TRIZEC PROPERTIES INC
Form 10-Q
November 05, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2004

or

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

For the transition period from __________ to __________.

Commission File Number: 001-16765

TRIZEC PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	33-0387846
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
233 South Wacker Drive Chicago, IL	60606
(Address of principal executive offices)	(Zip Code)

312-798-6000

(Registrant s telephone number, including area code)

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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes [**X**] No [ ]

As of October 29, 2004, 151,918,599 shares of common stock, par value $0.01 per share, were issued and outstanding.

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Forward-Looking Statements

This Form 10-Q contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), relating to our business and financial outlook which are based on our current expectations, beliefs, projections, forecasts, future plans and strategies, and anticipated events or trends. In some cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipa believes, estimates, predicts, potential or the negative of these terms or other comparable terminology. We intend these forward-looking statements, which are not guarantees of future performance and financial condition, to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Forward-looking statements are not historical facts. Instead, such statements reflect estimates and assumptions and are subject to certain risks and uncertainties that are difficult to predict or anticipate. Therefore, actual outcomes and results may differ materially from those projected or anticipated in these forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date this Form 10-Q is filed with the Securities and Exchange Commission. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, without limitation, the risks described in our annual report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2004, as the same may be supplemented from time to time. These factors include, without limitation, the following:

- changes in national and local economic conditions, including those economic conditions in our seven core markets;
- the extent, duration and strength of any economic recovery;
- our ability to maintain occupancy and to timely lease or re-lease office space;
- the extent of any tenant bankruptcies and insolvencies;

our ability to sell our non-core office properties in a timely manner;

our ability to acquire office properties selectively in our core markets;

our ability to maintain REIT qualification and changes to U.S. tax laws that affect REITs;

Canadian tax laws that affect treatment of investment in U.S. real estate companies;

competitive environment in which we operate;

the cost and availability of debt and equity financing;

the effect of any impairment charges associated with asset dispositions or changes in market conditions;

our ability to obtain, at a reasonable cost, adequate insurance coverage for catastrophic events, such as earthquakes and terrorist acts; and

other risks and uncertainties detailed from time to time in our filings with the SEC.

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Trizec Properties, Inc. **Consolidated Balance Sheets (unaudited)**

PART I FINANCIAL STATEMENTS

Item 1. Financial Statements

$ in thousands, except per share amounts	September 30 2004	December 31 2003
Assets		
Real estate	**$ 4,622,809**	$ 4,915,942
Less: accumulated depreciation	**(663,890)**	(642,627)
Real estate, net	**3,958,919**	4,273,315
Cash and cash equivalents	**75,528**	129,299
Escrows and restricted cash	**57,965**	72,862
Investment in unconsolidated real estate joint ventures	**116,975**	231,185
Office tenant receivables (net of allowance for doubtful accounts of $5,777 and $7,096 at September 30, 2004 and December 31, 2003, respectively)	**10,320**	9,887
Other receivables (net of allowance for doubtful accounts of $9,861 and $10,243 at September 30, 2004 and December 31, 2003, respectively)	**9,168**	18,687
Deferred rent receivables (net of allowance for doubtful accounts of $925 and $1,517 at September 30, 2004 and December 31, 2003, respectively)	**146,140**	148,847
Deferred charges, net	**115,988**	121,842
Prepaid expenses and other assets	**172,217**	120,805
Total Assets	**$ 4,663,220**	$ 5,126,729
Liabilities and Stockholders Equity		
Liabilities		
Mortgage debt and other loans	**$ 2,457,053**	$ 2,866,975
Trade, construction and tenant improvements payables	**21,335**	17,306
Accrued interest expense	**11,361**	9,092
Accrued operating expenses and property taxes	**92,690**	95,961
Other accrued liabilities	**115,753**	87,519
Dividends payable	**33,175**	31,567
Taxes payable	**43,911**	42,352
Total Liabilities	**2,775,278**	3,150,772
Commitments and Contingencies		
Minority Interest	**5,835**	10,287

Special Voting and Class F Convertible Stock	**200**	200
Stockholders Equity		
Preferred stock, 50,000,000 shares authorized, $0.01 par value, none issued and outstanding		
Common stock, 500,000,000 shares authorized, $0.01 par value, 151,944,202 and 151,058,491 issued at September 30, 2004 and December 31, 2003, respectively, and 151,912,588 and 151,040,480 outstanding at September 30, 2004 and December 31, 2003, respectively	**1,519**	1,510
Additional paid in capital	**2,207,819**	2,193,728
Accumulated deficit	**(305,606)**	(207,395)
Treasury stock, at cost, 31,614 and 18,011 shares at September 30, 2004 and December 31, 2003, respectively	**(415)**	(237)
Unearned compensation	**(870)**	(1,267)
Accumulated other comprehensive loss	**(20,540)**	(20,869)
Total Stockholders Equity	**1,881,907**	1,965,470
Total Liabilities and Stockholders Equity	**$ 4,663,220**	$ 5,126,729

See accompanying notes to the financial statements

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Trizec Properties, Inc. **Consolidated Statements of Operations (unaudited)**

$ in thousands, except per share amounts	For the three months ended September 30 2004	For the three months ended September 30 2003	For the nine months ended September 30 2004	For the nine months ended September 30 2003
Revenues				
Rentals	**$ 123,734**	$ 124,521	**$ 368,322**	$ 374,272
Recoveries from tenants	**24,847**	23,919	**73,225**	73,492
Parking and other	**21,458**	18,419	**57,636**	55,428
Fee income	**2,892**	3,805	**9,294**	8,597
Total Revenues	**172,931**	170,664	**508,477**	511,789
Expenses				
Operating	**52,787**	57,061	**159,567**	167,856
Property taxes	**19,124**	20,350	**57,388**	61,840
General and administrative, exclusive of stock option grant expense	**13,077**	9,884	**26,083**	28,505
Depreciation and amortization	**36,918**	33,361	**104,483**	100,669
Stock option grant expense	**889**	306	**1,213**	840
Provision for loss on real estate			**12,749**	
Loss on and provision for loss on investment		15,303	**14,558**	15,303
Total Expenses	**122,795**	136,265	**376,041**	375,013
Operating Income	**50,136**	34,399	**132,436**	136,776
Other Income (Expense)				
Interest and other income	**955**	1,903	**3,581**	3,964
Foreign currency exchange gain			**3,340**	
(Loss) Gain on early debt retirement	**(3,233)**		**(4,376)**	3,363
Recovery on insurance claims	**23**	8	**715**	7,070
Interest expense	**(36,917)**	(38,362)	**(108,567)**	(112,515)
Derivative loss	**(1,182)**		**(2,680)**	
Lawsuit settlement		26,709	**94**	26,709
Total Other Expense	**(40,354)**	(9,742)	**(107,893)**	(71,409)

Income before Income Taxes, Minority Interest, Income from Unconsolidated Real Estate Joint Ventures, Discontinued Operations and Gain on Disposition of Real Estate, Net	**9,782**	24,657	**24,543**	65,367
Benefit (Provision) for income and other corporate taxes, net	**431**	10,692	**(2,601)**	7,786
Minority interest	**5**	(240)	**(954)**	(776)
Income from unconsolidated real estate joint ventures	**2,979**	4,359	**11,248**	17,974
Income from Continuing Operations	**13,197**	39,468	**32,236**	90,351
Discontinued Operations				
Income from discontinued operations (net of recovery of provision for loss on discontinued real estate of $9,613 and provision for loss on discontinued real estate of $108,988 for the three and nine months ended September 30, 2004, respectively, and provision for loss on discontinued real estate of $3,572 and $18,164 for the three and nine months ended September 30, 2003, respectively)	**17,865**	1,676	**(85,465)**	1,078
Gain on disposition of discontinued real estate, net	**18,233**	20,182	**47,841**	28,708
Income (Loss) Before Gain on Disposition of Real Estate, Net	**49,295**	61,326	**(5,388)**	120,137
Gain on disposition of real estate, net	**249**		**2,594**	11,351
Net Income (Loss)	**49,544**	61,326	**(2,794)**	131,488
Special voting and Class F convertible stockholders dividends	**(1,394)**	(2,504)	**(3,915)**	(3,917)
Net Income (Loss) Available to Common Stockholders	**$ 48,150**	$ 58,822	**$ (6,709)**	$ 127,571

See accompanying notes to the financial statements.

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Trizec Properties, Inc. | **Consolidated Statements of Operations (unaudited)(Continued)**

$ in thousands, except per share amounts	For the three months ended September 30 2004	For the three months ended September 30 2003	For the nine months ended September 30 2004	For the nine months ended September 30 2003
Earnings per common share				
Income from Continuing Operations Available to Common Stockholders per Weighted Average Common Share Outstanding:				
Basic	**$ 0.08**	$ 0.25	**$ 0.20**	$ 0.65
Diluted	**$ 0.08**	$ 0.25	**$ 0.20**	$ 0.65
Net Income (Loss) Available to Common Stockholders per Weighted Average Common Share Outstanding:				
Basic	**$ 0.32**	$ 0.39	**$ (0.04)**	$ 0.85
Diluted	**$ 0.31**	$ 0.39	**$ (0.04)**	$ 0.85
Weighted average shares outstanding				
Basic	**151,762,294**	149,933,043	**151,499,708**	149,834,920
Diluted	**153,351,683**	150,521,687	**151,499,708**	150,058,224

See accompanying notes to the financial statements.

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Trizec Properties, Inc. **Consolidated Statements of Comprehensive Income (unaudited)**

$ in thousands	For the three months ended September 30 2004	For the three months ended September 30 2003	For the nine months ended September 30 2004	For the nine months ended September 30 2003
Net income (loss)	**$ 49,544**	$ 61,326	**$ (2,794)**	$ 131,488
Other comprehensive income (loss):				
Unrealized gains on investments in securities:				
Unrealized foreign currency exchange gains arising during the period	**159**	8	**30**	171
Unrealized foreign currency exchange gains (losses) on foreign operations	**20**	(172)	**(220)**	1,903
Realized foreign currency exchange gain on foreign operations			**(3,340)**	
Unrealized derivative (losses) gains:				
Effective portion of interest rate contracts	**(1,604)**	6,801	**10,864**	(8,876)
Ineffective portion of interest rate contracts	**522**		**2,020**	
Settlement of forward rate contracts	**266**		**(9,025)**	(3,437)
Total other comprehensive (loss) income	**(637)**	6,637	**329**	(10,239)
Net comprehensive income (loss)	**$ 48,907**	$ 67,963	**$ (2,465)**	$ 121,249

See accompanying notes to the financial statements.

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Trizec Properties, Inc. **Consolidated Statements of Cash Flows (unaudited)**

$ in thousands	For the nine months ended September 30 2004	2003
Cash Flows from Operating Activities		
Net (Loss) Income	**$ (2,794)**	$ 131,488
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Income from unconsolidated real estate joint ventures	**(11,248)**	(17,974)
Distributions from unconsolidated real estate joint ventures	**11,248**	17,974
Depreciation and amortization expense (including discontinued operations)	**125,136**	138,329
Amortization of financing costs	**6,284**	6,887
Amortization of value of acquired operating leases to rental revenue	**(370)**	
Provision for bad debt	**3,296**	9,424
Gain on disposition of real estate (including discontinued operations)	**(50,435)**	(40,059)
Provision for loss on real estate (including discontinued operations)	**121,737**	18,164
Loss on and provision for loss on investment	**14,558**	15,303
Foreign currency exchange gain	**(3,340)**	
Derivative loss	**2,680**	
Loss (Gain) on early debt retirement	**4,376**	(3,363)
Lawsuit settlement	**(94)**	(26,709)
Minority interest	**954**	776
Amortization of unearned compensation	**2,029**	2,526
Compensation charge for net settlement of warrants		2,080
Stock option grant expense	**1,213**	840
Changes in assets and liabilities:		
Escrows and restricted cash	**20,395**	2,495
Office tenant receivables	**(3,509)**	1,554
Other receivables	**10,040**	5,775
Deferred rent receivables	**(16,941)**	(19,529)
Prepaid expenses and other assets	**(4,951)**	(19,668)
Accounts payable, accrued liabilities and other liabilities	**(18,340)**	(48,023)
Net cash provided by operating activities	**211,924**	178,290
Cash Flows from Investing Activities		
Real estate:		
Tenant improvements and capital expenditures	**(64,740)**	(68,143)
Tenant leasing costs	**(22,564)**	(16,597)
Acquisitions	**(418,076)**	
Dispositions	**533,506**	264,728
Development expenditures		(903)
Payment of minority interest	**(5,152)**	
Contribution from minority interest	**371**	
Escrows and restricted cash	**(5,457)**	5,682

Unconsolidated real estate joint ventures:		
Investments	**(47,509)**	(22,619)
Distributions	**224,844**	166
Net cash provided by investing activities	**195,223**	162,314
Cash Flows from Financing Activities		
Mortgage debt and other loans:		
Property financing	**362,000**	85,862
Principal repayments	**(856,280)**	(112,260)
Repaid on dispositions	**(238,343)**	(106,755)
Draws on credit line	**749,000**	155,100
Paydowns on credit line	**(384,000)**	(245,100)
Financing expenditures	**(6,906)**	(2,150)
Settlement of forward contracts	**(3,767)**	(3,437)
Issuance of common stock	**11,187**	50
Dividends	**(93,809)**	(61,488)
Net cash used in financing activities	**(460,918)**	(290,178)
Net (Decrease) Increase in Cash and Cash Equivalents	**(53,771)**	50,426
Cash and Cash Equivalents, beginning of period	**129,299**	62,253
Cash and Cash Equivalents, end of period	**$ 75,528**	$ 112,679

See accompanying notes to the financial statements.

