CATELLUS DEVELOPMENT CORP
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the fiscal quarter ended March 31, 2001 Commission file number 0-18694

CATELLUS DEVELOPMENT
CORPORATION
(Exact name of Registrant as specified in its charter)

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

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

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

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

As of May 7, 2001, there were 100,324,038 issued and outstanding shares of the Registrant's Common Stock.

CATELLUS DEVELOPMENT CORPORATION

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PART I

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CATELLUS DEVELOPMENT CORPORATION

CONSOLIDATED BALANCE SHEET
(In thousands)

	M
	(U
Assets	
Properties..	$2
Less accumulated depreciation...	
	1
Other assets and deferred charges, net..	
Notes receivable, less allowance..	
Accounts receivable, less allowance...	
Restricted cash and investments...	
Cash and cash equivalents...	
Total...	$2
Liabilities and stockholders' equity	
Mortgage and other debt...	$1
Accounts payable and accrued expenses...	

Deferred credits and other liabilities...	
Deferred income taxes...	
	--
Total liabilities..	1
	--
Commitments and contingencies (Notes 8 and 9)	
Minority interests..	
	--
Stockholders' equity	
Common stock, 108,241 and 108,088 shares issued and 102,085 and 106,091 shares outstanding at March 31, 2001 and December 31, 2000, respectively..........	
Paid-in capital...	
Treasury stock, at cost (6,156 and 1,997 shares at March 31, 2001 and December 31, 2000, respectively)...	
Accumulated earnings..	
	--
Total stockholders' equity...	
	--
Total..	$2
	==

See notes to consolidated financial statements

CATELLUS DEVELOPMENT CORPORATION

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

	Three Months Ended March 31,	
	2001	2000
	(Unaudited)	
Rental properties		
Rental revenue..	$ 55,811	$ 49,918
Property operating costs......................................	(14,120)	(12,658)
Equity in earnings of operating joint ventures, net.............	3,164	3,638
	44,855	40,898
Property sales and fee services		
Sales revenue...	57,896	76,021
Cost of sales...	(35,051)	(56,138)
Gain on property sales................................	22,845	19,883
Equity in earnings of development joint ventures, net...........	7,795	1,131
Total gain on property sales..........................	30,640	21,014
Management and development fees...............................	1,180	3,269
Selling, general and administrative expenses....................	(9,583)	(9,923)
Other, net..	5,659	1,403

	27,896	15,763
Interest expense	(14,693)	(9,819)
Depreciation and amortization	(12,934)	(10,870)
Corporate administrative costs	(5,545)	(4,260)
Gain on non-strategic asset sales	1,747	27,667
Other, net	4,227	136
Income before minority interests and income taxes	45,553	59,515
Minority interests	(1,871)	(1,603)
Income before income taxes	43,682	57,912
Income tax expense		
Current	(5,361)	(6,524)
Deferred	(12,113)	(16,650)
	(17,474)	(23,174)
Net income	$ 26,208	$ 34,738
Net income per share		
Basic	$ 0.25	$ 0.32
Assuming dilution	$ 0.24	$ 0.32
Average number of common shares outstanding - basic	104,854	107,292
Average number of common shares outstanding - diluted	107,697	108,900

See notes to consolidated financial statements

CATELLUS DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Three Months End March 31,	
	2001	2
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 26,208	$ 3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,934	1
Deferred income taxes	12,113	1

Amortization of deferred loan fees and other costs	1,147	
Equity in earnings of joint ventures	(10,959)	(
Operating distributions from joint ventures	18,798	
Cost of development properties and non-strategic assets sold	33,639	5
Capital expenditures for development properties	(6,050)	(4
Other, net	954	
Change in deferred credits and other liabilities	67,349	(
Change in other operating assets and liabilities	17,127	
Net cash provided by operating activities	173,260	7
Cash flows from investing activities:		
Capital expenditures for investment properties	(65,856)	(4
Tenant improvements	(294)	(
Contributions to joint ventures	--	(
Restricted cash	5,544	(4
Net cash used in investing activities	(60,606)	(9
Cash flows from financing activities:		
Borrowings	33,495	4
Repayment of borrowings	(31,043)	(2
Distributions to minority partners	(4,540)	(
Repurchase of common stock	(70,823)	(
Proceeds from issuance of common stock	1,554	
Net cash (used in) provided by financing activities	(71,357)	
Net increase (decrease) in cash and cash equivalents	41,297	(1
Cash and cash equivalents at beginning of period	336,558	3
Cash and cash equivalents at end of period	$377,855	$ 1
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 14,303	$
Income taxes	$ 45	$

See notes to consolidated financial statements

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CATELLUS DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001
(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

Catellus Development Corporation, together with its consolidated subsidiaries (the "Company"), is a diversified real estate operating company with a large portfolio of rental properties and developable land that manages and develops real estate for its own account and those of others. Interests of third parties in entities controlled and consolidated by the Company are separately reflected as minority interests in the accompanying balance sheet. The Company's development portfolio of industrial, residential, retail, office, and other projects (owned directly or through joint ventures) is located mainly in major markets in California, Illinois, Texas, Colorado, and Oregon. The Company's rental properties consist primarily of industrial facilities, along with a number of office and retail buildings, located primarily in the same

states.

These consolidated statements include the assets and liabilities of Catellus Development Corporation and its consolidated subsidiaries, whether wholly or partially owned, and whether directly or indirectly owned, by Catellus Development Corporation, each of which is a separate legal entity. In the absence of specific contractual arrangements, none of the assets of any of the subsidiary entities would be available to satisfy the liabilities of Catellus Development Corporation or any other of these entities.

NOTE 2. INTERIM FINANCIAL DATA

The accompanying consolidated financial statements should be read in conjunction with the Company's 2000 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial information includes all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods presented. Certain prior period financial data have been reclassified to conform to the current period presentation.

NOTE 3. RESTRICTED CASH AND INVESTMENTS

Of the total restricted cash and investments of $39.9 million at March 31, 2001 and $45.5 million at December 31, 2000, $32.1 million and $38.1 million, respectively, represent proceeds from property sales being held in separate cash accounts at trust companies in order to preserve the Company's options of reinvesting the proceeds on a tax-deferred basis. In addition, restricted investments of $7.1 million at March 31, 2001 and December 31, 2000 represent certificates of deposits used to guarantee lease performance for certain properties that secure debt and $0.7 million and $0.3 million, respectively, represent pre-paid for future leasing commissions.

NOTE 4. INCOME PER SHARE

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock and equivalents outstanding during the period (see table below for effect of dilutive securities).

	Three Months Ended Ma			
	2001			
	Income	Shares	Per Share Amount	Income
	(In thousands, except p			
Net income..	$26,208	104,854	$0.25	$34,73
Effect of dilutive securities: stock options/(1)/....	--	2,843		-
Net income assuming dilution........................	$26,208	107,697	$0.24	$34,73

/(1)/ Includes Directors stock units

NOTE 5. MORTGAGE AND OTHER DEBT

Mortgage and other debt at March 31, 2001, and December 31, 2000, are summarized as follows:

	March 31, 2001	De
	(In thousands	
First mortgage loans	$ 618,741	$
Collateralized term loan	311,316	
Construction loans-collateralized	109,585	
Acquisition collateralized promissory notes	40,955	
Assessment district bonds	25,827	
Collateralized promissory notes	18,960	
Industrial capital lease	889	
Other loans	9,104	
Total mortgage and other debt	$1,135,377	$1
Due within one year	$ 50,558	$

In January and February 2001, the Company closed five variable rate (LIBOR plus 2.0% to LIBOR plus 2.75%) collateralized construction loans with a total capacity of $63.9 million, maturing at various dates from October 2002 through December 2003. These loans had a combined outstanding balance of $31.7 million at March 31, 2001.

