Garden Centura L.P., which owns 412,215 square foot office building known as Centura Tower located in Dallas, Texas. Centura-Ewing, Inc. has an option to purchase the remaining 95% limited partner interest in Garden Centura, L.P. TCI received a 5-year promissory note for the full sales price. Interest at 30 day LIBOR plus 2% is due quarterly with the principal due at maturity on December 28, 2016. We recorded a gain on sale of \$0.3 million when the stock was subsequently sold to an unrelated party.

In December 2010, there were various commercial and land holdings sold to FRE Real Estate, Inc. a related party under common control. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. and disclosed in the transactions above. As of December 31, 2011, there is one commercial building, Thermalloy, that remains in FRE Real Estate, Inc. We have deferred the recognition of the sales in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

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

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

Operating Relationships

TCI received rents of \$0.4 million in 2011, \$2.2 million in 2010, and \$3.4 million in 2009 from Pillar, Prime and its affiliates for rents of TCI owned properties Addison Hanger, Browning Place, Eagle Crest, One Hickory, Senlac, Thermalloy and Two Hickory.

Advances and Loans

From time to time, TCI and its affiliates have made advances to each other, which generally have not had specific repayment terms, did not bear interest, are unsecured, and have been reflected in TCI's financial statements as other assets or other liabilities. TCI and the advisor charge interest on the outstanding balance of funds advanced to or from TCI. The interest rate, set at the beginning of each quarter, is the Prime rate plus 1.0% on the average daily cash balances advanced. At December 31, 2011, TCI owes ARL \$17.5 million.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees for professional services rendered to or for TCI for the years 2011 and 2010 by TCI's principal accounting firms, Farmer, Fuqua and Huff, L.P. and Swalm and Associates, P.C.:

Type of Fee	2011		2010	
	Farmer, Fuqua & Huff	Swalm & Associates	Farmer, Fuqua & Huff	Swalm & Associates
Audit Fees	\$ 576,992	\$ 52,572	\$ 434,992	\$ 45,269
Tax Fees	45,200		47,675	1,050
Total	\$ 622,192	\$ 52,572	\$ 482,667	\$ 46,319

The audit fees for 2011 and 2010, respectively, were for professional services rendered for the audits and reviews of the consolidated financial statements of TCI. Tax fees for 2011 and 2010, respectively, were for services related to federal and state tax compliance and advice.

All services rendered by the principal auditors are permissible under applicable laws and regulations and were pre-approved by either the Board of Directors or the Audit Committee, as required by law. The fees paid the principal auditors for services as described in the above table fall under the categories listed below:

Audit Fees. These are fees for professional services performed by the principal auditor for the audit of the Company's annual financial statements and review of financial statements included in the Company's 10-Q filings and services that are normally provided in connection with statutory and regulatory filing or engagements.

Audit-Related Fees. These are fees for assurance and related services performed by the principal auditor that are reasonably related to the performance of the audit or review of the Company's financial statements. These services include attestations by the principal auditor that are not required by statute or regulation and consulting on financial accounting/reporting standards.

Tax Fees. These are fees for professional services performed by the principal auditor with respect to tax compliance, tax planning, tax consultation, returns preparation and review of returns. The review of tax returns includes the Company and its consolidated subsidiaries.

All Other Fees. These are fees for other permissible work performed by the principal auditor that do not meet the above category descriptions.

These services are actively monitored (as to both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in the principal auditor's core work, which is the audit of the Company's consolidated financial statements.

The Audit Committee has established policies and procedures for the approval and pre-approval of audit services and permitted non-audit services. The Audit Committee has the responsibility to engage and terminate TCI's independent auditors, to pre-approve their performance of audit services and permitted non-audit services, to approve all audit and non-audit fees, and to set guidelines for permitted non-audit services and fees. All fees for 2011 and 2010 were pre-approved by the Audit Committee or were within the pre-approved guidelines for permitted non-audit services and fees established by the Audit Committee, and there were no instances of waiver of approved requirements or guidelines during the same periods.