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Trizec Properties, Inc. **Consolidated Statements of Cash Flows (unaudited) (Continued)**

$ in thousands	For the nine months ended September 30 2004	2003
Supplemental Cash Flow Disclosures:		
Cash paid during the period for:		
Interest, inclusive of interest capitalized	**$ 112,739**	$ 130,984
Taxes	**$ 7,705**	$ 54,974
Write-off of provision for bad debt	**$ 5,589**	$ 13,339
Write-off of retired assets	**$ 30,379**	$ 28,477
Non-cash investing and financing activities:		
Dividends payable on common stock, special voting stock and Class F convertible stock	**$ 33,175**	$ 32,614
Mortgage debt and other loans assumed by purchasers upon property dispositions	**$ 41,106**	$ 25,594
Forgiveness of debt upon property disposition	**$ 1,237**	$
Forgiveness of debt upon conveyance of property	**$**	$ 17,896
Non-cash issuance of restricted stock	**$**	$ 3,788
Changes in accounts due to non-cash contribution into an unconsolidated real estate joint venture:		
Investment in unconsolidated real estate joint ventures	**$ 48,000**	
Real estate	**$ (48,000)**	

Changes in accounts due to basis differential adjustment in connection with non-cash contribution to an unconsolidated real estate joint venture:	
Investment in unconsolidated real estate joint ventures	**$ 5,148**
Deferred rent receivables, net	**$ (1,768)**
Deferred charges, net	**$ (1,195)**
Prepaid expenses and other assets	**$ (2,185)**
In conjunction with the property and land acquisitions, the following assets and liabilities were assumed:	
Purchase of real estate	**$ 420,693**
Accrued operating expenses and real estate taxes	**(1,200)**
Other accrued liabilities	**(1,417)**
Acquisition of real estate	**$ 418,076**

See accompanying notes to the financial statements.

Notes to the Financial Statements
$ in thousands, except per share amounts

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

Trizec Properties, Inc. (Trizec Properties or the Corporation , formerly known as TrizecHahn (USA) Corporation) is a corporation organized under the laws of the State of Delaware and is approximately 40% indirectly owned by Trizec Canada, Inc. Effective January 1, 2001, Trizec Properties elected to be taxed as a real estate investment trust (REIT) pursuant to Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). On February 14, 2002, the amended registration statement on Form 10 of Trizec Properties was declared effective by the Securities and Exchange Commission and, accordingly, Trizec Properties became subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. Trizec Properties had been a substantially wholly-owned subsidiary of TrizecHahn Corporation (TrizecHahn), an indirect wholly-owned subsidiary of Trizec Canada Inc. A plan of arrangement (the Reorganization) was approved by the TrizecHahn stockholders on April 23, 2002, and on May 8, 2002, the effective date of the Reorganization, the common stock of Trizec Properties commenced trading on the New York Stock Exchange.

Trizec Properties is a self-managed, publicly traded United States (U.S.) REIT. At September 30, 2004, the Corporation had ownership interests in a portfolio of 58 U.S. office properties concentrated in the metropolitan areas of seven major U.S. cities, comprising approximately 41.4 million square feet, or approximately 37.9 million square feet based on its pro rata economic ownership interests in unconsolidated real estate joint ventures. At September 30, 2004, the occupancy of the Corporation s 58 U.S. office properties was approximately 88.1%, or approximately 88.2% based on its pro rata economic ownership interests in unconsolidated real estate joint ventures.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The accompanying interim consolidated financial statements as of September 30, 2004 and December 31, 2003 and for the three and nine months ended September 30, 2004 and 2003 include the accounts and operating results of the Corporation and its subsidiaries. All significant intercompany transactions have been eliminated.

The Corporation consolidates certain entities in which it owns less than a 100% equity interest if it is deemed to be the primary beneficiary in a variable interest entity (VIE), as defined in the Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB 51 (FIN No. 46R). The Corporation also consolidates entities in which it has a controlling direct or indirect voting interest. The equity method of accounting is applied to entities in which the Corporation does not have a controlling direct or indirect voting interest, but can exercise influence over the entity with respect to its operations and major decisions. The cost method is applied when (i) the investment is minimal (typically less than 5%) and (ii) the Corporation s investment is passive.

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP) requires 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts will differ from those estimates used in the preparation of these financial statements.

b. Interim Financial Statements

The accompanying interim financial statements and related notes are unaudited; however, the financial statements have been prepared in accordance with GAAP for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the disclosures required by GAAP. In the opinion of management, such financial statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Corporation for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the interim periods presented are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. These financial statements should be read in

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES, Continued

b. Interim Financial Statements, Continued

conjunction with the Corporation s financial statements and notes thereto contained in the Corporation s 2003 Annual Report on Form 10-K, as amended by the Corporation s Report on Form 8-K filed with the SEC on June 22, 2004.

c. Stock Based Compensation

Effective July 1, 2003, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation (SFAS No. 123), as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure an amendment of SFAS No. 123 (SFAS No. 148). The Corporation is applying the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, prospectively to all employee stock options granted after December 31, 2002. For employee stock option grants accounted for under SFAS No. 123, compensation cost is measured as the fair value of the stock option at the date of grant. This compensation cost is expensed over the vesting period. For employee stock options issued prior to January 1, 2003, the Corporation will continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations. For employee stock option grants accounted for under APB No. 25, compensation cost is measured as the excess, if any, of the fair value of the Corporation s common stock at the date of grant over the exercise price of the options granted. This compensation cost, if any, is expensed over the vesting period. Except as detailed in Note 18 of the Corporation s 2003 Annual Report on Form 10-K with respect to employee stock options that were granted in connection with the Reorganization, the Corporation s policy is to grant options with an exercise price equal to the fair value of the Corporation s common stock at the date of the grant. Stock option grant expense of $889 and $306 was recognized for the three months ended September 30, 2004 and 2003, respectively. Stock option grant expense of $1,213 and $840 was recognized for the nine months ended September 30, 2004 and 2003, respectively.

The following reconciles net income available to common stockholders to pro forma net income available to common stockholders and presents reported earnings per share (EPS) and pro forma EPS, in each case, as if the fair value based method of accounting for employee stock options as prescribed under the provisions of SFAS No. 123 had been applied to all outstanding and unvested employee stock options.

Notes to the Financial Statements
$ in thousands, except per share amounts

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES, Continued

c. Stock Based Compensation, Continued

	For the three months ended September 30		For the nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Net income (loss) available to common stockholders, as reported	**$ 48,150**	$ 58,822	**$ (6,709)**	$ 127,571
Add back:				
Stock option grant expense, as reported	**889**	306	**1,213**	840
Deduct:				
Stock option grant expense, pro forma	**(1,050)**	(815)	**(1,560)**	(2,598)
Net income (loss) available to common stockholders, pro forma	**$ 47,989**	$ 58,313	**$ (7,056)**	$ 125,813
Net income (loss) available to common stockholders per weighted average common share outstanding:				
Basic, as reported	**$ 0.32**	$ 0.39	**$ (0.04)**	$ 0.85
Basic, pro forma	**$ 0.32**	$ 0.39	**$ (0.05)**	$ 0.84
Diluted, as reported	**$ 0.31**	$ 0.39	**$ (0.04)**	$ 0.85
Diluted, pro forma	**$ 0.31**	$ 0.39	**$ (0.05)**	$ 0.84

d. Reclassifications

Certain reclassifications have been made to the consolidated balance sheet and consolidated statements of operations and cash flows. These reclassifications have not changed the Corporation s financial position as of December 31, 2003 or consolidated results of operations or cash flows for the three and nine months ended September 30, 2003.

3. REAL ESTATE

The Corporation s investment in real estate is comprised of:

	September 30 2004	December 31 2003
Properties:		
Held for the long term, net	**$ 3,551,303**	$ 4,048,178
Held for disposition, net	**407,616**	225,137
	$ 3,958,919	$ 4,273,315

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Notes to the Financial Statements
$ in thousands, except per share amounts

3. REAL ESTATE, Continued

a. Properties Held for the Long Term

	September 30 2004	December 31 2003
Rental properties:		
Land	**$ 483,759**	$ 529,430
Buildings and improvements	**3,340,452**	3,806,219
Tenant improvements	**271,543**	301,160
Furniture, fixtures and equipment	**6,610**	7,811
	4,102,364	4,644,620
Less: accumulated depreciation	**(575,491)**	(629,607)
	3,526,873	4,015,013
Properties held for development	**24,430**	33,165
Properties held for the long term, net	**$ 3,551,303**	$ 4,048,178

b. Properties Held for Disposition

	September 30 2004	December 31 2003
Rental properties, net	**$ 407,252**	$ 212,178
Properties held for development	**364**	12,959
Properties held for disposition, net	**$ 407,616**	$ 225,137

Properties held for disposition include certain properties that the Corporation has decided to dispose of over a reasonable sales period.

(i) At December 31, 2002, Paseo Colorado in Pasadena, California and 151 Front Street in Toronto, Ontario were held for disposition subject to the transition rules of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) and, accordingly, the Corporation accounted for these properties pursuant to SFAS No. 121, Accounting for the Impairment of Long-Lived Assets to be Disposed Of (SFAS No. 121). On January 15, 2003, the Corporation sold Paseo Colorado and, therefore, 151 Front Street remained the sole property held for disposition in accordance with SFAS No. 121 at December 31, 2003. On January 15, 2004, the Corporation sold 151 Front Street. Therefore, no properties were held for disposition in accordance with SFAS No. 121 at September 30, 2004.

In accordance with SFAS No. 121, the results of operations of Paseo Colorado and 151 Front Street are included, for all periods presented, in the revenues and expenses of the Corporation. The following summarizes the combined condensed results of operations for Paseo Colorado and 151 Front Street through the earlier of their respective sale dates or the three and nine months ended September 30, 2004 and 2003.

	For the three months ended September 30		For the nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Total revenues	**$**	$ 2,342	**$ 507**	$ 7,664
Operating expenses		(953)	**(374)**	(3,556)
Property taxes		(437)	**(75)**	(1,274)
Interest and other income		2	**(68)**	7
Interest expense		(341)	**(100)**	(1,086)
Income (loss)	**$**	$ 613	**$ (110)**	$ 1,755

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Notes to the Financial Statements
$ in thousands, except per share amounts

3. REAL ESTATE, Continued

b. Properties Held for Disposition, Continued

(ii) The table below summarizes the Corporation s properties designated as held for disposition pursuant to SFAS No. 144.

Property	Location	Date Designated as Held for Disposition	Provision Taken	Date Disposed
Goddard Corporate Park	Lanham, MD	Dec-02		Feb-03
Rosslyn Gateway	Arlington, VA	Dec-02		Mar-03
Esperante Office Building	W. Palm Beach, FL	Mar-03		Sep-03
Clark Tower	Memphis, TN	Jun-03	$14,592	Aug-03
Minnesota Center	Minneapolis, MN	Sep-03	3,572	Oct-03
9800 La Cienega	Los Angeles, CA	Dec-03		Nov-03
Park Central II	Dallas, TX	Dec-03		Dec-03
Desert Passage	Las Vegas, NV	Dec-03		Dec-03
Hollywood & Highland Retail	Los Angeles, CA	Feb-04		Feb-04
Hollywood & Highland Hotel	Los Angeles, CA	Feb-04		Feb-04
1441 Main Street	Columbia, SC	Jun-04		Jun-04
St. Louis Place	St. Louis, MO	Jun-04		Jun-04
Borden Building	Columbus, OH	Jun-04	22,095	Jul-04
Park Central I	Dallas, TX	Jun-04	2,703	Aug-04
1333 Main Street	Columbia, SC	Jun-04	7,023	Aug-04
3700 Bay Area Blvd.	Houston, TX	Jun-04		Sep-04
Lakeside Centre and New Market Business Park	Atlanta, GA	Jun-04	10,261	N/A
Bank of America-Columbia	Columbia, SC	Jun-04	3,525	N/A
Williams Center I & II	Tulsa, OK	Jun-04	23,051	N/A
Capital Center II & III	Sacramento, CA	Sep-04		Sep-04
Silver Spring Centre	Silver Spring, MD	Sep-04		N/A
Gateway Center	Pittsburgh, PA	Sep-04	40,330(1)	N/A
110 William Street	New York, NY	Sep-04		N/A
250 West Pratt Street	Baltimore, MD	Sep-04		N/A
Shoreline Square	Long Beach, CA	Sep-04		N/A

(1) Provision taken in second quarter of 2004.

In accordance with SFAS No. 144, the results of operations and gains or losses on disposition, if any, for the seventeen properties previously designated as held for disposition and sold prior to September 30, 2004, for all periods presented, have been reported as discontinued operations. In addition, in accordance with SFAS No. 144, the results of operations of the nine properties designated as held for disposition and not sold, for all periods presented, have been reported as discontinued operations.

The following summarizes the combined condensed results of operations, excluding any gains or losses on disposition, of the seventeen properties previously designated as held for disposition and sold prior to September 30, 2004 and the nine properties designated as held for disposition and not sold, through the earlier of their respective disposition dates or the three and nine months ended September 30, 2004 and 2003, respectively.

$ in thousands, except per share amounts

3. REAL ESTATE, Continued

b. Properties Held for Disposition, Continued

	For the three months ended September 30		For the nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Total revenues	**$ 29,588**	$ 55,430	**$ 106,870**	$ 176,555
Operating expenses	**(12,266)**	(25,027)	**(42,991)**	(77,755)
Property taxes	**(2,990)**	(5,003)	**(10,432)**	(15,517)
Depreciation and amortization	**(4,244)**	(12,186)	**(20,653)**	(37,660)
Recovery of provision for loss (provision for loss) on discontinued real estate	**9,613**	(3,572)	**(108,988)**	(18,164)
Interest and other income	**175**	308	**3,472**	1,200
Interest expense	**(2,011)**	(8,274)	**(12,743)**	(27,581)
Income from discontinued operations, net of provision for loss on discontinued real estate	**$ 17,865**	$ 1,676	**$ (85,465)**	$ 1,078

c. Gain on Disposition of Real Estate, Net, During the Nine Months Ended September 30, 2004 Pursuant to Transition Rules of SFAS No. 144

Date Sold	Property	Location	Rentable Sq. Ft.	Net Sale Price	Gain On Sale
January 15	151 Front Street	Toronto, ON	272,000	$58,228	$20,615
		Tax expense related to sale			(5,447)
					$15,168

In conjunction with the sale of 151 Front Street in Toronto, Ontario, the Corporation recognized a foreign currency exchange gain of approximately $3,340 representing the accumulated foreign currency translation adjustments related to the operations of the property through the date of sale.

d. Loss on Disposition of Real Estate, Net

Date Sold	Property	Location	Rentable Sq. Ft.	Net Sale Price	Gain (Loss) On Sale
May 10	Residual land	Sarasota, FL		$ 1,005	$ 1,005
May 18	Plaza of the Americas[1]	Dallas, TX	588,000[2]	$47,668	(20,847)
June 14	Woodbridge land	Woodbridge, VA		15,359	7,380
				$64,032	$(12,462)
		Tax expense related to sales			(112)
					$(12,574)

(1) On May 18, 2004, the Corporation sold a 50% interest in Plaza of the Americas and formed Trizec Plaza of the Americas L.P. joint venture. See discussion below.

(2) Represents 50% of rentable square feet.