In April 2001, the Company closed a $200 million mortgage loan, which bears interest at 7.25% (7.30% effective rate considering financing costs) and is amortized over 30 years with a maturity of 15 years. Of the loan proceeds, $145.4 million was used to pay off existing variable rate construction debt and related interest at closing. This loan is collateralized by certain of the Company's operating properties and by assignment of rents generated by the underlying properties. Under certain conditions, this loan has a yield maintenance premium if paid prior to maturity.

Interest costs relating to mortgage and other debt for the three-month period ended March 31, 2001 and 2000, are summarized as follows:

	Three Months Ended March 31, 2001	20
	(In thousands)	
Total interest incurred	$20,975	$15,
Interest capitalized	(6,282)	(5,
Interest expensed	$14,693	$ 9,

Previously capitalized interest included in cost of sales...............	$ 1,728	$ 2,
	=======	====

NOTE 6. PROPERTIES

Book value by property type at March 31, 2001 and December 31, 2000, consisted of the following:

	March 31, 2001
	(In thousa
Rental properties:	
Industrial buildings..	$ 896,145
Office buildings..	221,284
Retail buildings..	92,564
Land and land leases..	94,002
Investment in operating joint ventures..................................	(15,398)
	1,288,597
Developable properties:	
Commercial..	168,821
Residential...	62,170
Urban development...	374,989
Investment in development joint ventures................................	37,714
	643,694
Work-in-process:	
Commercial..	65,958
Commercial--capital lease...	20,129
Residential...	1,150
Corporate/(1)/..	2,217
	89,454
Furniture and equipment...	26,777
Other...	2,194
Gross book value..	2,050,716
Accumulated depreciation..	(329,041)
Net book value..	$1,721,675

/(1)/ Corporate work-in-process represents capitalization of interest on qualifying assets of the Residential and Urban Development segments which provided for capitalization of more interest than directly incurred by the segments.

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NOTE 7. SEGMENT REPORTING

The Company has determined that its reportable segments are those that are

based on the Company's method of internal reporting which disaggregates its business by type. The Company has four reportable segments: Commercial, Residential, Urban Development, and Corporate. The Commercial segment leases and manages Company-owned commercial buildings and land, develops real estate for the Company's own account or for third parties, and acquires and sells developable land and commercial buildings. The Residential segment is involved in community development, project management and, historically, home building activities. The Urban Development segment entitles and develops major mixed-use development sites, which includes development for residential, office, retail, biotechnology, multimedia and entertainment purposes. The Corporate segment consists of administrative and other services.

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

The Company uses a supplemental performance measure, Earnings before Depreciation and Deferred Taxes ("EBDDT"), along with net income, to report operating results. EBDDT is not a measure of operating results or cash flows from operating activities as defined by generally accepted accounting principles. Further, EBDDT is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flows as a measure of liquidity. The Company believes that EBDDT provides relevant information about operations and is useful, along with net income, for an understanding of the Company's operating results.

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

Financial data by reportable segment is as follows:

	Commercial	Residential	Urb Devel
			(In th
Three Months Ended March 31, 2001			
Rental properties:			
Rental revenue...	$ 52,688 /(1)/	$ -- /(2)/	$ 3,
Property operating costs................................	(12,717)	-- /(2)/	(1,
Equity in earnings of operating joint ventures, net......	3,164	--	
	43,135	--	1,
Property sales and fee services:			
Sales revenue..	33,986	14,010	9,
Cost of sales..	(18,161)	(10,957)	(5,

Gain on property sales..................................	15,825	3,053	3,
Equity in earnings of development joint ventures, net....	--	7,795	
	--------	--------	----
Total gain on property sales...........................	15,825	10,848	3,
Management and development fees..........................	1,058	51	
Selling, general and administrative expenses.............	(3,717)	(4,589)	(1,
Other..	1,732	457	3,
	--------	--------	----
	14,898	6,767	6,
	--------	--------	----
Interest expense...	(16,861)	--	
Corporate administrative costs...........................	--	--	
Minority interests.......................................	(1,604)	(267)	
Other..	--	--	
Depreciation recapture...................................	(2,740)	--	
	--------	--------	----
Pre-tax EBDDT..	$ 36,828	$ 6,500	$ 7,
	========	========	====
Current taxes..			
EBDDT..			
Depreciation and amortization............................			
Deferred taxes...			
Gain on non-strategic asset sales........................			
Depreciation recapture...................................			
Net Income...			

/(1)/ Includes $0.3 million ground lease rent from Cisco Systems. Cisco Systems prepaid approximately $68 million of the expected ground rent in the first quarter, which is recorded as part of deferred credits and other liabilities in the accompanying consolidated balance sheet. The final installment of $35.2 million is expected in mid-2001. The prepaid rent will be amortized over the lease term of 34 years.

/(2)/ All residential asset management responsibilities have been transferred to the Commercial segment and the corresponding results are now classified under "Commercial."

/(3)/ Lease termination fee related to a former tenant at the Mission Bay project.

	Commercial	Residential	Urban Development	Co
	----------	-----------	-----------	--
			(In thousands)	
Three Months Ended March 31, 2000				
Rental properties:				
Rental revenue..	$ 45,883	$ 245	$ 3,790	
Property operating costs..............................	(11,007)	--	(1,651)	
Equity in earnings of operating joint ventures, net..	3,638	--	--	
	--------	--------	-------	
	38,514	245	2,139	

Property sales and fee services:			
Sales revenue	31,211	44,810	--
Cost of sales	(19,552)	(36,586)	--
Gain on property sales	11,659	8,224	--
Equity in earnings of development joint ventures, net	19	1,112	--
Total gain on property sales	11,678	9,336	--
Management and development fees	2,736	240	293
Selling, general and administrative expenses	(3,905)	(5,530)	(488)
Other	947	500	(44)
	11,456	4,546	(239)
Interest expense	(10,577)	(16)	(256)
Corporate administrative costs	--	--	--
Minority interests	(1,554)	(49)	--
Other	--	--	--
Depreciation recapture	(192)	--	--
Pre-tax EBDDT	$ 37,647	$ 4,726	$ 1,644
Current taxes			
EBDDT			
Depreciation and amortization			
Deferred taxes			
Gain on non-strategic asset sales			
Depreciation recapture			
Net Income			

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NOTE 8. COMMITMENTS AND CONTINGENCIES

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

Some of the legal actions to which the Company is a party seek to restrain actions related to the development process or challenge title to or possession of the Company's properties. Typically, such actions, if successful, would not result in significant financial liability for the Company but might instead prevent the completion of the development process or the completion of the development process as originally planned.

Inherent in the operations of the real estate business is the possibility that environmental liability may arise from the current or past ownership, or current or past operation, of real properties. The Company may be required in

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

At March 31, 2001, management estimates that future costs for remediation of environmental contamination on operating properties and properties previously sold approximate $9.8 million, and has provided a reserve for that amount. It is anticipated that such costs will be incurred over the next several years. Management also estimates that similar costs relating to the Company's properties to be developed or sold may range from $25.6 million to $39.5 million. These amounts will be capitalized as components of development costs when incurred, which is anticipated to be over a period of approximately twenty years, or will be deferred and charged to cost of sales when the properties are sold. Environmental costs capitalized during the three months ended March 31, 2001 totaled $0.6 million. The Company's estimates were developed based on reviews, which took place over several years based upon then-prevailing law and identified site conditions. Because of the breadth of its portfolio, and past sales, the Company is unable to review each property extensively on a regular basis. Such estimates are not precise and are always subject to the availability of further information about the prevailing conditions at the site, the future requirements of regulatory agencies, and the availability and ability of other parties to pay some or all of such costs.