Under the Sarbanes-Oxley Act of 2002 (the SOX Act), and the rules of the Securities and Exchange Commission (the SEC), the Audit Committee of the Board of Directors is responsible for the appointment, compensation and oversight of the work of the independent auditor. The purpose of the provisions of the SOX Act and the SEC rules for the Audit Committee role in retaining the independent auditor is two-fold. First, the authority and responsibility for the appointment, compensation and oversight of the auditors should be with directors who are independent of management. Second, any non-audit work performed by the auditors should be reviewed and approved by these same independent directors to ensure that any non-audit services performed by the auditor do not impair the independence of the independent auditor. To implement the provisions of the SOX Act, the SEC issued rules specifying the types of services that an independent auditor may not provide to its audit client, and governing the Audit Committee's administration of the engagement of the independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that they do not impair the auditor's independence. Accordingly, the Audit Committee has adopted a pre-approval policy of audit and non-audit services (the Policy), which sets forth the procedures and conditions pursuant to which services to be performed by the independent auditor are to be pre-approved. Consistent with the SEC rules establishing two different approaches to pre-approving non-prohibited services, the Policy of the Audit Committee covers Pre-approval of audit services, audit-related services, international administration tax services, non-U.S. income tax compliance services, pension and benefit plan consulting and compliance services, and U.S. tax compliance and planning. At the beginning of each fiscal year, the Audit Committee will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and will approve or reject each service, taking into account whether services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor's independence from management. Typically, in addition to the generally pre-approved services, other services would include due diligence for an acquisition that may or may not have been known at the beginning of the year. The Audit Committee has also delegated to any member of the Audit Committee designated by the Board or the financial expert member of the Audit Committee responsibilities to pre-approve services to be performed by the independent auditor not exceeding \$25,000 in value or cost per engagement of audit and non-audit services, and such authority may only be exercised when the Audit Committee is not in session.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. *Financial Statements*

Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets December 31, 2011 and 2010

Consolidated Statements of Operations Years Ended December 31, 2011, 2010, and 2009

Consolidated Statements of Stockholders Equity Years Ended December 31, 2011, 2010, and 2009

Consolidated Statements of Cash Flows Years Ended December 31, 2011, 2010, and 2009

Statements of Consolidated Comprehensive Income (Loss) Years Ended December 31, 2011, 2010, and 2009

Notes to Financial Statements

2. *Financial Statement Schedules*

Schedule III Real Estate and Accumulated Depreciation

Schedule IV Mortgage Loan Receivables on Real Estate

All other schedules are omitted because they are not applicable or because the required information is shown in the Consolidated Financial Statements or the Notes thereto.

3. *Incorporated Financial Statements*

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc. (incorporated by reference to Item 8 of Income Opportunity Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011).

Consolidated Financial Statements of American Realty Investors, Inc. (incorporated by reference to Item 8 of American Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011).

(b) *Exhibits*

The following documents are filed as Exhibits to this Report:

Exhibit

Number	Description
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, Preferences, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporation by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.5	Certificate of Designation of Transcontinental Realty Investors, Inc., Setting for the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
3.6	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc. Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
3.7	By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.8	Certificate of designation of Transcontinental Realty Investors, Inc. setting forth the Voting Powers, Designations, Preferences Limitations, Restrictions and Relative rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrants current report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).
10.0	Advisory Agreement dated as of April 30, 2011, between Transcontinental Realty Investors, Inc. and Pillar Income Asset Management LLC (incorporated by reference to Exhibit 10.0 to the Registrant's Current Report on Form 8-K for event occurring April 30, 2011).
10.1	Leman Development Ltd. and Kaufman Land Partners, Ltd. (incorporated by reference to Registrant's current report in Form 8-K dated November 21, 2006 at Exhibit 10.1 thereof).
14.0	Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.0 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
21.0*	Subsidiaries of the Registrant.
31.1*	Certification Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934 as amended of Principal Executive Officer.
31.2*	Certification Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934 as amended of Principal Financial and Accounting Officer.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSCONTINENTAL REALTY INVESTORS, INC.

Dated: April 3, 2012

By: /s/ GENE S. BERTCHER
Gene S. Bertcher

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ HENRY A. BUTLER Henry A. Butler	Chairman of the Board and Director	April 3, 2012
/s/ SHARON HUNT Sharon Hunt	Director	April 3, 2012
/s/ ROBERT A. JAKUSZEWSKI Robert A. Jakuszewski	Director	April 3, 2012
/s/ TED R. MUNSELLE Ted R. Munselle	Director	April 3, 2012
/s/ DANIEL J. MOOS Daniel J. Moos	President and Chief Executive Officer (Principal Executive Officer)	April 3, 2012
/s/ GENE S. BERTCHER Gene S. Bertcher	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 3, 2012

ANNUAL REPORT ON FORM 10-K

EXHIBIT INDEX

For the Year Ended December 31, 2011

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