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3. REAL ESTATE, Continued

e. Gain on Disposition of Discontinued Real Estate, Net, During the Nine Months Ended September 30, 2004 Designated as Held for Disposition Pursuant to SFAS No. 144

Date Sold	Property	Location	Rentable Sq. Ft.	Net Sales Price	Gain (Loss) On Sale
February 27	Hollywood & Highland Retail	Los Angeles, CA	645,000	$114,415	$23,583
February 27	Hollywood & Highland Hotel	Los Angeles, CA	600,000	84,332	8,607
June 24	1441 Main Street	Columbia, SC	274,000	26,415	6,020
June 30	St. Louis Place	St. Louis, MO	337,000	30,097	(8,847)
July 30	Borden Building	Columbus, OH	569,000	28,305	(274)
August 20	Park Central I	Dallas, TX	128,000	4,668	(281)
August 27	1333 Main Street	Columbia, SC	225,000	12,087	112
September 22	Capital Center II & III	Sacramento, CA	529,000	68,940	15,607
September 28	3700 Bay Area Blvd	Houston, TX	399,000	41,843	3,606
				$411,102	$48,133
		Tax expense related to sales			(292)
					$47,841

f. Acquisitions of Real Estate During the Nine Months Ended September 30, 2004

Date Purchased	Property	Location	Rentable Sq. Ft.	Net Purchase Price
August 27	Bank of America Plaza	Los Angeles, CA	1,422,000	420,693

On August 27, 2004, the Corporation acquired Bank of America Plaza, located at 333 South Hope Street, Los Angeles, California, from an unrelated third party for a net purchase price of approximately $420,693. The acquisition was financed with two non-recourse mortgage loans totaling approximately $242,000, bearing interest at an average fixed rate of 5.31% and scheduled to mature in September 2014. The remainder of the purchase price was funded from proceeds from the Corporation s 2004 Unsecured Credit Facility (hereinafter defined).

In accordance with SFAS No. 141, Business Combination, the Corporation allocated the net purchase price of the property acquired as follows:

Land	$ 49,788
Building and Improvements	286,735
Chiller Plant	10,714
Tenant Improvements	9,147
Leasing Commissions	6,348
In-Place Lease Value at Market	62,441
Above Market Lease Value	5,262
Below Market Lease Value	(9,742)
	$420,693

4. PROVISION FOR LOSS ON REAL ESTATE

In May 2004, the Corporation entered into a joint venture agreement with a third party to own and operate Plaza of the Americas, located in Dallas, Texas (Trizec Plaza of the Americas, L.P.). Prior to the formation of Trizec Plaza of the Americas, L.P., Plaza of the Americas was 100% owned by the Corporation. In conjunction with the formation of Trizec Plaza of the Americas, L. P., the Corporation sold a 50% interest in Plaza of the Americas to the third party for a net sales price of approximately $47,668, resulting in a loss on disposition of real estate, net, of approximately $20,959, for the sale of the 50% interest. In conjunction with the sale of its 50% interest in Plaza of the Americas, the Corporation

4. PROVISION FOR LOSS ON REAL ESTATE, Continued

determined that the fair value of Plaza of the Americas, based upon the contract price, was less than the Corporation s carrying value of such asset. Accordingly, the Corporation recognized a provision for loss on real estate of approximately $12,749 related to its 50% interest in Plaza of the Americas to reduce the carrying value of such property to its fair value.

5. RECOVERY OF PROVISION FOR LOSS ON DISCONTINUED REAL ESTATE AND PROVISION FOR LOSS ON DISCONTINUED REAL ESTATE

As part of the periodic assessment of the Corporation s real estate properties relative to both the extent to which such assets are consistent with the Corporation s long-term real estate investment objectives and the performance and prospects of each asset, the Corporation determined in the second quarter of 2004 that its investments in seven real estate properties were impaired. Given the Corporation s strategy focused on owning core real estate in its seven core markets, the Corporation reduced its anticipated recovery period for certain of its remaining non-core assets. As a result of the reduction in the anticipated holding period, together with a reassessement of the anticipated future operating income of such non-core real estate properties and the effects of new competition and demand for the properties, the Corporation determined that its investments in the Borden Building, Park Central I, 1333 Main Street, Lakeside Centre, New Market Business Park, Bank of America Columbia and Williams Center I & II were impaired. In accordance with SFAS No. 144, the Corporation recorded a provision for loss on discontinued real estate in the aggregate amount of approximately $78,271 in the second quarter of 2004 to reduce the book value of such non-core assets to their estimated fair values. During the third quarter of 2004, the Corporation entered into agreements to sell Lakeside Centre, New Market Business Park and Bank of America-Columbia at sales prices in excess of previous expectations. In accordance with SFAS No. 144, the Corporation reduced its provision for loss on discontinued real estate in the aggregate amount of approximately $9,613 to increase the book values of Lakeside Centre, New Market Business Park and Bank of America- Columbia to their fair values based upon established contract prices, less estimated costs to sell.

During the second quarter of 2004, internal valuations indicated that the value of Gateway Center, located in Pittsburgh, Pennsylvania, had declined. Accordingly, a provision for loss on real estate in the amount of approximately $40,330 was recorded in the second quarter of 2004. Gateway Center is encumbered by a mortgage loan in the principal amount of approximately $39,838. In August 2004, the Corporation received a notice of default related to the debt service from the lender of the mortgage loan on Gateway Center. In September 2004, the Corporation and the lender of the mortgage loan on Gateway Center agreed to modify certain terms of this mortgage loan primarily to reduce the yield maintenance penalty upon prepayment of the mortgage loan, as well as to allow the lender of the mortgage loan to participate in sales proceeds in excess of certain debt repayment and debt repayment costs upon the sale of Gateway Center. In conjunction with this loan modification, the lender of the mortgage loan granted a forbearance with respect to any default by the Corporation under the terms of the mortgage loan prior to modification. If the Corporation defaults on any of the terms of the loan modification, the forbearance becomes null and void and the lender of the mortgage loan is entitled to exercise all of its rights and remedies under the original mortgage loan, including acceleration of the payment of the mortgage loan in full.

In accordance with SFAS No. 144, the results of operations of Gateway Center, the Borden Building, Park Central I, 1333 Main Street, Lakeside Centre, New Market Business Park, Bank of America Columbia and Williams Center I & II have been reported as discontinued operations for all periods presented.

6. UNCONSOLIDATED REAL ESTATE JOINT VENTURES

The Corporation participates in unconsolidated real estate joint ventures in various operating properties which are accounted for using the equity method. In most instances, these projects are managed by the Corporation.

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6. UNCONSOLIDATED REAL ESTATE JOINT VENTURES, Continued

a. The following is a summary of the Corporation s ownership in unconsolidated real estate joint ventures at September 30, 2004 and December 31, 2003:

		Legal Interest[1]	
Entity	**Property and Location**	**September 30, 2004**	**December 31, 2003**
Marina Airport Building, Ltd.	Marina Towers, Los Angeles, CA	50%	50%
Dresser Cullen Venture	Kellogg, Brown & Root Tower, Houston, TX	50%	50%
Main Street Partners, L.P.	Bank One Center, Dallas, TX	50%	50%
1114 TrizecHahn-Swig, L.L.C.	The Grace Building, New York, NY	50%	50%
1411 TrizecHahn-Swig, L.L.C.	1411 Broadway, New York, NY	50%	50%
1460 Leasehold TrizecHahn Swig L.L.C./1460 Fee TrizecHahn Swig L.L.C.	1460 Broadway, New York, NY	50%	50%
JBG/TrizecHahn Waterview Venture L.L.C.	Waterview Development, Arlington, VA[2][3]	-%	80%
Waterview L.P.	Waterview Development, Arlington, VA[3]	25%	-%
TrizecHahn Hollywood Hotel L.L.C.	Hollywood & Highland Hotel, Los Angeles,CA[4]	-%	91.5%
Trizec Plaza of the Americas, L.P.	Plaza of the Americas, Dallas, TX[5]	50%	-%

(1) The amounts shown above approximate the Corporation s legal ownership interest as of September 30, 2004 and December 31, 2003. Cash flows from operations, capital transactions and net income are allocated to the joint venture partners in accordance with their respective partnership agreements. The Corporation s share of these items is subject to change based on, among other things, the operations of the property and the timing and amount of capital transactions.

(2) This property was not consolidated as the minority member had substantive participating rights that afforded the minority member equal voting rights on all major decisions as well as final approval of the operating and capital expenditures budgets.

(3) On April 30, 2004 the members of the JBG/TrizecHahn Waterview Venture L.L.C. sold the property to a newly formed joint venture, Waterview L.P., in which the Corporation acquired a 25% interest. See discussion below.

(4) This property was consolidated as of December 31, 2003 in accordance with FIN No. 46R. The Corporation sold this property on February 27, 2004.

(5) On May 18, 2004, the Corporation sold a 50% interest in Plaza of the Americas and formed Trizec Plaza of the Americas L.P. joint venture. See discussion below.

b. Unconsolidated Real Estate Joint Venture Financial Information

The following represents combined summarized financial information of the Corporation s unconsolidated real estate joint ventures:

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6. UNCONSOLIDATED REAL ESTATE JOINT VENTURES, Continued

b. Unconsolidated Real Estate Joint Venture Financial Information, Continued

Balance Sheet Information

	September 30 2004	December 31 2003
Assets		
Real estate, net	**$ 519,937**	$ 426,450
Other assets	**243,540**	146,057
Total assets	**$ 763,477**	$ 572,507
Liabilities and equity		
Mortgage debt and other loans	**$ 851,113**	$ 452,609
Other liabilities	**42,217**	23,248
Partners equity	**(129,853)**	96,650
Total liabilities and equity	**$ 763,477**	$ 572,507
Corporation s share of equity	**$ (80,267)**	$ 55,582
Net excess of cost of investments over the net book value of underlying assets	**167,655**	175,603
Reclassification of distributions in excess of investment in an unconsolidated joint venture	**29,587**	
Carrying value of Corporation s investment in unconsolidated real estate joint ventures	**$ 116,975**	**$** 231,185
Corporation s share of mortgage debt	**$ 420,409**	**$** 232,712

In March 2004, 1114 TrizecHahn-Swig, L.L.C. and 1411 TrizecHahn-Swig, L.L.C., joint ventures through which the Corporation owns approximately 50% interests in The Grace Building and 1411 Broadway, respectively, (together, the Swig Joint Ventures) repaid and retired a mortgage loan with a principal balance of approximately $39,843 that bore interest at a rate of LIBOR plus 3.5%. The Corporation loaned its joint venture partner approximately $20,030 in conjunction with the debt pay off and retirement. The loan to the Corporation s joint venture partner bore interest at a rate of LIBOR plus 2.75%, was payable in full on the earlier of March 18, 2005 or the date of the refinancing of the joint venture s remaining mortgage loan, and was collateralized by the joint venture partner s investment in the joint venture. The Corporation s loan to its joint venture partner was repaid in full and retired in June 2004 in conjunction with the refinancing discussed below.

In June 2004, the Swig Joint Ventures refinanced an approximately $206,868 mortgage loan, which bore interest at a fixed rate of 7.50% and was scheduled to mature in March 2005, with two mortgage loans totaling approximately $600,000, bearing interest at an average fixed rate of 5.52% and scheduled to mature in July 2014. In May 2004, the Swig Joint Ventures entered into forward rate swap agreements to lock in a maximum effective interest rate on the refinanced mortgage loans. The forward rate swap agreements were entered into at current market rates and, therefore, had no initial cost. Upon closing of the refinanced mortgage loans, the Corporation advanced approximately $11,540 to the Swig Joint Ventures and the Swig Joint Ventures paid approximately $11,540 to settle the forward rate swap agreements, which has been recorded in other comprehensive income. The approximately $11,540 paid on settlement of the forward rate swap agreements will be amortized into interest expense over the life of the mortgage loan. The Swig Joint Ventures repaid the approximately $11,540 advance in the third quarter of 2004. The Swig Joint Ventures recorded a loss on early debt retirement of approximately $10,150 comprised primarily of the write-off of unamortized deferred financing costs and a yield maintenance fee.

In May 2004, the Corporation entered into a joint venture agreement with a third party to own and operate Plaza of the Americas, located in Dallas, Texas. Prior to the formation of Trizec Plaza of the Americas, L.P., Plaza of the Americas was 100% owned by the Corporation. In conjunction with the formation of Trizec Plaza of the Americas, L.P., the Corporation sold a 50% interest in Plaza of the Americas to the third party for a net sales price of approximately $47,668, resulting in a loss on disposition of real estate, net, of approximately $20,959, for the sale of the 50% interest. In conjunction with the sale of its 50% interest in Plaza of the Americas, the Corporation determined that the fair value of Plaza of the Americas, based upon the contract price, was less than the Corporation s carrying value of such asset. Accordingly,

6. UNCONSOLIDATED REAL ESTATE JOINT VENTURES, Continued

b. Unconsolidated Real Estate Joint Venture Financial Information, Continued

the Corporation recognized a provision for loss on real estate of approximately $12,749 related to its 50% interest in Plaza of the Americas to reduce the carrying value of such property to its fair value.

In June 2004, Trizec Plaza of the Americas, L.P. entered into an approximately $68,000 mortgage loan, bearing interest at a fixed rate of 5.12% and maturing in July 2011. Plaza of the Americas was removed from a pool of cross-collateralized loans that are part of a 2001 commercial mortgage-backed securities financing.

In April 2004, the JBG/TrizecHahn Waterview Venture L.L.C., a joint venture through which the Corporation owned an 80% interest in the Waterview Development, located in Arlington, Virginia, sold the property, a mixed-use development land parcel, to a newly formed joint venture, Waterview L.P., in which the Corporation acquired a 25% interest. The JBG/TrizecHahn Waterview Venture L.L.C. recognized a gain on disposition of real estate of approximately $1,080 in conjunction with such sale.

As part of the periodic assessment of the Corporation s real estate investments relative to both the extent to which such investments are consistent with the Corporation s long-term real estate investment objectives and performance and prospects of each investment, the Corporation determined in the second quarter of 2004 that its investment in Main Street Partners, L.P., a joint venture through which the Corporation owns a 50% interest in Bank One Center in Dallas, Texas, was impaired. As a result of the reassessment of the anticipated future operating results of such non-core investment, the Corporation determined that its investment in such joint venture was impaired. The Corporation recognized a provision for loss on investment of approximately $14,558 to reduce the carrying value of such investment to its fair value. In addition, in August 2004, Main Street Partners, L.P. repaid and retired the mezzanine loan on Bank One Center. The mezzanine loan had a principal balance of approximately $19,102, bore interest at a variable rate of 11.90% and was scheduled to mature in December 2004. Main Street Partners, L.P. recorded a loss on early debt retirement of approximately $34 comprised of the write off of unamortized deferred financing costs.