In connection with the acquisition in 2000 of a property known to have environmental problems, an indirect subsidiary of the Company has entered into an agreement with the California Department of Toxic Substance Control to perform certain work to investigate and remedy hazardous materials left behind by the previous operators of the site. The Company has guaranteed completion of the work with a limited liability of $20 million. The Company has entered into a $15 million fixed price contract for the completion of the work and obtained insurance to cover various cost overruns; this fixed price contract amount is included in our estimated range of $25.6 million to $39.5 million of future costs of remediation above.

As of March 31, 2001, the Company has outstanding standby letters of credit and surety bonds in the amount of $177.9 million in favor of local municipalities or financial institutions to guarantee performance on construction of real property improvements or financial obligations. Additionally, the Company guarantees a portion of the debt and interest of certain of its joint ventures. At March 31, 2001, these guarantees totaled $35 million and in addition, the Company has guaranteed debt service of $4.4 million for a residential project. In some cases, other parties have jointly and severally guaranteed these obligations.

NOTE 9. STOCK REPURCHASE PROGRAMS

In October 1999, the Company's Board of Directors authorized a stock repurchase program for up to $50 million of the outstanding common stock. Stock purchases under the program were made on the open market. The program was authorized for a period of one year. Under the program, the Company repurchased 1,997,300 shares at a cost of $28.7 million.

In December 2000, the Company's Board of Directors authorized a stock repurchase program for up to $50 million of the outstanding stock through the end of 2001. Stock purchases under the program were made on the open market. The Company purchased 2,888,900 shares at a cost of $49.9 million under this program.

In March 2001, the Company received from its Board of Directors authorization for an additional $50 million for stock repurchases. The Company purchased 1,270,100 shares at a cost of $20.8 million through March 31, 2001. Subsequent to March 31, 2001, the Company purchased additional 1,777,300 shares at a cost of $29.2 million.

In May 2001, the Company's Board of Directors authorized an additional $50 million for the stock repurchase program. Under the newly authorized program, purchases can be made on the open market or in privately negotiated transactions.

The Company's repurchases are reflected as treasury stock at cost and are presented as a reduction to consolidated stockholders' equity.

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

The following discussion and analysis of financial condition and EBDDT, as defined, should be read in conjunction with the Consolidated Financial Statements and related Notes appearing elsewhere in this Form 10-Q. This discussion and analysis covers each of our four business segments: Commercial, Residential, Urban Development, and Corporate. This analysis of EBDDT by segment is used in internal reporting to management and, we believe, provides an effective means of understanding our business and corporate structure. (For definition of EBDDT, see Note 7 of the accompanying Consolidated Financial Statements.)

Summary EBDDT and reconciliation to net income for the three months ended March 31, 2001 and 2000

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000	Difference 2001/2000
	(In thousands)		
Pre-tax EBDDT			
Commercial	$ 36,828	$ 37,647	$ (819
Residential	6,500	4,726	1,774
Urban Development	7,971	1,644	6,327
Corporate	830	(3,094)	3,924
Total pre-tax EBDDT	52,129	40,923	11,206
Current tax	(5,361)	(6,524)	1,163
EBDDT	46,768	34,399	12,369
Depreciation and amortization	(12,934)	(10,870)	(2,064
Deferred taxes	(12,113)	(16,650)	4,537
Gain on non-strategic asset sales	1,747	27,667	(25,920
Depreciation recapture	2,740	192	2,548

Net income	$ 26,208	$ 34,738	$ (8,530

Commercial:

The Commercial segment acquires and develops suburban commercial business parks for our own account and the account of others. EBDDT consists primarily of rental property operating income for buildings owned and sales gains from properties sold.

	Three Months Ende March 31,	
	2001	2000
	(In thousands)	
Rental properties		
Rental revenue	$ 52,688	$ 45,883
Property operating costs	(12,717)	(11,007)
Equity in earnings of operating joint ventures, net	3,164	3,638
	43,135	38,514
Property sales and fee services		
Sales revenue	33,986	31,211
Cost of sales/(1)/	(20,901)	(19,744)
Gain on property sales	13,085	11,467
Equity in earnings of development joint ventures, net	--	19
Total gain on property sales	13,085	11,486
Management and development fees	1,058	2,736
Selling, general and administrative expenses	(3,717)	(3,905)
Other	1,732	947
	12,158	11,264
Interest expense	(16,861)	(10,577)
Minority interests	(1,604)	(1,554)
Pre-tax EBDDT	$ 36,828	$ 37,647
Rental building occupancy (In thousands of square feet, except percentages)		
Owned	29,212	25,535
Occupied	27,147	24,116
Occupancy percentage	92.9%	94.4%

/(1)/ Cost of sales for three months ended March 31, 2001 and 2000 includes $2.7 million and $0.2 million, respectively, of depreciation recapture, which is included in net income, but not EBDDT.

Rental Revenue less Property Operating Costs

Rental revenue less property operating costs has increased mainly because of additions of buildings, land subject to leases, and rental increases on Same Space (properties that were owned and operated for the entire "current" year and the entire immediately preceding year are referred to as "Same Space") partially offset by properties sold. From April 2000 to March 2001, we added from our own development projects, a net 3.7 million square feet to our rental portfolio. Rental revenue less operating costs for the three months ended March 31, 2001 and 2000 are summarized as follows:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000	Difference 2001/2000
	(In thousands)		
Rental revenue less operating costs:			
Same Space................................	$ 29,196	$ 28,069	$ 1,127
Properties added to portfolio..............	6,766	1,473	5,293
Properties sold from portfolio.............	258	1,830	(1,572)
Land and land leases.......................	3,751	3,504	247
	$ 39,971	$ 34,876	$ 5,095

Because of the long-term nature of our leases and the historically low growth in rental rates for our product, we do not expect substantial changes in rental income from our Same Space rental portfolio. Rather, we expect growth in overall portfolio rental income will result primarily from new properties we add to our rental portfolio over time.

Equity in Earnings of Operating Joint Ventures

Equity in earnings of operating joint ventures, net, decreased by $0.5 million for the three months ended March 31, 2001 over the same period in 2000 primarily because of higher interest expense due to a refinancing at a joint venture in 2000.

Sales Revenue

Our Commercial segment has increased gain from property sales for the three months ended March 31, 2001 compared to the same period in 2000. Gain on property sales was $13.1 million and $11.5 million for the three months ended March 31, 2001 and 2000, respectively, summarized as follows:

Three Months Ended
March 31,
Difference

	2001	2000	2001/2000
	(In thousands)		
Commercial property sales			
Building sales:			
Sales proceeds	$ 17,981	$ 9,977	$ 8,004
Cost of sales	(13,334)	(8,031)	(5,303)
Gain	4,647	1,946	2,701
Land sales:			
Sales proceeds	14,506	20,012	(5,506)
Cost of sales	(6,599)	(10,840)	4,241
Gain	7,907	9,172	(1,265)
Other sales:			
Sales proceeds	1,499	1,222	277
Cost of sales	(968)	(873)	(95)
Gain	531	349	182
Gain on property sales	13,085	11,467	1,618
Equity in earnings of development joint ventures, net	--	19	(19)
Total gain on property sales	$ 13,085	$ 11,486	$ 1,599

In the first quarter of 2001, commercial property sales include the closings of 153,000 square feet of new industrial building space and the associated land, 1,962 acres of improved land capable of supporting 0.3 million square feet of commercial development, and 134,000 square feet of existing operating properties. For the same period in 2000, commercial property sales include the closings of 41.9 acres of improved land capable of supporting 0.8 million square feet of commercial development, and 267,000 square feet of development industrial building space.

"Other sales" in the table above include the sales of land subject to leases totaling 113.3 acres in 2001 and 83 acres in 2000 that we had acquired during 1998.

Following is a summary of property sales under contract but not closed:

	March 31, 2001	March 31, 2000
	(In thousands)	
Sales under contract, but not closed	$ 19,605	$ 56,388

Management and Development Fees

Over the past years, a major source of management fee income was a contract to manage and sell the non-railroad real estate assets of a major railroad company. As anticipated, most of the railroad's inventory of managed assets has been sold in accordance with the customer's goals. We decided not to pursue renewal of this contract when it expired on December 31, 2000. Consequently, we

expect management fees and the related selling, general and administrative expenses to decline in 2001. Management and development fees decreased by $1.7 million during the first three months of 2001 from the same period in 2000.

Other

"Other" increased by $0.8 million in 2001 primarily because of interest income from restricted cash generated by tax-deferred exchanges.

Interest

Interest expense increased $6.3 million in 2001 primarily because of new mortgages placed on completed buildings added to our portfolio. Increases in interest capitalized in 2001 are due to higher levels of development activity.

Following is a summary of interest incurred:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000	Difference 2001/2000
	(In thousands)		
Total interest incurred	$ 20,406	$ 13,591	$ 6,815
Interest capitalized	(3,545)	(3,014)	(531)
Interest expensed	$ 16,861	$ 10,577	$ 6,284
Previously capitalized interest included in cost of sales	$ 1,118	$ 471	$ 647

We expect interest expense to increase in 2001 as a result of new debt associated with and collateralized by the newly completed and retained buildings.

Residential:

The Residential segment acquires and develops land primarily for single-family residential property via direct investment or through joint ventures. Through the third quarter of 2000 its activities also included home building, however, these assets were sold as discussed further below. Other than the deferred gain from BHC, LLC (below), from the fourth quarter of 2000 forward EBDDT consists primarily of gains from the sale of finished lots to homebuilders.

Three Months
March 3

	2001	200
		(In thousand
Rental properties income	$ --	$
Property sales and fee services		
Sales revenue	14,010	44,
Cost of sales	(10,957)	(36,
Gain on property sales	3,053	8,
Equity in earnings of development joint ventures, net	7,795	1,
Total gain on property sales	10,848	9,
Management and development fees	51	
Selling, general and administrative expenses	(4,589)	(5,
Other	457	
	6,767	4,
Interest expense	--	
Minority interests	(267)	
Pre-tax EBDDT	$ 6,500	$ 4,

Sales Revenue

In July 2000, we sold a majority of our home-building assets to a newly formed limited liability company managed by Brookfield Homes of California, Inc. for $139 million in cash and a retained interest in the new company ("BHC, LLC") at an agreed-upon value of $22.5 million. In addition, we are entitled to a preferred return on the retained interest and 35% of additional profits from BHC, LLC operations. The deferred gain related to the retained interest as well as our 35% share of profits from BHC, LLC's operations are recorded as part of "Equity in earnings of development joint ventures, net" as homes/lots are sold. Of the $22.5 million retained interest, we recognized $8.3 million in 2000, and $6.2 million during the first three months of 2001.

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Gain on property sales for the three months ended March 31, 2001 of $3.1 million is primarily from the closings of 110 lots and 48 homes compared to the closings of 18 lots and 151 homes during the same period in 2000.

	Three Months Ended March 31,		Diffe
	2001	2000	2001
	(In thousands)		
PROPERTY SALES			
Sales proceeds-Owned projects and consolidated JVs	$ 14,010	$ 44,810	$ (30
Cost of sales	(10,957)	(36,586)	25
Gain	3,053	8,224	(5

Sales proceeds-Unconsolidated JVs	53,269	28,041	25
Cost of sales	(49,540)	(20,761)	(28
Gain	3,729	7,280	(3
Joint venture partners interest	4,066	(6,168)	10
Unconsolidated JV income	7,795	1,112	6
Total gain on property sales	$ 10,848	$ 9,336	$ 1

Following is a summary of property sales under contract but not closed:

	Three Months Ended March 31, 2001	2000
Owned projects and consolidated joint ventures:	(In thousands)	
Units	$ 859	$90,653
Lots	$12,317	$24,395
Joint venture projects/(1)/	$44,598	$ 8,080

/(1)/ The amounts shown are 100% of the gross sales price; we are entitled to receive from 30% to 67% of the net profits from these joint ventures. Note that the term "joint venture" as used herein means that two or more parties own an interest and not that a joint venture is the legal term of obligation.

Equity in earnings of development joint ventures, net, increased $6.7 million in the first quarter of 2001 compared to the same period in 2000. Of the $6.7 million increase, $6.2 million was attributable to BHC, LLC, as mentioned above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $0.9 million for the three months ended March 31, 2001 as compared to the same period in 2000. The decrease in 2001 is primarily attributable to the sale of the home-building assets to BHC, LLC during 2000. However, a $0.8 million charge related to modification of stock options was recorded in 2001. We expect selling, general and administrative expenses to decrease in 2001 as a result of the sale of home-building assets compared to 2000.

Interest

Following is a summary of interest incurred:

	Three Months Ended March 31, 2001	2000	Difference 2001/2000
	(In thousands)		
Total interest incurred....................	$ 247	$ 2,875	$ (2,628)
Interest capitalized.......................	(247)	(2,859)	2,612
Interest expensed..........................	$ --	$ 16	$ (16)
Previously capitalized interest included in cost of sales.........................	$ 610	$ 2,084	$ (1,474)

Interest incurred and capitalized decreased primarily because of the sale of the home-building assets in July 2000.

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Urban Development:

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

	Three Months Ended March 31, 2001	2000	Differenc 2001/200
	(In thousands)		
Rental properties			
Rental revenue............................	$ 3,123	$ 3,790	$ (66
Property operating costs..................	(1,403)	(1,651)	24
	1,720	2,139	(41
Property sales and fee services			
Sales revenue.............................	9,900	--	9,90
Cost of sales.............................	(5,933)	--	(5,93
Total gain on property sales............	3,967	--	3,96
Management and development fees..............	71	293	(22
Selling, general and administrative expenses	(1,277)	(488)	(78
Other..	3,470	(44)	3,51
	6,231	(239)	6,47
Interest expense.............................	20	(256)	27
Pre-tax EBDDT.............................	$ 7,971	$ 1,644	$ 6,32

	=======	=======	=========
Rental building occupancy (In thousands of square feet, except percentages)			
Owned..	913	1,156	(24
Occupied.....................................	733	1,067	(33
Occupancy percentage.........................	80.3%	92.3%	13.

Rental Revenue less Property Operating Costs

The decrease in rental revenue less property operating costs for the three months ended March 31, 2001 as compared to 2000 was primarily because of the demolition of two properties at Mission Bay in preparation for development. Income provided from interim rental uses in this segment will decrease as development occurs on these sites. We plan to generate future income in the Urban Development segment from development activities, rental income, and sales gains.

Following is a summary of property sales under contract but not closed:

Sales under contract, but not closed...

Property Sales

The gain resulted from a land sale of approximately 1.4 acres of land at Mission Bay.

Management and Development Fees

Management and development fees decreased $0.2 million in 2001 primarily because development management activities related to the Dodger Stadium renovation were completed in 2000.

Selling, General and Administrative Expenses

The increase of $0.8 million in 2001 is primarily attributable to changes in overall staffing to accommodate increased activity associated with all of the projects of the Urban Development segment, especially Mission Bay.

Other

The increase in "other" was because of a lease termination fee related to a former tenant at the Mission Bay project.

Interest

Following is a summary of interest incurred:

	Three Months Ended March 31, 2001	2000	Difference 2001/200
	(In thousands)		
Total interest incurred	$ 252	$ 372	$ (12
Interest capitalized	(272)	(116)	(15
Interest expensed	$ (20)	$ 256	$ (27

Corporate:

Corporate consists of administrative costs and interest contra-expense for interest capitalized on a consolidated basis but not attributed to an operating segment.