During the nine months ended September 30, 2004, the Corporation made cash and non-cash contributions and advances to its unconsolidated real estate joint ventures in the aggregate amount of approximately $95,509, and received distributions from its unconsolidated real estate joint ventures in the aggregate amount of approximately $236,092. Included in distributions received from the Corporation s unconsolidated real estate joint ventures is approximately $167,165 of distributions received from the Swig Joint Ventures due to proceeds received from the refinancing of its mortgage loan. This distribution has exceeded the Corporation s cumulative investment in the Swig Joint Ventures by approximately $29,587, which has been recorded in other accrued liabilities as the Corporation is committed to provide financial support to the Swig Joint Ventures in the future. During the nine months ended September 30, 2003, the Corporation made contributions and advances to its unconsolidated real estate joint ventures in the aggregate amount of approximately $22,619, and received distributions from its unconsolidated real estate joint ventures in the aggregate amount of approximately $18,140.

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6. UNCONSOLIDATED REAL ESTATE JOINT VENTURES, Continued

b. Unconsolidated Real Estate Joint Venture Financial Information, Continued

Income Statement Information

	For the three months ended September 30		For the nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Total Revenues	**$ 51,971**	$ 52,413	**$ 146,716**	$ 156,516
Expenses				
Operating and other	**31,859**	24,702	**70,667**	71,508
Depreciation and amortization	**6,248**	6,608	**16,779**	19,309
Total Expenses	**38,107**	31,310	**87,446**	90,817
Other Income (Expense)				
Interest and other income	**274**	111	**663**	479
(Loss) Gain on early debt retirement	**(34)**		**(10,184)**	4,124
Interest expense	**(13,635)**	(9,794)	**(30,368)**	(29,412)
Total Other Expense	**(13,395)**	(9,683)	**(39,889)**	(24,809)
Income before Gain on Disposition of Real Estate	**469**	11,420	**19,381**	40,890
Gain on disposition of real estate			**1,080**	1,142
Net Income	**$ 469**	$ 11,420	**$ 20,461**	$ 42,032
Corporation s share of net income	**$ 2,979**	$ 4,359	**$ 11,248**	$ 17,974

Included in total revenues for the nine months ended September 30, 2003 is a termination fee of approximately $5,503 received from General Motors Corporation, which occupied the majority of New Center One and also was our joint venture partner through one of its affiliates, New-Cen Commercial Corporation.

7. CONSOLIDATED REAL ESTATE JOINT VENTURES

Consolidation of the Hollywood & Highland Hotel

The Corporation applied the provisions of FIN No. 46R for all entities as of December 31, 2003. The Corporation determined that the Hollywood & Highland Hotel was a VIE in which the Corporation was the primary beneficiary.

The Hollywood & Highland Hotel is a 640-room hotel located in Los Angeles, California. At December 31, 2003, the Corporation had a 91.5% ownership and economic interest in an entity that owned the Hollywood & Highland Hotel. Prior to December 31, 2003, the Corporation accounted for the Hollywood & Highland Hotel as an investment in an unconsolidated real estate joint venture. On December 31, 2003, the Corporation consolidated the Hollywood & Highland Hotel. The net impact of the consolidation of the Hollywood & Highland Hotel was an increase in the Corporation s consolidated assets of approximately $93,979, representing the net book value of the real estate, cash and cash equivalents and other assets. In addition, the Corporation consolidated approximately $81,517 of mortgage debt related to the Hollywood & Highland Hotel. The Corporation s maximum exposure to loss was approximately $81,517, representing the amount of mortgage debt outstanding at December 31, 2003. Upon consolidation of the Hollywood & Highland Hotel, the Corporation recognized a cumulative effect of a change in accounting principle of approximately $3,845 representing the minority member s share of the Hollywood & Highland Hotel s non-recoverable cumulative losses. On February 27, 2004, the Corporation sold the Hollywood & Highland Hotel.

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8. MORTGAGE DEBT, OTHER LOANS AND REVOLVING CREDIT FACILITY

	Properties Held for the Long Term		Properties Held for Disposition		Total Debt			
	Weighted average interest rates at Sept. 30, 2004	Sept. 30, 2004	Weighted average interest rates at Sept. 30, 2004	Sept. 30, 2004	Weighted average interest rates at Sept. 30, 2004	Sept. 30, 2004	Weighted average interest rates at Dec. 31, 2003	Dec. 31, 2003
Collateralized property loans:								
At fixed rates	**6.34%**	**$1,984,898**	**7.58%**	**$88,460**	**6.39%**	**$2,073,358**	5.99%	$2,548,340
At variable rates (subject to interest rate caps)							3.91%	120,000
At variable rates							4.20%	137,893
Other loans:								
At fixed rates	**6.01%**	**18,695**			**6.01%**	**18,695**	4.32%	60,537
At variable rates							4.00%	205
	6.34%	**$2,003,593**	**7.58%**	**$88,460**	**6.39%**	**$2,092,053**	5.78%	$2,866,975
Unsecured credit facility					**3.43%**	**365,000**		
					5.95%	**$2,457,053**	5.78%	$2,866,975

Certain of the Corporation s loans are cross-collateralized with, or subject to cross-default or cross-acceleration provisions in, other loans.

a. Collateralized Property Loans

Property loans are collateralized by deeds of trust or mortgages on properties and mature at various dates between March 2005 and September 2014.

At September 30, 2004 and December 31, 2003, the Corporation had outstanding interest rate swap contracts in the notional amount of $150,000, bearing a weighted average interest rate of 6.02% and maturing on March 15, 2008. In addition, at September 30, 2004 and December 31, 2003, the Corporation had outstanding interest rate swap contracts in the notional amount of $500,000, bearing a weighted average interest rate of 2.61% plus various spreads and maturing between July 1, 2005 and January 1, 2006. Due to the pay off and retirement of certain amounts of variable rate debt during the nine months ended September 30, 2004, the Corporation de-designated interest rate swap contracts in the notional amount of $375,000. For the three and nine months ended September 30, 2004, the Corporation recorded through earnings a derivative loss of approximately $1,182 and $2,680, respectively, representing the total ineffectiveness of the Corporation s interest rate swap contracts. All components of each derivative s gain or loss were included in the assessment of hedge effectiveness. At September 30, 2004 and December 31, 2003, the debt hedged by the interest rate swap contracts was classified as fixed in the above table. The aggregate cost to unwind these interest rate swap contracts was approximately $12,384 and $20,325 at September 30, 2004 and December 31, 2003, respectively.

The Corporation entered into interest rate cap contracts that expired in June 2004 on $120,000 of its variable rate debt, which limited the underlying LIBOR interest rate on such debt to 6.50%. At December 31, 2003, the fair value of these interest rate cap contracts was nominal. In addition, and not reclassified in the table above at December 31, 2003, the Corporation entered into an interest rate cap contract that expired in April 2004 on approximately $584,700 of its variable rate debt, which limited the underlying LIBOR rate on such debt to 11.01%. At December 31, 2003, the fair value of this interest rate cap contract was nominal.

In April 2004, the Corporation elected to exercise the first of two one-year extensions on approximately $272,720 of its variable interest rate commercial mortgage pass-through certificates, thereby extending the maturity date of such variable interest rate commercial mortgage pass-through certificates to April 2005. In conjunction with such extension, the Corporation entered into an interest rate cap agreement expiring on April 15, 2005 that limits the underlying LIBOR interest rate on the variable interest rate commercial mortgage pass-through certificates to 8.93%.

8. MORTGAGE DEBT, OTHER LOANS AND REVOLVING CREDIT FACILITY, Continued

a. Collateralized Property Loans, Continued

On August 27, 2004, in conjunction with the acquisition of Bank of America Plaza, located at 333 Hope Street, Los Angeles, California, the Corporation entered into two non-recourse mortgage loans totaling approximately $242,000, bearing interest at an average fixed rate of 5.31% and scheduled to mature in September 2014.

b. Refinancing and Early Debt Retirement

In January 2004, the Corporation refinanced the $120,000 mortgage loan on Ernst & Young Plaza in Los Angeles, California, which bore interest at a variable rate of LIBOR plus 2.75% and was scheduled to mature in June 2004, with a $120,000 mortgage loan bearing interest at a fixed rate of 5.07% and scheduled to mature in February 2014. In December 2003, the Corporation entered into forward rate swap agreements to lock in a maximum effective interest rate on the refinanced mortgage loan. The forward rate swap agreements were entered into at current market rates and, therefore, had no initial cost. Upon closing of the refinanced mortgage loan, the Corporation paid approximately $3,767 in settlement of the forward rate swap agreements, which has been recorded in other comprehensive income. The approximately $3,767 paid on settlement of the forward rate swap agreements will be amortized to interest expense over the life of the mortgage loan. In addition, the Corporation recorded a loss on early debt retirement of approximately $343, comprised primarily of the write-off of unamortized deferred financing costs.

In February 2004, the Corporation paid off and retired the mortgage loan on Galleria Towers in Dallas, Texas. The mortgage loan had a principal balance of approximately $133,490, bore interest at a fixed rate of 6.79% and was scheduled to mature in May 2004. In conjunction with the pay off and retirement of the mortgage loan, the Corporation recorded a loss on early debt retirement of approximately $40, comprised primarily of the write-off of unamortized deferred financing costs.

In June 2004, the Corporation paid off and retired the mortgage loan on 1065 Avenue of the Americas in New York, New York. The mortgage loan had a principal balance of approximately $36,498, bore interest at a fixed rate of 7.18% and was scheduled to mature in December 2004.

In July 2004, the Corporation paid off and retired the mortgage loan on Newport Tower in Jersey City, New Jersey. The mortgage loan had a principal balance of approximately $102,810, bore interest at a fixed rate of 7.09% and was scheduled to mature in November 2004.

In July 2004, the Corporation paid down approximately $444,149 of its variable interest rate commercial mortgage pass-through certificates primarily by drawing on the 2004 Unsecured Credit Facility (hereinafter defined). The variable interest rate commercial mortgage pass-through certificates bore interest at a variable rate of LIBOR plus various spreads between 0.289% and 0.529% and were scheduled to mature between 2006 and 2008. In conjunction with the pay down of the variable interest rate commercial mortgage pass-through certificates, the Corporation recorded a loss on early retirement of debt of approximately $3,233, comprised of the write-off of unamortized deferred financing costs of approximately $2,376 and a prepayment fee of approximately $857.

In conjunction with the sale of real estate during the nine months ended September 30, 2004, the Corporation paid off approximately $238,343 of mortgage debt, resulting in a gain on early debt retirement of approximately $629 comprised primarily of a gain from the forgiveness of debt of approximately $1,237, offset by the write-off of unamortized deferred financing costs.

c. Unsecured Credit Facility

The Corporation entered into a three-year, $350,000 unsecured revolving credit facility (the 2001 Revolving Credit Facility) with a group of banks in the fourth quarter of 2001. In the fourth quarter of 2002, the group of banks unanimously agreed to amend and restate the 2001 Revolving Credit Facility (the 2002 Revolving Credit Facility). Generally, in exchange for the receipt of collateral, the group of banks agreed to provide more flexible financial covenants than had been originally negotiated. In June 2004, the

8. MORTGAGE DEBT, OTHER LOANS AND REVOLVING CREDIT FACILITY, Continued

c. Unsecured Credit Facility, Continued

Corporation retired the 2002 Revolving Credit Facility and entered into a $750,000 unsecured credit facility with a group of banks (the 2004 Unsecured Credit Facility). The 2004 Unsecured Credit Facility consists of a $600,000 revolving component and a $150,000 term component, bears interest at LIBOR plus a spread of 1.15% to 2.0% based on the Corporation s total leverage, and matures in June 2007. The financial covenants, as defined in the 2004 Unsecured Credit Facility, include the quarterly requirements for the total leverage ratio not to exceed 65.0% during year one, 62.5% during year two and 60.0% during year three, the requirement for the interest coverage ratio to be greater than 2.0 times, the requirement for the fixed charge coverage ratio to be greater than 1.5 times and the requirement for the net worth to be in excess of $1.5 billion. The Corporation s financial covenants also include a restriction on dividends or distributions of more than 90% of its funds from operations (as defined in the 2004 Unsecured Credit Facility Agreement). If the Corporation is in default in respect of its obligations under the 2004 Unsecured Credit Facility Agreement, dividends will be limited to the amount necessary to maintain REIT status. The Corporation anticipated it would not meet all requirements with respect to the dividend restriction covenant under the 2004 Unsecured Credit Facility Agreement for the nine months ended September 30, 2004 and the remainder of 2004. As such, the Corporation requested and received a waiver from the lenders of the 2004 Unsecured Credit Facility which waives said requirements for such covenant for the nine months ended September 30, 2004 and the remainder of 2004. Other than noted, at September 30, 2004, the Corporation was in compliance with these financial covenants. Certain conditions of the 2004 Unsecured Credit Facility may restrict the amount eligible to be borrowed at any time. In conjunction with the retirement of the 2002 Revolving Credit Facility, the Corporation recorded a loss on early debt retirement of approximately $1,389 comprised of the write-off of unamortized deferred financing costs.

At September 30, 2004, the amount eligible to be borrowed under the Corporation s 2004 Unsecured Credit Facility was approximately $631,243, of which approximately $365,000 was drawn and outstanding. At December 31, 2003, the amount eligible to be borrowed under the Corporation s 2002 Revolving Credit Facility was approximately $217,005, none of which was drawn and outstanding.

d. Liability for Obligations of Partners

The Corporation was contingently liable for certain obligations related to the Hollywood & Highland Hotel, one of the Corporation s consolidated real estate joint ventures. At December 31, 2003, the Corporation had guaranteed or was otherwise contingently liable for an approximately $74,000 mortgage loan that was scheduled to mature in April 2005. All of the assets of the Hollywood & Highland Hotel were available for the purpose of satisfying this obligation. On February 27, 2004, the Corporation sold the Hollywood & Highland Complex and, thus, is no longer contingently liable for obligations related to the Hollywood & Highland Hotel.

9. STOCKHOLDERS EQUITY

a. Dividends

On March 10, 2004, the Corporation declared a quarterly dividend of $0.20 per share of common stock, payable on April 15, 2004, to the holders of record at the close of business on March 31, 2004. On June 14, 2004, the Corporation declared a quarterly dividend of $0.20 per share of common stock, payable on July 15, 2004, to the holders of record at the close of business on June 30, 2004. On September 14, 2004, the Corporation declared a quarterly dividend of $0.20 per common share, payable on October 15, 2004, to the holders of record at the close of business on September 30, 2004. The aggregate amount of dividends paid on April 15, 2004, July 15, 2004, and October 15, 2004 totaled approximately $30,488, $30,505, and $30,518, respectively.