	Three Months Ended March 31, 2001	2000	Differenc 2001/200
	(In thousands)		
Interest (contra-expense)	$ 2,148	$ 1,030	$ 1,11
Corporate administrative costs	(5,545)	(4,260)	(1,28
Other	4,227	136	4,09
Pre-tax EBDDT	$ 830	$(3,094)	$ 3,92

Interest (contra expense)

Corporate interest consists primarily of interest contra-expense because the Residential and Urban Development segments had qualifying assets which provided for the capitalization of more interest than directly incurred by these segments. As a result, the Corporate segment capitalized interest during the period. We expect the interest contra-expense to continue to increase in 2001 because of the increase in business activities at our Mission Bay project in San Francisco.

Corporate Administrative Costs

Corporate administrative costs consist primarily of general and administrative expenses. General and administrative expenses increased by $1.3 million in the first three months of 2001 primarily because of the increase in our overall activities.

Other

The increase in "other" income in 2001 is primarily attributable to higher interest income from greater short-term investments.

Items Not Included in EBDDT by Segment

See comparative presentation of reconciliation from EBDDT to net income at page 13.

Depreciation and Amortization Expense

The increase in depreciation and amortization expense of $2.1 million for the three months ended March 31, 2001 as compared to the same period in 2000 is primarily attributable to the new buildings added to the portfolio between April 2000 and March 2001.

Gain on Non-Strategic Asset Sales

Gain on sales of non-strategic assets was $1.7 million and $27.7 million for the three months ended March 31, 2001 and 2000, respectively.

The decrease in 2001 is primarily because of a sale of desert land to the federal government in 2000.

Depreciation Recapture

We exclude the portion of gain on property sales attributable to depreciation recapture from EBDDT (see Note 7 of the accompanying Consolidated Financial Statements). The increase of $2.5 million in depreciation recapture for the three months ended March 31, 2001 over the same period in 2000 is because of higher sales volume of older properties in 2001 as compared to 2000.

Variability in Results

Although we have a large portfolio of rental properties that provides relatively stable operating results, our earnings from period to period will be affected by the nature and timing of acquisitions and sales of property. Many of our projects require a lengthy process to complete the development cycle before they are sold. Also, sales of assets are difficult to predict and are generally subject to lengthy negotiations and contingencies that need to be resolved before closing. These factors may tend to "bunch" income in particular periods rather than producing a more even pattern throughout the year or from year to year. In addition, gross margins may vary significantly as the mix of property varies. The cost basis of the properties sold varies because (i) properties have been owned for varying periods of time; (ii) properties are owned in various geographical locations; and (iii) development projects have varying infrastructure costs and build-out periods.

Liquidity and Capital Resources

Cash flows from operating activities

Cash provided by operating activities reflected in the statement of cash flows for the three months ended March 31, 2001 and 2000, was $173.3 million and $73.2 million, respectively. The increase in 2001 consists primarily of a $72.2 million change in deferred credits and other liabilities, a $37.9 million decrease in capital expenditures for development properties, a $16.7 million increase in operating distributions, and a $4.4 million increase in rental properties results. The change of $72.2 million in deferred credits and other liabilities is primary because of a $68 million prepayment (one of two installments) of rent associated with a 34-year ground lease at our Pacific Commons project. The remaining $8.3 million change in other operating assets

and liabilities is attributed to our normal operations. The $37.9 million decrease in capital expenditures is mostly because of the sale of our home-building assets in 2000. The increase in operating distributions is primarily because of a joint venture investment associated with the sale of our home-building assets in 2000. The increase is primarily offset by $45.7 million decrease in proceeds from property sales.

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Cash flows from investing activities

Net cash used in investing activities reflected in the statement of cash flows for the three months ended March 31, 2001 and 2000, was $60.6 million and $95.1 million, respectively. The decrease in 2001 consists primarily of a $52.9 million net decrease in restricted cash, a $4.3 million decrease in contributions to joint ventures, and $1.5 million decrease in tenant improvements. These were offset by a $24.2 million increase in capital expenditures for investment properties.

Capital expenditures reflected in the statement of cash flows include the following:

	Three Mont March 2001 (In tho
Capital Expenditures from Operating Activities/(1)/	
Capital expenditures for residential and commercial development properties	$ 4,599
Capitalized interest and property tax	1,451
Capital expenditures in cash flows for operating activities	6,050
Other acquisitions	--
Total capital expenditures in operating activities	6,050
Capital Expenditures from Investing Activities/(2)/	
Construction and building improvements	32,578
Predevelopment	13,454
Infrastructure and other	13,421
Capitalized interest and property tax	6,403
Capital expenditures for investment properties	65,856
Tenant improvements	294
Total capital expenditures in investing activities	66,150
Total capital expenditures	$72,200

/(1)/ This category includes capital expenditures for properties we intend to build to sell.

/(2)/ This category includes capital expenditures for properties we intend to hold for our own account.

Capital expenditures for residential and commercial development properties--This item relates to the development of residential and commercial for-sale development properties. The decrease from 2000 to 2001 is primarily because of the sale of home-building assets in July 2000 (see discussion of gain on property sales in Residential section).

Other acquisitions--For the three months ended March 31, 2000, we invested approximately $9.9 million in the acquisition of properties either directly or through joint ventures.

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Capitalized interest and property taxes-This item represents interest and property taxes capitalized as part of our development projects. The increase in 2001 compared to 2000 is primarily attributable to the increase in our Mission Bay development activities.

Construction and building improvements-This item relates primarily to development of new commercial properties held for lease and improvements to existing buildings. This development activity is summarized below:

	Three Months Ended March 31,	
	2001	2000
	(In square feet)	
Under construction, beginning of period..........	3,474,000	4,641,000
Construction starts.............................	274,000	688,000
Completed--retained in portfolio.................	(598,000)	(958,000)
Completed--design/build or sold..................	(153,000)	--
Under construction, end of period................	2,997,000	4,371,000

Predevelopment-This item relates to amounts incurred in obtaining entitlements for our urban development projects and commercial development projects, primarily the Mission Bay project in San Francisco, California, and the Pacific Commons project in Fremont, California.

Infrastructure and other-This item represents primarily infrastructure costs incurred in connection with our urban development and commercial development projects. These costs relate primarily to the projects at Woodridge, Illinois; Denver, Colorado; Ontario, California; Fremont, California; and Mission Bay, San Francisco, California.

Cash flows from financing activities

Net cash (used in)/provided by financing activities reflected in the statement of cash flows for the three months ended March 31, 2001 and 2000, was ($71.4) million and $4.5 million, respectively. The decrease in 2001 is primarily attributable to $70.8 million expended for the purchase of 4,159,000 shares of our stock under the share repurchase programs. The decrease is also attributable to a $9.2 million decrease in net borrowings, a $2.1 million increase in distribution to minority partners, and a $1.3 million decrease in proceeds from issuance of common stock.

Capital commitments

As of March 31, 2001, we had outstanding standby letters of credit and

surety bonds in the amount of $177.9 million in favor of local municipalities or financial institutions to guarantee performance on real property improvements or financial obligations.

As of March 31, 2001, we had approximately $101.0 million in total commitments for capital expenditures to vendors. These commitments are primarily contracts to construct industrial development projects, predevelopment costs and re-leasing costs.

Additionally, in connection with the acquisition of property with known environmental problems in 2000, one of our indirect subsidiaries has entered into an agreement with the California Department of Toxic Substance Control to perform certain work to investigate and remediate hazardous materials left behind by the previous operators of the site. We have guaranteed completion of the work with a limited liability of $20 million. The current estimated cost for the work is approximately $15 million, and we have a fixed price contract for the completion of the work and obtained insurance to cover various cost overruns.

Cash balances, available borrowings and capital resources

As of March 31, 2001, we had a total cash of $417.8 million, of which $39.9 million is restricted cash. In addition to the $417.8 million cash, we had $55.1 million in borrowing capacity under our commercial construction facilities and $12.7 million in additional borrowing capacity under our term loans, both available upon satisfaction of certain conditions.