9. STOCKHOLDERS EQUITY, Continued

a. Dividends, Continued

On March 10, 2004, the Corporation declared an aggregate dividend of approximately $5 for the Class F convertible stock, payable on April 15, 2004, to the holders of record at the close of business on March 31, 2004. The Corporation accrued an additional $1 dividend for the Class F convertible stock on March 31, 2004, June 30, 2004, and September 30, 2004, respectively.

On March 10, 2004, the Corporation declared an aggregate dividend of approximately $629 for the special voting stock, payable on April 15, 2004, to the holders of record at the close of business on March 31, 2004, and accrued an additional $674 dividend for the special voting stock. On June 14, 2004, the Corporation declared an aggregate dividend of approximately $629 for the special voting stock, payable on July 15, 2004, to the holders of record at the close of business on June 30, 2004, and accrued an additional $587 dividend for the special voting stock. On September 14, 2004, the Corporation declared an aggregate dividend of approximately $1,719 for the special voting stock, payable on October 15, 2004, of which, approximately $326 had been previously accrued.

b. Restricted Stock Rights

During the nine months ended September 30, 2004, the Corporation awarded 405,950 restricted stock rights to certain employees. These restricted stock rights had a fair value of approximately $6,816 on the date of grant. The restricted stock rights vest ratably over periods of three to five years. Compensation expense will be charged to earnings over the vesting period.

During the nine months ended September 30, 2004, the Corporation awarded 115,700 performance based restricted stock rights to certain employees. These performance based restricted stock rights had a fair value of approximately $1,943 on the date of grant. The performance based restricted stock rights vest ratably over a period of five years provided that specific performance objectives are achieved. Compensation expense will be charged to earnings over the vesting period.

During the nine months ended September 30, 2004, the Corporation awarded 14,056 restricted stock rights to certain directors of the Corporation. These restricted stock rights had a fair value of approximately $229 on the date of grant. The restricted stock rights vest on January 1, 2005. Compensation expense will be charged to earnings over the vesting period.

c. Employee Stock Purchase Plan

During the nine months ended September 30, 2004, 82,465 shares were issued to employees under the Corporation s Employee Stock Purchase Plan.

d. Stock Options

During the nine months ended September 30, 2004, certain employees of the Corporation exercised 540,453 non-qualified employee stock options. Proceeds to the Corporation from the exercise of such non-qualified employee stock options were approximately $6,320.

e. Warrants

During the nine months ended September 30, 2004, certain employees of the Corporation exercised 261,081 warrants. Gross proceeds to the Corporation from the exercise of such warrants were approximately $3,703.

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9. STOCKHOLDERS EQUITY, Continued

f. Dividend Reinvestment and Stock Purchase Plan

In June 2004, the Corporation established a dividend reinvestment and stock purchase plan which allows stockholders to reinvest all or a portion of their dividends in additional shares of the Corporation s common stock. The dividend reinvestment and stock purchase plan also allows non-stockholders to purchase shares of the Corporation s common stock through the plan and provides both stockholders and non-stockholders the option to purchase shares of the Corporation s common stock without paying fees or commissions by making optional cash investments of $0.1 to $10 per month for current stockholders or $0.3 to $10 per month for persons who are not current stockholders. Purchases of greater than $10 per month can be accomplished by the Corporation granting a waiver to the $10 limit.

g. Treasury Stock

During the nine months ended September 30, 2004, common shares held in treasury increased by approximately $88 due to 5,403 common shares surrendered as payment of statutory withholdings for the vesting of restricted common stock.

During the nine months ended September 30, 2004, common shares held in treasury increased by approximately $90 due to the forfeiture of 8,200 shares of restricted stock.

10. EARNINGS PER SHARE

For the three months ended September 30, 2004, basic and dilutive weighted average shares outstanding were 151,762,294 and 153,351,683, respectively. In computing weighted average dilutive shares outstanding, basic weighted average shares outstanding were increased by 1,589,389 in respect to stock options and warrants that had a dilutive effect. Not included in the computation of diluted net income available to common stockholders per share, as they would have had an anti-dilutive effect, were 2,497,958 stock options, 473,500 warrants and 521,650 shares of restricted stock and restricted stock rights. The dilutive shares were calculated based on $16.52 per share, which represents the average daily trading price for the three months ended September 30, 2004.

For the nine months ended September 30, 2004, basic and dilutive weighted average shares outstanding were 151,499,708. Not included in the computation of diluted net income available to common stockholders per share, as they would have had an anti-dilutive effect, were 8,845,664 stock options, 3,267,134 warrants and 880,706 shares of restricted stock and restricted stock rights.

For the three months ended September 30, 2003, basic and dilutive weighted average shares outstanding were 149,933,043 and 150,521,687, respectively. In computing weighted average dilutive shares outstanding, basic weighted average shares outstanding were increased by 588,644 in respect to stock options and warrants that had a dilutive effect. Not included in the computation of diluted net income available to common stockholders per share, as they would have had an anti-dilutive effect, were 7,618,846 stock options, 4,733,405 warrants and 318,060 shares of restricted stock. The dilutive shares were calculated based on $11.91 per share, which represents the average daily trading price for the three months ended September 30, 2003.

For the nine months ended September 30, 2003, basic and dilutive weighted average shares outstanding were 149,834,920 and 150,058,224, respectively. In computing weighted average dilutive shares outstanding, basic weighted average shares outstanding were increased by 223,304 in respect to stock options and warrants that had a dilutive effect. Not included in the computation of diluted net income available to common stockholders per share, as they would have had an anti-dilutive effect, were 8,620,433 stock options, 5,966,918 warrants and 345,000 shares of restricted stock. The dilutive shares were calculated based on $10.39 per share, which represents the average daily trading price for the nine months ended September 30, 2003.

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10. EARNINGS PER SHARE, Continued

	For the three months ended September 30		For the nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Income from continuing operations	**$ 13,197**	$ 39,468	**$ 32,236**	$ 90,351
Gain on disposition of real estate, net	**249**		**2,594**	11,351
Less: Special voting and Class F convertible stockholders dividends	**(1,394)**	(2,504)	**(3,915)**	(3,917)
Income from Continuing Operations Available to Common Stockholders	**12,052**	36,964	**30,915**	97,785
Discontinued operations	**36,098**	21,858	**(37,624)**	29,786
Net Income (Loss) Available to Common Stockholders	**$ 48,150**	$ 58,822	**$ (6,709)**	$ 127,571
Basic Earnings per Common Share				
Income from continuing operations available to common stockholders	**$ 0.08**	$ 0.25	**$ 0.20**	$ 0.65
Discontinued operations	**0.24**	0.14	**(0.24)**	0.20
Net Income (Loss) Available to Common Stockholders per Weighted Average Common Share Outstanding Basic	**$ 0.32**	$ 0.39	**$ (0.04)**	$ 0.85
Diluted Earnings per Common Share				
Income from continuing operations available to common stockholders	**$ 0.08**	$ 0.25	**$ 0.20**	$ 0.65
Discontinued operations	**0.23**	0.14	**(0.24)**	0.20
Net Income (Loss) Available to Common Stockholders per Weighted Average Common Share Outstanding Diluted	**$ 0.31**	$ 0.39	**$ (0.04)**	$ 0.85
Weighted average shares outstanding Basic	**151,762,294**	149,933,043	**151,499,708**	149,834,920

Diluted	**153,351,683**	150,521,687	**151,499,708**	150,058,224

Notes to the Financial Statements
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11. CONTINGENCIES

a. Litigation

The Corporation is contingently liable with respect to routine litigation and claims arising in the ordinary course of business from time to time. While the final outcome with respect to claims and litigation pending at September 30, 2004 cannot be predicted with certainty, in the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Corporation.

b. Concentration of Credit Risk

The Corporation maintains its cash and cash equivalents at financial institutions. The combined account balances at each institution typically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Management believes that this risk is not material.

The Corporation performs ongoing credit evaluations of tenants and may require tenants to provide some form of credit support, such as corporate guarantees and/or other financial guarantees. Although the Corporation s properties are geographically diverse and tenants operate in a variety of industries, to the extent the Corporation has a significant concentration of rental revenue from any single tenant, the inability of that tenant to make its lease payments could have an adverse effect on the Corporation.

c. Environmental

The Corporation, as an owner of real estate, is subject to various federal, state and local laws and regulations relating to environmental matters. Under these laws, the Corporation is exposed to liability primarily as an owner or operator of real property and, as such, may be responsible for the cleanup or other remediation of contaminated property. Contamination for which the Corporation may be liable could include historic contamination, spills of hazardous materials in the course of its tenants regular business operations and spills or releases of hydraulic or other toxic oils. An owner or operator of real property can be liable for contamination or hazardous or toxic substances in some circumstances whether or not the owner or operator knew of, or was responsible for, the presence of such contamination or hazardous or toxic substances. In addition, the presence of contamination or hazardous or toxic substances on property, or the failure to properly clean up or remediate such contamination or hazardous or toxic substances when present, may materially and adversely affect the ability to sell or lease such contaminated property or to borrow using such property as collateral.

Asbestos-containing material (ACM) is present in some of the Corporation s properties. Environmental laws govern the presence, maintenance and removal of asbestos. The Corporation believes that it manages ACM in accordance with applicable laws and plans to continue managing ACM as appropriate and in accordance with applicable laws and believes that the cost to do so will not be material.

The cost of compliance with existing environmental laws has not had a material adverse effect on the Corporation s financial condition and results of operations, and the Corporation does not believe it will have such an impact in the future. In addition, the Corporation has not incurred, and does not expect to incur any material costs or liabilities due to environmental contamination at properties it currently owns or has owned in the past;

however, there can be no assurance that this will be the case. In addition, the Corporation cannot predict the impact of new or changed laws or regulations on its properties or on properties that it may acquire in the future. The Corporation has no current plans for substantial capital expenditures with respect to compliance with environmental laws.

11. CONTINGENCIES, Continued

d. Insurance

The Corporation carries insurance on its properties of types and in amounts that it believes are in line with coverage customarily obtained by owners of similar properties. The Corporation believes all of its properties are adequately insured. The property insurance that has been maintained historically has been on an all risk basis, which, until 2003, included losses caused by acts of terrorism. Following the terrorist activity of September 11, 2001 and the resulting uncertainty in the insurance market, insurance companies generally excluded insurance against acts of terrorism from their all risk policies. As a result, the Corporation s all risk insurance coverage contained specific exclusions for losses attributable to acts of terrorism. In light of this development, for 2003 the Corporation purchased stand-alone terrorism insurance on a portfolio-wide basis with annual aggregate limits that it considers commercially reasonable, considering the availability and cost of such coverage. Such terrorism coverage carried an aggregate limit of $250,000 on a portfolio-wide basis. Effective December 31, 2003, the Corporation amended its insurance coverage for acts of terrorism as a result of the Terrorism Risk Insurance Act of 2002 (TRIA) enacted by Congress and signed into law by President Bush in November 2002. The Corporation s expired terrorism insurance program that provided a limit of $250,000 in the aggregate per year was replaced with a terrorism insurance program with a limit of $500,000 per occurrence. This current terrorism insurance program provides coverage for certified nuclear, chemical and biological exposure, whereas the previous insurance program did not cover such exposure. Under TRIA, the Corporation has a per occurrence deductible of $100 and retains responsibility for 10% of the cost of each nuclear, chemical and biological certified event up to a maximum of $50,000 per occurrence. If the certified terrorism event is not found to be a nuclear, chemical or biological event, the Corporation s 10% exposure is limited to the $100 deductible. The federal government is obligated to cover the remaining 90% of the loss above the deductible up to $100,000,000 in the aggregate annually. Since the limit with respect to the Corporation s portfolio may be less than the value of the affected properties, terrorist acts could result in property damage in excess of our current coverage, which could result in significant losses to the Corporation due to the loss of capital invested in the property, the loss of revenues from the impacted property and the capital that would have to be invested in that property.

Any such circumstance could have a material adverse effect on our financial condition and results of operations of the Corporation. In the future, the Corporation may obtain different coverage depending on the availability and cost of third party insurance in the marketplace.

During 2003, the Corporation received notices to the effect that its insurance coverage against acts of terrorism may not comply with loan covenants under certain debt agreements. The Corporation reviewed its coverage and believes that it complied with these documents and that its insurance coverage adequately protected the lenders interests. The Corporation initiated discussions with these lenders to satisfy their concerns and assure that their interests and its interests are adequately protected. As a result of the Corporation s discussions, the lenders who sent such notices in 2003 accepted the insurance coverage that the Corporation provided, one of whom did so with a formal irrevocable waiver for the 2003 policies.

The new terrorism insurance program described above became effective on December 31, 2003. Because the program relies upon TRIA, which was not signed into law until November 2002, it may not conform to the formal insurance requirements of the loan covenants that pre-dated TRIA. While we believe we are in compliance with our loan covenants, a lender may take the position that the Corporation s new insurance program is not in compliance with covenants in a debt agreement and the Corporation could be deemed to be in default under the agreement. In that case, the Corporation may decide to obtain insurance to replace or supplement its new insurance program in order to fulfill the lender s request. While we believe our terrorism insurance coverage meets the formal and substantive provisions of our loan agreements, a lender under one of our loan agreements has verbally indicated that our terrorism insurance may not meet the precise requirements of a loan agreement. We have not received, nor do we expect to receive, a notice of default from the lender. Furthermore, the lender has stated that a written waiver for 2004 will be provided to the Corporation or that the loan will be amended to ensure that the Corporation s coverage will be compliant. In the future, the Corporation s ability to obtain debt financing, and/or the terms of such financing, may be adversely affected if lenders insist upon additional requirements or greater insurance

11. CONTINGENCIES, Continued

d. Insurance, Continued

coverage against acts of terrorism than may be available to the Corporation in the marketplace at rates, or on terms, that are commercially reasonable. The Corporation s earthquake insurance on its properties located in areas known to be subject to earthquakes is in an amount and subject to deductibles that the Corporation believes are commercially reasonable. However, the amount of earthquake insurance coverage may not be sufficient to cover all losses from earthquakes. Since the limit with respect to the Corporation s portfolio may be less than the value of the affected properties, earthquakes could result in property damage in excess of our current coverage, which could result in significant losses to the Corporation due to the loss of capital invested in the property, the loss of revenues from the impacted property and the capital that would have to be invested in that property. Any such circumstances could have a material adverse effect on the Corporation s financial condition and results of operations. As a result of increased costs of coverage and decreased availability, the amounts of the third party earthquake insurance the Corporation may be able to purchase on commercially reasonable terms may be reduced. In addition, the Corporation may discontinue earthquake insurance on some or all of its properties in the future if the premiums exceed the Corporation s estimate of the value of the coverage.