Our short- and long-term liquidity and capital resources requirements will be provided primarily from four sources: (1) cash on hand, (2) ongoing income from rental properties, (3) proceeds from sales of developed properties, land and non-strategic assets, and (4) additional debt. As noted above, construction loan facilities are available for meeting liquidity requirements. Our ability to meet our mid- and long-term capital requirements is dependent upon the ability to obtain additional financing for new construction, completed buildings, acquisitions and currently unencumbered properties. There is no assurance that we can obtain this financing or obtain this financing on favorable terms.

Stock Repurchase Program-Between October 1999 and March 2001, our Board of Directors authorized three separate stock repurchase programs; each has a limit of $50 million and expires in one year. Share purchases under these programs were made on the open market. Through March 31, 2001, under these programs, we have repurchased a total of 6,156,300 shares at a total cost of $99.4 million. Subsequent to March 31, 2001, we purchased an additional 1,777,300 shares at a cost of $29.2 million. Also, in May 2001 our Board of Directors authorized an additional $50 million stock repurchase program. (See Note 9 of the accompanying Consolidated Financial Statements for details).

Debt covenants-Certain loan agreements contain restrictive financial covenants, the most restrictive of which require our debt coverage ratio to be at least 1.30:1, require stockholders' equity to be no less than $483.4 million, and require that we maintain certain other specified financial ratios. We were in compliance with all such covenants at March 31, 2001.

Trading

Our executives from time to time in the future may enter into so-called "Rule 10b5-1 Plans." Under an appropriate Rule 10b5-1 Plan, an executive may instruct a third party, such as a brokerage firm, to engage in specified securities transactions in the future based on a formula without further action by the

stockholder provided that the plan satisfies the legal requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

Environmental Matters

Many of our properties or those of our subsidiaries are in urban or industrial areas and may have been leased to or previously owned by commercial or industrial companies that discharged hazardous materials. Our subsidiaries and we incur ongoing environmental remediation and disposal costs, legal costs relating to clean up, defense of litigation, and the pursuit of responsible third parties. Costs incurred by the consolidated group in connection with operating properties and with properties previously sold are expensed. Costs incurred for properties to be sold by our subsidiaries or us are capitalized and will be charged to cost of sales when the properties are sold. Costs relating to undeveloped properties held by us or our subsidiaries are capitalized as part of development costs. (See Note 8 of the accompanying Consolidated Financial Statements for further discussions).

In recent years, certain of our subsidiaries have acquired properties with known significant environmental issues for cleanup and redevelopment, and we expect that we may continue to form subsidiaries to acquire such properties (or that existing subsidiaries will acquire such properties) when the potential benefits of redevelopment warrant. When our subsidiaries acquire such properties, they undertake extensive due diligence to determine the nature of environmental problems and the likely cost of remediation, and they mitigate the risk with undertakings from third parties, including the sellers and their affiliates, remediation contractors, third party sureties, and insurers. The costs associated with such environmental costs are included in the estimates for properties to be developed.

Forward-Looking Information and Risk Factors

Except for historical matters, the matters discussed in this quarterly report are forward-looking statements that involve risks and uncertainties. We have tried, wherever practical, to identify these forward-looking statements by using words like "anticipate," "believe," "estimate," "project," "expect," "plan," "prospects," and similar expressions. Forward-looking statements include, but are not limited to, statements about plans; opportunities; negotiations; markets and economic conditions; development, construction, rental, and sales activities; availability of financing; and property values. Also, on occasion, management makes oral statements that may include similar forward-looking statements. Again, we try, wherever practical, to identify these forward-looking statements with appropriate language.

We caution you not to place undue reliance on these forward-looking statements, which reflect our current beliefs and are based on information currently available to us. We do not undertake any obligation to revise these forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs.

These forward-looking statements are subject to risks and uncertainties that could cause our actual results, performance, or achievements to differ materially from those expressed in or implied by these statements. In particular, among the factors that could cause actual results to differ materially are:

- Changes in the real estate market or in general economic conditions in the areas in which we own property, including the possibility of a general economic slowdown or recession. Such changes may result in higher vacancy

rates for commercial property and lower prevailing rents, lower sales prices, lower absorption rates, more tenant defaults, and the like

- Product and geographical concentration
- Competition in the real estate industry
- Availability of financing to meet our capital needs, the variability of interest rates, and our ability to use our collateral to secure loans
- Delay in receipt of or denial of government approvals and entitlements for development projects, other political and discretionary government decisions affecting the use of or access to land, or legal challenges to the issuance of approvals or entitlements
- Changes in the management team or competition for employees
- Changes in tax laws and other circumstances that affect our ability to control the timing and recognition of deferred tax liability
- Exposure of our assets to damage from natural occurrences such as earthquakes, and weather conditions that affect the progress of construction
- Liability for us or our subsidiaries for environmental remediation at properties owned, managed, or formerly owned or managed by us, our subsidiaries, or the predecessors of either, and changes in environmental laws and regulations
- Failure to reach agreement with third parties on definitive terms or failure to close transactions, and failure or inability of third parties to perform their obligations under agreements, including tenants under lease on other agreements with us.
- Increases in the cost of land and building materials
- Tight labor markets
- Limitations on or challenges to title to our properties
- Risks related to the performance, interests, and financial strength of the co-owners of our joint venture projects
- Changes in policies and practices of organized labor groups who may work on our projects

- Issues arising from shortages in electrical power to us or to our customers or from higher prices for power, which could affect our ability to rent or sell properties, the ability of tenants or buyers to pay for our properties or for the use of our properties, or our ability to conduct our business

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure is interest rate risk. The majority of our financial instruments are not considered market risk sensitive instruments, as they are not subject to foreign exchange rate risk or commodity price risk. At March 31, 2001, we did not have any outstanding interest-protection contracts. We intend to continuously and actively monitor and manage interest costs on our

variable rate debt and may enter into interest rate-protection contracts based on market fluctuations.

At March 31, 2001, approximately 59.9% of our debt bore interest at fixed rates with a weighted average maturity of approximately 7.2 years and a weighted average coupon rate of approximately 6.49%, which is below market. Therefore, unless there were a drastic decrease in interest rates, the fair value of our fixed-rate debt would not be adversely affected. The remainder of our debt bears interest at variable rates with a weighted average maturity of approximately 2.5 years and a weighted average coupon rate of approximately 7.99% at March 31, 2001. To the extent that we incur additional variable rate indebtedness, our exposure to increases in interest rates would increase. If coupon interest rates increased 100 basis points, the annual effect on our financial position and cash flow would be approximately $4.5 million, based on the outstanding balance of our debt at March 31, 2001. We believe, however, that in no event would increases in interest expense as a result of inflation significantly affect our financial position, results of operations, or cash flow.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None. See Note 8, "Commitments and Contingencies," for further information.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) EXHIBITS

An Exhibit Index follows the signatures below.

(b) No reports on Form 8-K were filed during the quarter for which the report is filed.

SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange

Act of 1934, Catellus Development Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CATELLUS DEVELOPMENT CORPORATION

Date: May 14, 2001

By: /s/ C. William Hosler

C. William Hosler
Senior Vice President
Chief Financial Officer
Principal Financial Officer

Date: May 14, 2001

By: /s/ Paul A. Lockie

Paul A. Lockie
Vice President and Controller
Principal Accounting Officer

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EXHIBIT INDEX

Exhibit Number	
3.1A	Restated Certificate of Incorporation of the Registrant effective December 4, 1990, is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.
3.1B	Amendment to Restated Certificate of Incorporation of the Registrant effective July 13, 1993, as filed with the Commission along with the Form 10-K for the year ended December 31, 2000.
3.2	Amended and Restated Bylaws of the Registrant as filed with the Commission along with the Form 10-K for the year ended December 31, 2000.
4.1	Form of Certificate of Designations of Series A Junior Participating Preferred Stock is incorporated by reference to the exhibits to the Form 8-K as filed with the Commission on December 28, 1999.
4.2	Amended and Restated Line of Credit Loan Agreement among Catellus Development Corporation, Bank of America National Trust and Savings Association as Arranger and Administrative Agent, The First National Bank of Chicago as Documentation Agent, and The Other Financial Institutions Party Hereto, dated as of October 28, 1998, is incorporated by reference to the exhibits to the exhibits to the Form 10-K for the year ended December 31, 1998.
4.3	Loan Agreement by and between Catellus Finance 1, L.L.C. and Prudential Mortgage Capital Company, Inc. dated as of October 28, 1998, is incorporated by reference to the exhibits to the Form 10-K

for the year ended December 31, 1998.

10.1 Restated Tax Allocation and Indemnity Agreement dated December 29, 1989, among the Registrant and certain of its subsidiaries and Santa Fe Pacific Corporation is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.

10.2 State Tax Allocation and Indemnity Agreement dated December 29, 1989, among the Registrant and certain of its subsidiaries and Santa Fe Pacific Corporation is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.

10.3A Registration Rights Agreement dated as of December 29, 1989, among the Registrant, BAREIA, O&Y and Itel is incorporated by reference to the exhibits to the Registration Statement on Form 10 (Commission File No. 0-18694) as filed with the Commission on July 18, 1990.

10.3B First Amendment to Registration Rights Agreement among the Registrant, BAREIA, O&Y and Itel is incorporated by reference to the exhibits to Amendment No. 2 to Form S-3 as filed with the Commission on February 4, 1993.

10.3C Letter Agreement dated November 14, 1995, between the Registrant and California Public Employees' Retirement System is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1995.

10.4 Registrant's Amended and Restated Executive Stock Option Plan is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.

10.5 Registrant's Amended and Restated 1996 Performance Award Plan is incorporated by reference to the exhibits to the Form 10-Q for the quarter ended March 31, 1999.

10.6 Registrant's 2000 Performance Award Plan is incorporated by reference to the exhibits to the Registrant's proxy statement for the annual stockholders' meeting held on May 2, 2000.

10.7 Registrant's Deferred Compensation Plan is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1997.

10.8 Second Amended and Restated Employment Agreement dated as of October 1, 1999, between the Registrant and Nelson C. Rising is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1999.

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10.8A Amendment to Second Amended and Restated Employment Agreement dated as of February 7, 2001, between the Registrant and Nelson C. Rising as filed with the Commission along with the Form 10-K for the year ended December 31, 2000.

10.9A Employment Agreement dated July 24, 1995, between the Registrant and Stephen P. Wallace is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1995.

10.9B Letter Agreement dated November 16, 1996, between the Registrant and

Stephen P. Wallace is incorporated by reference to the exhibits to the Form 10-K for the year ended December 31, 1996.

10.10 Memorandum of Understanding regarding Employment dated February 7, 2001, between the Registrant and Kathleen Smalley as filed with the Commission along with the Form 10-K for the year ended December 31, 2000.

10.11 Memorandum of Understanding regarding Employment dated February 7, 2001, between the Registrant and C. William Hosler as filed with the Commission along with the Form 10-K for the year ended December 31, 2000.

10.12 Rights Agreement dated as of December 16, 1999, between the Registrant and American Stock Transfer and Trust Company is incorporated by reference to the exhibits to the Form 8-K as filed with the Commission on December 28, 1999.

The Registrant has omitted instruments with respect to long-term debt where the total amount of the securities authorized thereunder does not exceed 10 percent of the assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of such instrument to the Commission upon request.

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eloped Markets ("DM") or Emerging Markets ("EM"). All listed equity securities, including Real Estate Investment Trusts, are eligible for inclusion in the equity universe. Conversely, mutual funds, ETFs, equity derivatives and most investment trusts are not eligible for inclusion in the equity universe.

- Classifying Eligible Securities into the Appropriate Country: each company and its securities (i.e., share classes) are classified in only one country.

Effective with the November 2015 semi-annual index review, companies traded outside of their country of classification (i.e., "foreign listed companies") became eligible for inclusion in the MSCI Country Investable Market Indexes along with the applicable MSCI Global Index. In order for a MSCI Country Investable Market Index to be eligible to include foreign listed companies, it must meet the Foreign Listing Materiality Requirement. To meet the Foreign Listing Materiality Requirement, the aggregate market capitalization of all securities represented by foreign listings should represent at least (i) 5% of the free float-adjusted market capitalization of the relevant MSCI Country Investable Market Index and (ii) 0.05% of the free-float adjusted market capitalization of the MSCI ACWI Investable Market Index.

Determining the Market Investable Equity Universes. A market investable equity universe for a market is derived by applying investability screens to individual companies and securities in the equity universe that are classified in that market. A market is equivalent to a single country, except in DM Europe, where all DM countries in Europe are aggregated into a single market for index construction purposes. Subsequently, individual DM Europe country indices within the MSCI Europe Index are derived from the constituents of the MSCI Europe Index under the global investable market indices methodology.

The investability screens used to determine the investable equity universe in each market are as follows:

- Equity Universe Minimum Size Requirement: this investability screen is applied at the company level. In order to be included in a market investable equity universe, a company must have the required minimum full market capitalization.
- Equity Universe Minimum Free Float–Adjusted Market Capitalization Requirement: this investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security must have a free float–adjusted market capitalization equal to or higher than 50% of the equity universe minimum size requirement.

- DM and EM Minimum Liquidity Requirement: This investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security must have adequate liquidity. The twelve-month and three-month Annual Traded Value Ratio ("ATVR"), a measure that screens out extreme daily trading volumes and takes into account the free float–adjusted market capitalization size of securities, together with the three-month frequency of trading are used to measure liquidity. A minimum liquidity level of 20% of three- and twelve-month ATVR and 90% of three-month frequency of trading over the last four consecutive quarters are required for inclusion of a security in a market investable equity universe of a DM, and a minimum liquidity level of 15% of three- and twelve-month ATVR and 80% of three-month frequency of trading over the last four consecutive quarters are required for inclusion of a security in a market investable equity universe of an EM.
- Global Minimum Foreign Inclusion Factor Requirement: this investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security's Foreign Inclusion Factor ("FIF") must reach a certain threshold. The FIF of a security is defined as the proportion of shares outstanding that is available for purchase in the public equity markets by international investors. This proportion accounts for the available free float of and/or the foreign ownership limits applicable to a specific security (or company). In general, a security must have an FIF equal to or larger than 0.15 to be eligible for inclusion in a market investable equity universe.

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- Minimum Length of Trading Requirement: this investability screen is applied at the individual security level. For an initial public offering ("IPO") to be eligible for inclusion in a market investable equity universe, the new issue must have started trading at least three months before the implementation of a semi−annual index review (as described below). This requirement is applicable to small new issues in all markets. Large IPOs are not subject to the minimum length of trading requirement and may be included in a market investable equity universe and the Standard Index outside of a Quarterly or Semi−Annual Index Review.
- Minimum Foreign Room Requirement: this investability screen is applied at the individual security level. For a security that is subject to a foreign ownership limit to be eligible for inclusion in a market investable equity universe, the proportion of shares still available to foreign investors relative to the maximum allowed (referred to as "foreign room") must be at least 15%.

Defining Market Capitalization Size Segments for Each Market. Once a market investable equity universe is defined, it is segmented into the following size−based indices:

- Investable Market Index (Large + Mid + Small);
- Standard Index (Large + Mid);
- Large Cap Index;
- Mid Cap Index; or
- Small Cap Index.