There are other types of losses, such as from acts of war, acts of bio-terrorism or the presence of mold at the Corporation s properties, for which coverage is not available in the market to the Corporation or other purchasers of commercial insurance policies. With respect to such losses and losses from acts of terrorism, earthquakes or other catastrophic events, if the Corporation experiences a loss that is uninsured or that exceeds policy limits, it could lose the capital invested in the damaged properties, as well as the anticipated future revenues from those properties. Depending on the specific circumstances of each affected property, it is possible that the Corporation could be liable for mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect the Corporation s business and financial condition and results of operations.

Additionally, although the Corporation generally obtains owners title insurance policies with respect to its properties, the amount of coverage under such policies may be less than the full value of such properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, the Corporation could lose all or part of its investment in, and anticipated income and cash flows from, such property.

12. SEGMENTED INFORMATION

The Corporation has determined that its reportable segments are those that are based on the Corporation s method of internal reporting, which classifies its office operations by regional geographic area. This reflects a management structure with dedicated regional leasing and property management teams. The Corporation s reportable segments by major metropolitan area for office operations in the United States are: Atlanta, Chicago, Dallas, Houston, Los Angeles, New York, Washington D.C. and secondary markets. The Corporation primarily evaluates operating performance based on internal operating income, which is defined as total revenue including tenant recoveries, parking, fee and other income less operating expenses and property taxes, and include properties that have been designated as held for disposition and reported as discontinued operations. Of the properties reported as discontinued operations, twelve are in the secondary markets of West Palm Beach, Florida, Memphis, Tennessee, Minneapolis, Minnesota, Columbia, South Carolina, St. Louis, Missouri, Columbus, Ohio, Tulsa, Oklahoma, Sacramento, California, Pittsburgh, Pennsylvania and Baltimore, Maryland; two are in Atlanta, Georgia, two are in Dallas, Texas, three are in Washington, D.C., one is in Houston, Texas, two are in Los

Angeles, California, and one is in New York, New York. In addition, two retail properties are located in Los Angeles, California and one is in Las Vegas, Nevada. Internal operating income excludes property related depreciation and amortization expense. The accounting policies for purposes of internal reporting are the same as those described for the Corporation in Note 2 from the Corporation s 2003 Annual Report on Form 10-K, Significant Accounting Policies, as amended by the Corporation s Report on Form 8-K filed with the SEC on June 22, 2004, except that real estate operations conducted through unconsolidated joint ventures are consolidated on a proportionate line-by-line basis, as opposed to the equity method of accounting. All key financing, investing, capital allocation and human resource decisions are managed at the corporate level.

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12. SEGMENTED INFORMATION, Continued

The following presents internal operating income by reportable segment for the three and nine months ended September 30, 2004 and 2003.

For the three months ended September 30, 2004 and 2003

	Office Properties									
	Atlanta		Chicago		Dallas		Houston		Los Angeles	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Property Operations										
Total property revenues	**$ 22,265**	$21,934	**$ 18,739**	$17,478	**$ 21,859**	$ 21,991	**$ 29,087**	$ 29,310	**$ 18,664**	$16,418
Total property expenses	**(8,631)**	(8,202)	**(8,174)**	(8,032)	**(10,648)**	(12,448)	**(12,896)**	(12,103)	**(8,398)**	(7,142)
Internal Operating Income	**$ 13,634**	$13,732	**$ 10,565**	$ 9,446	**$ 11,211**	$ 9,543	**$ 16,191**	$ 17,207	**$ 10,266**	$ 9,276
Internal Assets	**$503,443**		**$381,331**		**$515,409**		**$427,625**		**$754,180**	

	Office Properties, continued									
	New York		Washington D.C.		Secondary Markets		Corporate & Other		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Property Operations										
Total property revenues	**$ 53,497**	$ 51,501	**$ 29,351**	$ 27,917	**$ 30,918**	$ 43,114	**$ 3,795**	$ 24,751	**$ 228,175**	$ 254,414
Total property	**(23,624)**	(23,638)	**(10,815)**	(11,054)	**(16,712)**	(21,583)	**780**	(17,901)	**(99,118)**	(122,103)

expenses										
Internal Operating Income	**$ 29,873**	$ 27,863	**$ 18,536**	$ 16,863	**$ 14,206**	$ 21,531	**$ 4,575**	$ 6,850	**$ 129,057**	$ 132,311
Internal Assets	**$1,059,690**		**$768,737**		**$549,472**		**$111,433**		**$5,071,320**	

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12. SEGMENTED INFORMATION, Continued

For the nine months ended September 30, 2004 and 2003

	Office Properties									
	Atlanta		Chicago		Dallas		Houston		Los Angeles	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Property Operations										
Total property revenues	**$ 66,253**	$ 65,734	**$ 55,095**	$ 52,499	**$ 65,135**	$ 66,851	**$ 87,089**	$ 91,251	**$ 46,587**	$ 48,603
Total property expenses	**(25,899)**	(26,921)	**(24,759)**	(24,500)	**(33,280)**	(37,718)	**(39,339)**	(39,591)	**(21,073)**	(21,202)
Internal Operating Income	**$ 40,354**	$ 38,813	**$ 30,336**	$ 27,999	**$ 31,855**	$ 29,133	**$ 47,750**	$ 51,660	**$ 25,514**	$ 27,401

	Office Properties, continued									
	New York		Washington D. C.		Secondary Markets		Corporate & Other		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Property Operations										
Total property revenues	**$153,233**	$151,782	**$ 86,599**	$ 86,495	**$100,657**	$136,501	**$27,667**	$ 73,717	**$ 688,315**	$ 773,433
Total property expenses	**(64,898)**	(64,700)	**(31,939)**	(33,556)	**(53,237)**	(68,737)	**(7,680)**	(48,430)	**(302,104)**	(365,355)
Internal Operating Income	**$ 88,335**	$ 87,082	**$ 54,660**	$ 52,939	**$ 47,420**	$ 67,764	**$19,987**	$ 25,287	**$ 386,211**	$ 408,078

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12. SEGMENTED INFORMATION, Continued

The following is a reconciliation of internal operating income to income from continuing operations.

	For the three months ended September 30		For the nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Internal property revenue	**$ 228,175**	$ 254,414	**$ 688,315**	$ 773,433
Less: Real estate joint venture property revenue	**(25,656)**	(28,320)	**(72,968)**	(85,089)
Less: Discontinued operations	**(29,588)**	(55,430)	**(106,870)**	(176,555)
Total revenues	**172,931**	170,664	**508,477**	511,789
Internal property operating expenses	**(99,118)**	(122,103)	**(302,104)**	(365,355)
Less: Real estate joint venture operating expenses	**11,951**	14,662	**31,726**	42,387
Less: Discontinued operations	**15,256**	30,030	**53,423**	93,272
Total operating expenses and property taxes	**(71,911)**	(77,411)	**(216,955)**	(229,696)
General and administrative expenses, exclusive of stock option grant expense	**(13,077)**	(9,884)	**(26,083)**	(28,505)
Depreciation and amortization	**(36,918)**	(33,361)	**(104,483)**	(100,669)
Stock option grant expense	**(889)**	(306)	**(1,213)**	(840)
Provision for loss on real estate			**(12,749)**	
Loss on and provision for loss on investment		(15,303)	**(14,558)**	(15,303)
Interest and other income	**955**	1,903	**3,581**	3,964
Foreign currency exchange gain			**3,340**	
(Loss) gain on early debt retirement	**(3,233)**		**(4,376)**	3,363
Recovery on insurance claims	**23**	8	**715**	7,070
Interest expense	**(36,917)**	(38,362)	**(108,567)**	(112,515)
Derivative loss	**(1,182)**		**(2,680)**	
Lawsuit settlement		26,709	**94**	26,709
Benefit (Provision) for income and other corporate taxes, net	**431**	10,692	**(2,601)**	7,786
Minority interest	**5**	(240)	**(954)**	(776)
Income from unconsolidated real estate joint ventures	**2,979**	4,359	**11,248**	17,974
Income from Continuing Operations	**$ 13,197**	$ 39,468	**$ 32,236**	$ 90,351

The following is a reconciliation of internal assets to consolidated total assets.

	September 30, 2004
Internal assets	**$ 5,071,320**
Less: Pro rata real estate joint venture assets	**(525,075)**
Add: Investment in unconsolidated real estate joint ventures	**116,975**
Total Assets	**$ 4,663,220**

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Notes to the Financial Statements
$ in thousands, except per share amounts

13. RELATED PARTY TRANSACTIONS

On October 9, 2003, 4172352 Canada, Inc., an affiliate of Trizec Canada, Inc., contributed approximately $4,000 to the Corporation in exchange for preferred membership units in an entity that indirectly held a 91.5% interest in the Hollywood & Highland Hotel. The holders of the preferred membership units were entitled to an initial dividend of 8% per annum, increasing to 12% per annum, as well as any unrecovered capital contribution at the time of liquidation. On February 27, 2004, the Corporation sold the Hollywood & Highland Hotel. The Corporation remitted approximately $4,624 to 4172352 Canada, Inc. in full satisfaction of any outstanding dividends and unrecovered capital contribution.

In October 2004, the Corporation reached an agreement to sell 110 William Street, located in New York, New York, to an affiliate of Swig Investment Company, one of the Corporation s joint venture partners, for approximately $164,500. The transaction is expected to occur in the fourth quarter of 2004 and remains subject to the satisfaction of customary closing conditions.

14. SUBSEQUENT EVENTS

On October 21, 2004, the Compensation Committee of the Corporation s Board of Directors made awards to certain senior executives of the Corporation under a long-term incentive compensation program known as the Trizec Properties, Inc. 2004 Long-Term Outperformance Compensation Program (the OPP). The OPP was designed as a feature of the Trizec Properties, Inc. 2002 Long-Term Incentive Plan, as amended (the LTIP), which plan previously was approved by the Corporation s stockholders, to provide meaningful incentives to senior executives to increase stockholder value by aligning the interests of senior management with the interests of the Corporation s stockholders. The size and dollar value of the incentive pool, if any, will depend on the extent to which the Corporation s performance over a three-year period commencing on October 20, 2004 and ending on October 19, 2007, as measured by the Corporation s total rate of return to stockholders, exceeds a pre-established performance threshold. The pre-established performance threshold under the OPP is equal to the greater of (a) 110% of the average of the total rate of return to stockholders achieved by members of a pre-determined peer group of companies over the three-year measurement period and (b) a 10% total annual rate of return to the Corporation s stockholders, compounded annually over the three-year measurement period. The aggregate award amount potentially allocable to the senior executives will be a dollar amount equal to 6% of the product of (a) the Corporation s total rate of return to stockholders over the three-year measurement period minus the pre-established performance threshold, multiplied by (b) the Corporation s market capitalization on October 20, 2004. The aggregate award amount will be paid in the form of shares of restricted stock granted under the LTIP. Subject to certain limited exceptions, the aggregate award amount and maximum number of shares of restricted stock issuable to participants may not exceed the lesser of (a) $25,000 and (b) 2.5% of the aggregate number of shares of the Corporation s common stock outstanding on a fully diluted basis as of October 19, 2007. The Corporation will amortize the value of the award in accordance with SFAS No. 123 over the vesting period. Seventy-five percent of the award vests on October 19, 2007 and 25% of the award vests on October 19, 2008.

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

In the remainder of this Form 10-Q, the terms we, us, our, our company and Trizec refer to Trizec Properties, Inc. and its consolidated subsidiaries.

The following discussion should be read in conjunction with the information contained in the section entitled Forward-Looking Statements and the consolidated interim financial statements and the notes thereto that appear elsewhere in this Form 10-Q.

Overview

We are one of the largest fully integrated and self-managed, publicly traded real estate investment trusts, or REITs, in the United States. We are principally engaged in owning and managing office properties in the United States. At September 30, 2004, we had total assets of approximately $4.7 billion and owned interests in 58 U.S. office properties containing approximately 41.4 million square feet, or approximately 37.9 million square feet based on our pro rata economic ownership interest in joint ventures. Our office properties are concentrated in seven core markets in the United States located in the following major metropolitan areas: Atlanta, Chicago, Dallas, Houston, Los Angeles, New York and Washington, D.C.

Effective January 1, 2001, we elected to be taxed as a REIT for U.S. federal income tax purposes. As a REIT, we generally are not subject to U.S. federal income tax if we distribute 100% of our taxable income and comply with a number of organizational and operational requirements.

During the nine months ended September 30, 2004, we completed the following key transactions:

In January 2004, we refinanced a $120.0 million mortgage on the Ernst & Young Plaza in Los Angeles, California. The new 10-year term mortgage has a fixed interest rate of 5.07%. The financing proceeds were used to repay the existing $120.0 million variable rate mortgage that had a maturity date of June 2004.

In February 2004, we paid off and retired the mortgage loan on Galleria Towers, an office complex located in Dallas, Texas. The mortgage had a principal balance of approximately $133.5 million, bore interest at a fixed rate of 6.79% and was scheduled to mature in May 2004.

In April 2004, we reduced our ownership stake in the Waterview development project, located in Arlington, Virginia, to 25%. We had an 80% interest in the joint venture that previously owned the development project. The new joint venture entity that will now develop the mixed-use complex is owned 50% by CIM Group s CIM Urban Real Estate Fund, while JBG and our company will own 25% each.

In May 2004, we contributed ownership of Plaza of the Americas, located in Dallas, Texas, to a new joint venture that is controlled 50%/50% by us and Dallas Plaza, L.P. We will continue to lease and manage the property on behalf of the new partnership.

In June 2004, we entered into a $750.0 million unsecured credit facility consisting of a $600.0 million revolver component and a $150.0 million term component. The unsecured credit facility requires interest only payments, with the interest rate established on a scale based upon the level of our total leverage. The unsecured credit facility replaced a $350.0 million secured credit facility and enabled us to remove encumbrances on nine assets that had served as collateral under the secured credit facility.