Creating the size segment indices in each market involves the following steps:

- defining the market coverage target range for each size segment;
- determining the global minimum size range for each size segment;
- determining the market size segment cutoffs and associated segment number of companies;
- assigning companies to the size segments; and
- applying final size−segment investability requirements.

Index Continuity Rules for the Standard Indices. In order to achieve index continuity, as well as to provide some basic level of diversification within a market index, and notwithstanding the effect of other index construction rules described in this section, a minimum number of five constituents will be maintained for a DM Standard Index and a minimum number of three constituents will be maintained for an EM Standard Index.

Creating Style Indices within Each Size Segment. All securities in the investable equity universe are classified into value or growth segments using the MSCI Global Value and Growth methodology.

Classifying Securities under the Global Industry Classification Standard. All securities in the global investable equity universe are assigned to the industry that best describes their business activities. To this end, MSCI has designed, in conjunction with S&P Dow Jones Indexes, the GICS. Under the GICS, each company is assigned to one sub−industry according to its principal business activity. Therefore, a company can belong to only one industry grouping at each of the four levels of the GICS.

Index Maintenance

The MSCI Global Investable Market Indices are maintained with the objective of reflecting the evolution of the underlying equity markets and segments on a timely basis, while seeking to achieve index continuity, continuous investability of constituents and replicability of the indices, index stability and low index turnover. In particular, index maintenance involves:

(i) Semi−Annual Index Reviews ("SAIRs") in May and November of the Size Segment and Global Value and Growth Indices which include:

- updating the indices on the basis of a fully refreshed equity universe;
- taking buffer rules into consideration for migration of securities across size and style segments; and
- updating FIFs and Number of Shares ("NOS").

(ii) Quarterly Index Reviews in February and August of the Size Segment Indices aimed at:

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- including significant new eligible securities (such as IPOs that were not eligible for earlier inclusion) in the index;
- allowing for significant moves of companies within the Size Segment Indices, using wider buffers than in the SAIR; and
- reflecting the impact of significant market events on FIFs and updating NOS.

(iii) Ongoing Event−Related Changes: changes of this type are generally implemented in the indices as they occur. Significantly large IPOs are included in the indices after the close of the company’s tenth day of trading.

None of us, RBCCM or any of our other affiliates accepts any responsibility for the calculation, maintenance, or publication of, or for any error, omission, or disruption in, the index or any successor to the index.

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Historical Information

The graph below sets forth the information relating to the historical performance of the Reference Asset. In addition, below the graph is a table setting forth the intra-day high, intra-day low and period-end closing share prices of the Reference Asset. The information provided in this table is for the period from January 1, 2014 through May 14, 2018. We obtained the information regarding the historical performance of the Reference Asset in the chart below from Bloomberg Financial Markets.

We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the Final Level of the Reference Asset. We cannot give you assurance that the performance of the Reference Asset will result in any positive return on your initial investment.

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Period-Start Date	Period-End Date	High Intra-Day Share Price of the Reference Asset (in $)	Low Intra-Day Share Price of the Reference Asset (in $)	Period-End Closing Share Price of the Reference Asset (in $)
1/1/2014	3/31/2014	68.19	62.28	67.17
4/1/2014	6/30/2014	70.78	65.69	68.37
7/1/2014	9/30/2014	69.29	63.85	64.12
10/1/2014	12/31/2014	64.54	58.64	60.84
1/1/2015	3/31/2015	66.20	58.29	64.17
4/1/2015	6/30/2015	68.52	63.27	63.49
7/1/2015	9/30/2015	65.60	55.89	57.32
10/1/2015	12/31/2015	62.18	56.99	58.75
1/1/2016	3/31/2016	58.06	50.94	57.13
4/1/2016	6/30/2016	60.16	51.94	55.81
7/1/2016	9/30/2016	60.15	53.77	59.13
10/1/2016	12/31/2016	59.35	56.11	57.73
1/1/2017	3/31/2017	62.65	57.85	62.29
4/1/2017	6/30/2017	67.24	61.35	65.20
7/1/2017	9/30/2017	68.68	64.56	68.48
10/1/2017	12/31/2017	70.96	68.14	70.31
1/1/2018	3/31/2018	75.27	66.90	69.68
4/1/2018	5/14/2018	72.10	68.25	71.90

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

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SUPPLEMENTAL DISCUSSION OF
U.S. FEDERAL INCOME TAX CONSEQUENCES

The following disclosure supplements, and to the extent inconsistent supersedes, the discussion in the product prospectus supplement dated January 11, 2016 under "Supplemental Discussion of U.S. Federal Income Tax Consequences." The discussions below and in the accompanying product prospectus supplement do not address the tax consequences applicable to holders subject to Section 451(b) of the Code.

Under Section 871(m) of the Code, a "dividend equivalent" payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments ("ELIs") that are "specified ELIs" may be treated as dividend equivalents if such specified ELIs reference an interest in an "underlying security," which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2019. Based on our determination that the Notes are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Reference Asset or the Notes, and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Reference Asset or the Notes should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

We expect that delivery of the Notes will be made against payment for the Notes on or about May 31, 2018, which is the second (2nd) business day following the Pricing Date (this settlement cycle being referred to as "T+2"). See "Plan of Distribution" in the prospectus dated January 8, 2016. For additional information as to the relationship between us and RBCCM, please see the section "Plan of Distribution—Conflicts of Interest" in the prospectus dated January 8, 2016.

The value of the Notes shown on your account statement may be based on RBCCM's estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately three months after the issue date of the Notes, the value of the Notes that may be shown on your account statement may be higher than RBCCM's estimated value of the Notes at that time. This is because the estimated value of the Notes will not include our hedging costs and profits; however, the value of the Notes shown on your account statement during that period may initially be a higher amount, reflecting the addition of our estimated costs and profits from hedging the Notes. This excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect their estimated value.

We may use this terms supplement in the initial sale of the Notes. In addition, RBCCM or another of our affiliates may use this terms supplement in a market-making transaction in the Notes after their initial sale. Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this terms supplement is being used in a market-making transaction.

No Prospectus (as defined in Directive 2003/71/EC, as amended (the "Prospectus Directive")) will be prepared in connection with the Notes. Accordingly, the Notes may not be offered to the public in any member state of the

European Economic Area (the "EEA"), and any purchaser of the Notes who subsequently sells any of the Notes in any EEA member state must do so only in accordance with the requirements of the Prospectus Directive, as implemented in that member state.

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, and a "retail investor" means a person who is one (or more) of: (a) a retail client, as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (b) a customer, within the meaning of Insurance Distribution Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation"), for offering or selling the Notes or otherwise making them

available to retail investors in the EEA has been prepared, and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

STRUCTURING THE NOTES

The Notes are our debt securities, the return on which is linked to the performance of the Reference Asset. As is the case for all of our debt securities, including our structured notes, the economic terms of the Notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Notes at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate debt security of comparable maturity. Using this relatively lower implied borrowing rate rather than the secondary market rate, is a factor that is likely to reduce the initial estimated value of the Notes at the time their terms are set. Unlike the estimated value included in this terms supplement or in the final pricing supplement, any value of the Notes determined for purposes of a secondary market transaction may be based on a different funding rate, which may result in a lower value for the Notes than if our initial internal funding rate were used.

In order to satisfy our payment obligations under the Notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Reference Asset, and the tenor of the Notes. The economic terms of the Notes and their initial estimated value depend in part on the terms of these hedging arrangements.

The lower implied borrowing rate is a factor that reduces the economic terms of the Notes to you. The initial offering price of the Notes also reflects our estimated hedging costs. These factors result in the initial estimated value for the Notes on the Pricing Date being less than their public offering price. See “Selected Risk Considerations—The Initial Estimated Value of the Notes Will Be Less than the Price to the Public” above.