In June 2004, we completed $600.0 million of non-recourse refinancings on two midtown Manhattan office properties owned jointly with San Francisco-based Swig Company- The Grace Building at 1114 Avenue of the

Americas and The World Apparel Center at 1411 Broadway. The two ten year loans

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carry an average fixed interest face-rate of 5.52% and replaced a 7.5% cross-collateralized loan totaling approximately $207.0 million.

In June 2004, we paid off and retired the mortgage loan on 1065 Avenue of the Americas, a property located in New York, New York. The mortgage loan had a principal balance of approximately $36.5 million, bore interest at a fixed rate of 7.18% and was scheduled to mature in December 2004.

In June 2004, we established a dividend reinvestment and stock purchase plan through which shares of our common stock may be offered.

In July 2004, we paid down approximately $444.1 million of our variable interest rate commercial mortgage pass through certificates primarily by drawing on our $750.0 million unsecured credit facility. This repayment removed encumbrances on seven assets making up part of a cross-collateralized and cross-defaulted office property pool that secured the five loans.

In July 2004, we paid off and retired the mortgage loan on Newport Tower, a property located in Jersey City, New Jersey. The mortgage loan had a principal balance of approximately $102.8 million, bore interest at a fixed rate of 7.09% and was scheduled to mature in November 2004.

In August 2004, we acquired Bank of America Plaza, located at 333 South Hope Street, Los Angeles, California, for a gross purchase price of approximately $435.0 million. Bank of America Plaza is a 55-story, 1.4 million square foot Class A office building situated on a 4.2 acre site in the Bunker Hill area of downtown Los Angeles. In conjunction with this acquisition, we entered into two non-recourse mortgage loans totaling approximately $242.0 million, bearing interest at an average fixed rate of 5.31% and scheduled to mature in September 2014.

During the nine months ended September 30, 2004, we sold eight office properties, two retail/entertainment properties and two land parcels for an aggregate sale price of approximately $491.2 million.

Subsequent to September 30, 2004, we completed the following key transaction:

In October 2004, we announced that the Corporate Executive Board Company will lease the entire office tower at the Waterview mixed-use project in Rosslyn, Virginia.

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Critical Accounting Policies

Refer to our Annual Report on Form 10-K for the year ended December 31, 2003 for a discussion of our critical accounting policies, which include revenue recognition, allowance for doubtful accounts, impairment of real estate assets and investments, investments in unconsolidated joint ventures, fair value of financial instruments, internal leasing costs and tax liabilities. During the nine months ended September 30, 2004, there were no changes to these policies.

Results of Operations

The following discussion is based on our consolidated financial statements for the three and nine months ended September 30, 2004 and 2003.

The macroeconomic conditions that negatively affected employment levels for office workers, which, in turn, affected the demand for office space, have not significantly changed since the end of 2003. This stagnant demand for office space has resulted in modest increases in occupancy rates, and makes it unlikely that occupancy rates will increase significantly during the remainder of the year, and, additionally, may continue to put downward pressure on market rents. Our focus for the remainder of the year will be to renew or release expiring space. The table below reflects the occupancy rates at September 30, 2004 compared to December 31, 2003 and shows the percentage of the square feet, based on our pro rata economic ownership interest in joint ventures, that will expire during the remainder of the year for our total U.S. office portfolio.

	Occupancy Rates At		Percentage of space expiring in the remainder of 2004
	September 30, 2004	**December 31, 2003**	
Core Markets			
Atlanta	**88.3%**	85.8%	3.7%
Chicago	**93.5%**	95.1%	2.8%
Dallas	**83.8%**	80.7%	1.4%
Houston	**83.4%**	84.9%	2.5%
Los Angeles	**87.0%**	84.8%	0.6%
New York	**96.6%**	97.3%	8.7%
Washington, D.C.	**92.1%**	87.1%	0.5%
	89.3%	88.0%	3.2%
Secondary Markets	**82.4%**	81.0%	1.9%
Total	**88.2%**	86.6%	3.0%

For our total portfolio of 58 U.S. office properties for the nine months ended September 30, 2004, we leased approximately 4.9 million square feet, or approximately 4.5 million square feet based on our pro rata economic ownership interest in joint ventures. Average occupancy increased to 87.3% for the nine months ended September 30, 2004 compared to 87.2% for the nine months ended September 30, 2003. Based on our pro rata economic ownership interest in joint ventures, average occupancy increased to 87.3% for the nine months ended September 30, 2004 compared to 86.8% for the nine months ended September 30, 2003. We experienced a $2.14 per square foot decrease, or a $2.09 per square foot decrease based on our pro rata economic ownership interest in joint ventures, in gross rental rates on new and renewal leasing, reflecting the impact of space rolling over at properties.

In an environment of stagnant economic conditions, it is normal to experience increased rental delinquencies and tenant failures. We monitor the financial strength of our key tenants and, therefore, their ability to pay rent and the likelihood that they will continue to pay rent, through a watch list process applied at the local, regional and corporate property management levels. This monitoring process is designed to help us identify

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significant credit risks. At the end of September 2004, we were closely monitoring tenants with leases representing approximately 3.9% of the leaseable area of our U.S. office portfolio and approximately 3.3% of our annual gross rent for the U.S. office portfolio.

The table that follows is a summary of our acquisition and disposition activity from January 1, 2003 to September 30, 2004 and reflects our total portfolio at September 30, 2004. The buildings and total square feet shown include properties that we own in joint ventures with other partners and reflect the total square footage of the properties and the square footage owned by us based on our pro rata economic ownership in the respective joint ventures or managed properties.

	Office			**Retail**		
	Properties	**Total Sq. Ft.**	**Pro rata Owned Sq. Ft.**	**Properties**	**Total Sq. Ft.**	**Pro rata Owned Sq. Ft.**
		(in thousands)			**(in thousands)**	
Properties as of:						
January 1, 2003	73	48,884	42,276	4	2,285	2,076
Dispositions	(8)	(6,357)	(2,472)	(2)	(1,010)	(855)
Re-measurements		232	24		(30)	(30)
December 31, 2003	65	42,759	39,828	2	1,245	1,191
Acquisitions	1	1,422	1,422			
Dispositions	(8)	(2,733)	(2,733)	(2)	(1,245)	(1,191)
Sale of interest to a joint venture			(588)			
Re-measurements		(11)	(11)			
September 30, 2004	58	41,437	37,918			

In the financial information that follows, property revenues include rental revenue, recoveries from tenants, parking and other income. Property operating expenses include costs that are recoverable from our tenants (including but not limited to real estate taxes, utilities, insurance, repairs and maintenance and cleaning) and other non-recoverable property-related expenses and exclude depreciation and amortization expense.

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Comparison of Three Months Ended September 30, 2004 to Three Months Ended September 30, 2003

The following is a table comparing our summarized operating results for the periods, including other selected information.

	For the three months ended September 30			
	2004	**2003**	**Increase (Decrease)**	**% Change**
	(dollars in thousands)			
Revenues				
Office	**$ 172,931**	$ 170,664	$ 2,267	1.3%
Total Revenues	**172,931**	170,664	2,267	1.3%
Expenses				
Office operating expenses	**71,911**	77,411	(5,500)	7.1%
General and administrative, exclusive of stock option grant expense	**13,077**	9,884	3,193	32.3%
Depreciation and amortization	**36,918**	33,361	3,557	10.7%
Stock option grant expense	**889**	306	583	190.5%
Loss on and provision for loss on investment		15,303	(15,303)	
Total Expenses	**122,795**	136,265	(13,470)	9.9%
Operating Income	**50,136**	34,399	15,737	45.7%
Other Income (Expense)				
Interest and other income	**955**	1,903	(948)	49.8%
Loss on early debt retirement	**(3,233)**		(3,233)	
Recovery on insurance claims	**23**	8	15	187.5%
Interest expense	**(36,917)**	(38,362)	1,445	3.8%
Derivative loss	**(1,182)**		(1,182)	
Lawsuit settlement		26,709	(26,709)	
Total Other Expense	**(40,354)**	(9,742)	(30,612)	314.2%
Income before Income Taxes, Minority Interest, Income from Unconsolidated Real Estate Joint Ventures, Discontinued Operations and Gain on Disposition of Real	**9,782**	24,657	(14,875)	60.3%

Estate, Net				
Benefit for income and other corporate taxes, net	**431**	10,692	(10,261)	96.0%
Minority interest	**5**	(240)	245	102.1%
Income from unconsolidated real estate joint ventures	**2,979**	4,359	(1,380)	31.7%
Income from Continuing Operations	**13,197**	39,468	(26,271)	66.6%
Discontinued Operations				
Income from discontinued operations (net of recovery of provision for loss on discontinued real estate of $9,613 and provision for loss on discontinued real estate of $3,572, respectively)	**17,865**	1,676	16,189	965.9%
Gain on disposition of discontinued real estate, net	**18,233**	20,182	(1,949)	9.7%
Income Before Gain on Disposition of Real Estate, Net	**49,295**	61,326	(12,031)	19.6%
Gain on disposition of real estate, net	**249**		249	
Net Income	**49,544**	61,326	(11,782)	19.2%
Special voting and Class F convertible stockholders dividends	**(1,394)**	(2,504)	1,110	44.3%
Net Income Available to Common Stockholders	**$ 48,150**	$ 58,822	$ (10,672)	18.1%
Straight-Line Revenue	**$ 5,111**	$ 5,978	$ (867)	14.5%
Lease Termination Fees	**$ 3,505**	$ 671	$ 2,834	422.4%

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Property Revenues

Office property revenues increased by approximately $2.3 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. Office property revenues increased approximately $4.2 million due to the acquisition of Bank of America Plaza, located in Los Angeles, California, in the third quarter of 2004. Office property revenues increased by approximately $0.4 million due to an increase in average occupancy, by approximately $1.5 million primarily due to an increase in recovery income and by approximately $0.4 million due to an increase in parking revenue. In addition, termination fee income increased approximately $2.8 million. These increases were offset by a decrease in office property revenues of approximately $2.3 million due to the sale of 151 Front Street, located in Toronto, Ontario, in the first quarter of 2004 and by approximately $3.8 million due to the sale of a 50% interest in Plaza of the Americas, located in Dallas, Texas, in the second quarter of 2004. In addition, there was a decrease of approximately $0.9 million in management fee income for the three months ended September 30, 2004 compared to the three months ended September 30, 2003.

Lease termination fees are an element of ongoing real estate ownership. Included in the office property revenue analysis above, for the three months ended September 30, 2004, we recognized approximately $3.2 million of termination fees for our office portfolio compared to approximately $0.4 million for the three months ended September 30, 2003.

Property Operating Expenses

Office property operating expenses decreased by approximately $5.5 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. The sale of 151 Front Street resulted in a decrease in office property operating expenses of approximately $1.2 million and the sale of a 50% interest in Plaza of the Americas resulted in a decrease of office property operating expenses of approximately $2.5 million. Office property operating expenses decreased by approximately $1.7 million due to a decrease in insurance expense and by approximately $0.7 million due to a decrease in property tax expense. In addition, there was a decrease in bad debt expense of approximately $0.4 million and a decrease of approximately $2.7 million primarily related to a decrease in building management and other expenses for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. These decreases were partially offset by an increase in office property operating expenses of approximately $1.8 million due to the acquisition of Bank of America Plaza in the third quarter of 2004 as well as an increase of approximately $1.9 million primarily related to an increase in utilities expense and repairs and maintenance expense for the three months ended September 30, 2004 compared to the three months ended September 30, 2003.

Excluding the impact of lease termination fees on revenues, our office portfolio gross margin (property revenues, excluding lease termination fees, less property operating expenses) increased to approximately 57.6% for the three months ended September 30, 2004 from approximately 54.5% for the three months ended September 30, 2003, primarily reflecting a decrease in operating expenses.

General and Administrative, Exclusive of Stock Option Grant Expense

General and administrative expense includes expenses for corporate and portfolio asset management functions. Expenses for property management and fee-based services are recorded as property operating expenses.

General and administrative expense increased by approximately $3.2 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. This increase is due primarily to an increase in separation costs incurred and professional fees paid during the three months ended September 30, 2004, offset by additional expense related to the net settlement of warrants during the three months ended September 30, 2003.

Depreciation and Amortization

Depreciation and amortization expense increased by approximately $3.6 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. The acquisition of Bank of America Plaza, located in Los Angeles, California, in August 2004 resulted in an increase in depreciation and amortization expense of approximately $1.9 million. In addition, depreciation and amortization expense increased by approximately $2.8 million primarily due to accelerated depreciation of tenant improvements resulting from early termination of leases and additional tenant improvements for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. These increases in depreciation and amortization expense were offset by the disposition of a 50% interest in Plaza of the Americas in May 2004 resulting in a decrease in depreciation and amortization expense of approximately $1.1 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003.

Stock Option Grant Expense

Stock option grant expense is comprised of the amortization of the intrinsic value, at the date of grant, of stock options granted upon the completion of the corporate reorganization and stock option expense related to the adoption of Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation , or SFAS No. 123, for stock options issued in 2003. For stock options granted in 2003, this non-cash cost incurred relates to the fair value of the stock options at the date of grant. Stock option grant expense increased by approximately $0.6 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. The increase is primarily due to an increase in stock option grant expense of approximately $0.9 million resulting from the immediate vesting of certain stock options due to the separation of one of our executives during the third quarter of 2004, offset by a decrease in stock option grant expense of approximately $0.3 million primarily resulting from the cessation of amortization due to the vesting of stock options.

Loss on and Provision for Loss on Investment

During the three months ended September 30, 2003, we recorded a loss on investment of approximately $15.3 million related to the sale of our interest in a subordinated mortgage collateralized by the Sears Tower in Chicago, Illinois.

Interest and Other Income

Interest and other income decreased by approximately $0.9 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. Interest and other income decreased by approximately $1.2 million due to death benefit proceeds on an insurance policy and by approximately $0.4 million primarily due to a litigation refund during the third quarter of 2003. This decrease was partially offset by an increase in interest income primarily due to an increase in average cash balances for the three months ended September 30, 2004 compared to the three months ended September 30, 2003.

Loss on Early Debt Retirement

During the three months ended September 30, 2004, we recorded a loss on early debt retirement of approximately $3.2 million due to the write-off of unamortized deferred financing costs of approximately $2.4 million and a prepayment fee of approximately $0.8 million related to the paydown of approximately $444.1 million of our variable interest rate commercial mortgage pass-through certificates.

Interest Expense

Interest expense decreased by approximately $1.4 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. Early debt retirements resulted in a decrease in interest expense of approximately $4.9 million. In addition, lower average debt balances outstanding for the three months ended September 30, 2004 compared to the three months ended September 30, 2003 due primarily to regular principal amortization and lump sum repayments decreased interest expense by approximately $0.5 million. The retirement of debt due to property dispositions decreased interest expense by approximately $0.3 million. These decreases were partially offset by an increase in interest expense of approximately $2.8 million due to a higher outstanding balance on our credit facility and an increase of approximately $0.3 million primarily related to additional interest expense related to refinancings for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. In addition, in conjunction with the acquisition of Bank of America

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Plaza in Los Angeles, California, we entered into an approximately $242.0 million loan which resulted in an increase in interest expense of approximately $1.2 million during the three months ended September 30, 2004.

Derivative Loss

During the three months ended September 30, 2004, we recognized a derivative loss of approximately $1.2 million representing the total ineffectiveness of our interest rate swap contracts. Due to the pay off and retirement of certain amounts of variable rate debt during 2004 and due to the anticipated pay off and retirement of certain variable rate debt in the future, we de-designated interest rate swap contracts in the notional amount of $375.0 million.

Lawsuit Settlement

In July 2003, we reached an agreement in which we agreed to end litigation and resolve standing disputes concerning the development and subsequent bankruptcy of the hotel and casino adjacent to our Desert Passage project. In exchange for our agreement to end the development litigation and our agreement to permit and assist in the re-theming of the hotel and casino complex, the other parties to the litigation have agreed to dismiss all claims against us. In the third quarter of 2003, we recognized a gain on lawsuit settlement of approximately $26.7 million comprised primarily of the forgiveness of debt. We did not receive any cash proceeds from the litigation settlement.

Benefit for Income and Other Corporate Taxes, Net

Income and other taxes includes franchise, capital, alternative minimum and foreign taxes related to ongoing real estate operations. Income and other taxes decreased by approximately $10.3 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003 primarily due to the tax impact of the disposition of our investment in the Sears Tower in Chicago, Illinois of approximately $12.0 million which was recognized during the three months ended September 30, 2003.

Minority Interest

During the three months ended September 30, 2004, a decrease in the redemption value in the TrizecHahn Mid-Atlantic Limited Partnership redeemable units resulted in minority interest income of approximately $0.1 million. This increase was partially offset by minority interest attributable to our consolidated real estate joint venture.

During the three months ended September 30, 2003, an increase in the redemption value in the TrizecHahn Mid-Atlantic Limited Partnership redeemable units resulted in a minority interest loss of approximately $0.2 million.

Income from Unconsolidated Real Estate Joint Ventures

Income from unconsolidated real estate joint ventures decreased by approximately $1.4 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003. Income from unconsolidated real estate joint ventures decreased by approximately $2.7 million due to a decrease in the net income on 1114 Avenue of the Americas and 1411 Broadway, located in New York, New York. This decrease primarily resulted from an increase in interest expense related to the refinancing of certain mortgage loans in June 2004. This decrease was partially offset by an increase of approximately $0.6 million related to the decrease in the net loss of Hollywood & Highland Hotel, located in Los Angeles, California, due to the sale of the property in the first quarter of 2004. In addition, there was an increase of approximately $0.5 million primarily related to a decrease in the net loss at Bank One Center in Dallas, Texas and an increase of approximately $0.2 million related to the Plaza of the Americas joint venture, which was formed in the second quarter of 2004.

Discontinued Operations

Income from properties classified as discontinued operations, excluding provision for loss on disposition of real estate, increased by approximately $3.0 million for the three months ended September 30, 2004 compared to the

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three months ended September 30, 2003. This increase is primarily due to a decrease in interest expense of approximately $6.3 million for the three months ended September 30, 2004 compared to the three months ended September 30, 2003 due to the retirement of debt related to properties sold subsequent to June 30, 2003. This increase is offset by the loss of net income due to properties sold subsequent to June 30, 2003. Income from discontinued properties for the three months ended September 30, 2003 includes the net income of properties sold subsequent to June 30, 2003, whereas income from discontinued operations for the three months ended September 30, 2004 includes only the net income of properties sold subsequent to June 30, 2004.

During the three months ended September 30, 2004, we reduced our provision for loss on discontinued real estate by approximately $9.6 million. During the three months ended September 30, 2004, we entered into agreements to sell Lakeside Centre, New Market Business Park and Bank of America- Columbia at sales prices in excess of previous expectations. In accordance with SFAS No. 144, we reduced our provision for loss on discontinued real estate in the aggregate amount of approximately $9.6 million to increase the book values of Lakeside Centre, New Market Business Park and Bank of America- Columbia to their fair values based upon established contract prices, less estimated transaction costs.

During the three months ended September 30, 2003, we recognized a provision for loss on discontinued real estate of approximately $3.6 million relating to Minnesota Center in Minneapolis, Minnesota which was designated as held for disposition on September 30, 2003. The fair value was determined by a contract price, less estimated transaction costs.

During the three months ended September 30, 2004, we recognized a gain on disposition of discontinued real estate of approximately $18.2 million, net of the related tax effect, due to the sales of the Borden Building in Columbus, Ohio, Park Central I in Dallas, Texas, 1333 Main Street in Columbia, South Carolina, Capital Center II and III in Sacramento, California and 3700 Bay Area Boulevard in Houston, Texas.

During the three months ended September 30, 2003, we recognized a gain on disposition of discontinued real estate of approximately $20.2 million, net of related tax effect, due to the sales of Clark Tower in Memphis, Tennessee and the Esperante Office Building in West Palm Beach, Florida.

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Comparison of Nine Months Ended September 30, 2004 to Nine Months Ended September 30, 2003

The following is a table comparing our summarized operating results for the periods, including other selected information.

	For the nine months ended September 30			
	2004	**2003**	**Increase (Decrease)**	**% Change**
	(dollars in thousands)			
Revenues				
Office	**$ 508,477**	$ 511,311	$ (2,834)	0.6%
Retail		478	(478)	
Total Revenues	**508,477**	511,789	(3,312)	0.6%
Expenses				
Property operating expenses				
Office	**216,955**	228,788	(11,833)	5.2%
Retail		908	(908)	
General and administrative, exclusive of stock option grant expense	**26,083**	28,505	(2,422)	8.5%
Depreciation and amortization	**104,483**	100,669	3,814	3.8%
Stock option grant expense	**1,213**	840	373	44.4%
Provision for loss on real estate	**12,749**		12,749	
Loss on and provision for loss on investment	**14,558**	15,303	(745)	4.9%
Total Expenses	**376,041**	375,013	1,028	0.3%
Operating Income	**132,436**	136,776	(4,340)	3.2%
Other Income (Expense)				
Interest and other income	**3,581**	3,964	(383)	9.7%
Foreign currency exchange gain	**3,340**		3,340	
(Loss) Gain on early debt retirement	**(4,376)**	3,363	(7,739)	230.1%
Recovery on insurance claims	**715**	7,070	(6,355)	89.9%
Interest expense	**(108,567)**	(112,515)	3,948	3.5%
Derivative loss	**(2,680)**		(2,680)	
Lawsuit settlement	**94**	26,709	(26,615)	99.6%

Total Other Expense	**(107,893)**	(71,409)	(36,484)	51.1%
Income before Income Taxes, Minority Interest, Income from Unconsolidated Real Estate Joint Ventures, Discontinued Operations and Gain on Disposition of Real Estate, Net	**24,543**	65,367	(40,824)	62.5%
(Provision) Benefit for income and other corporate taxes, net	**(2,601)**	7,786	(10,387)	133.4%
Minority interest	**(954)**	(776)	(178)	22.9%
Income from unconsolidated real estate joint ventures	**11,248**	17,974	(6,726)	37.4%
Income from Continuing Operations	**32,236**	90,351	(58,115)	64.3%
Discontinued Operations				
Income from discontinued operations (net of provision for loss on discontinued real estate of $108,988 and $18,164, respectively)	**(85,465)**	1,078	(86,543)	8,028.1%
Gain on disposition of discontinued real estate, net	**47,841**	28,708	19,133	66.6%
(Loss) Income Before Gain on Disposition of Real Estate, Net	**(5,388)**	120,137	(125,525)	104.4%
Gain on disposition of real estate, net	**2,594**	11,351	(8,757)	77.1%
Net (Loss) Income	**(2,794)**	131,488	(134,282)	102.1%
Special voting and Class F convertible stockholders dividends	**(3,915)**	(3,917)	2	0.1%
Net (Loss) Income Available to Common Stockholders	**$ (6,709)**	$ 127,571	$ 134,280	105.3%
Straight-Line Revenue	**$ 17,674**	$ 22,053	$ (4,379)	19.9%
Lease Termination Fees	**$ 10,427**	$ 6,622	$ 3,805	57.5%

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Property Revenues

Office property revenues decreased by approximately $2.8 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Office property revenues decreased by approximately $6.7 million due to the sale of 151 Front Street in the first quarter of 2004 and by approximately $5.8 million due to the sale of a 50% interest in Plaza of the Americas in the second quarter of 2004. In addition, office property rental revenue decreased by approximately $1.1 million due to a decrease in rental rates on new leasing. These decreases were offset by an increase of approximately $4.2 million due to the acquisition of Bank of America Plaza, located in Los Angeles, California, in the third quarter of 2004. Office property revenues increased by approximately $3.2 million due primarily to an increase in recovery income and office property revenues increased by approximately $2.7 million due to a increase in termination fee income. In addition, there was an increase of approximately $0.7 million in management fee income for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Lease termination fees are an element of ongoing real estate ownership. Included in the office property revenue analysis above, for the nine months ended September 30, 2004, we recorded approximately $5.8 million of termination fees for our office portfolio compared to approximately $3.1 million for the nine months ended September 30, 2003.

Retail property revenues decreased by approximately $0.5 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to the sale of Paseo Colorado in Pasadena, California in the first quarter of 2003.

Property Operating Expenses

Office property operating expenses decreased by approximately $11.8 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The sale of 151 Front Street resulted in a decrease in office property operating expenses of approximately $3.5 million and the sale of a 50% interest in Plaza of the Americas resulted in a decrease of approximately $3.4 million. Office property operating expenses decreased by approximately $5.7 million due to a decrease in insurance expense and by approximately $2.8 million due to a decrease in property tax expense primarily resulting from a property tax settlement for a property located in Dallas, Texas. In addition, office property operating expenses decreased by approximately $0.7 million primarily due to a decrease in building management expense and other expense and by approximately $0.6 million due to a decrease in bad debt expense. These decreases were partially offset by an increase of approximately $1.8 million due to the acquisition of Bank of America Plaza, located in Los Angeles, California, in the third quarter of 2004 as well as an increase of approximately $3.1 million primarily due to an increase in utilities expense and repairs and maintenance expense for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Excluding the impact of lease termination fees on revenues, our office portfolio gross margin (property revenues, excluding lease termination fees, less property operating expenses) increased to 56.8% for the nine months ended September 30, 2004 from 55.0% for the nine months ended September 30, 2003, primarily reflecting a decrease in office property operating expenses.

Retail property operating expenses decreased by approximately $0.9 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to the sale of Paseo Colorado in Pasadena, California during the first quarter of 2003.

General and Administrative, Exclusive of Stock Option Grant Expense

General and administrative expense includes expenses for corporate and portfolio asset management functions. Expenses for property management and fee-based services are recorded as property operating expenses.

General and administrative expense decreased by approximately $2.4 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The decrease is due primarily to a decrease in bonus accruals during the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. In addition, the decrease is due to additional expense related to the net settlement of warrants during the nine months ended September 30, 2003. These decreases were partially offset by an increase in separation costs incurred during the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Depreciation and Amortization

Depreciation and amortization expense increased by approximately $3.8 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The acquisition of Bank of America Plaza, located in Los Angeles, California, in August 2004 resulted in an increase in depreciation and amortization expense of approximately $1.9 million. In addition, depreciation and amortization expense increased approximately $3.7 million primarily due to accelerated depreciation of tenant improvements resulting from the early termination of leases and additional tenant improvements during the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. These increases were offset by the disposition of a 50% interest in Plaza of the Americas, located in Dallas, Texas, in May 2004 resulting in a decrease in depreciation and amortization expense of approximately $1.8 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Stock Option Grant Expense

Stock option grant expense is comprised of the amortization of the intrinsic value, at the date of grant, of stock options granted upon the completion of the corporate reorganization and stock option expense related to the adoption of Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation, or SFAS No. 123, for stock options issued in 2003. For stock options granted in 2003, this non-cash cost incurred relates to the fair value of the stock options at the date of grant. Stock option grant expense increased by approximately $0.4 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The increase is primarily due to an increase in stock option grant expense of approximately $0.9 million resulting from the immediate vesting of certain stock options due to the separation of one of our executives during the third quarter of 2004, offset by a decrease in stock option grant expense of approximately $0.5 million primarily resulting from the cessation of amortization due to the vesting of stock options.

Provision for Loss on Real Estate

During the nine months ended September 30, 2004, we recognized a provision for loss on real estate in the aggregate amount of approximately $12.7 million. In May 2004, we entered into a joint venture agreement with a third party to own and operate Plaza of the Americas, located in Dallas, Texas, Trizec Plaza of the Americas, L.P. Prior to the formation of Trizec Plaza of the Americas, L.P., Plaza of the Americas was 100% owned by us. In conjunction with the formation of Trizec Plaza of the Americas, L.P., we sold a 50% interest in Plaza of the Americas to the third party for a net sales price of approximately $47.7 million, resulting in a loss on disposition of real estate, net, of approximately $21.0 million, for the sale of the 50% interest. In conjunction with the sale of our 50% interest in Plaza of the Americas, we determined that the fair value of Plaza of the Americas, based on the contract price, was less than our carrying value of such asset. Accordingly, we recognized a provision for loss on real estate of approximately $12.7 million related to our 50% interest in Plaza of the Americas to reduce the carrying value of such property to its fair value.

Loss on and Provision for Loss on Investment

During the nine months ended September 30, 2004, we recognized a provision for loss on investment of approximately $14.6 million to reduce the carrying value of our investment in Main Street Partners, L.P., a joint venture through which we own a 50% interest in Bank One Center in Dallas, Texas, to its fair value. Fair value was determined by internal valuation.

During the nine months ended September 30, 2003, we recorded a loss on investment of approximately $15.3 million related to the sale of our interest in a subordinated mortgage collateralized by the Sears Tower in Chicago, Illinois.

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Interest and Other Income

Interest and other income decreased by approximately $0.4 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Interest and other income decreased by approximately $1.1 million primarily due to a litigation refund received during the nine months ended September 30, 2003. This decrease was partially offset by an increase in interest income primarily due to an increase in average cash balances for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Foreign Currency Exchange Gain

During the nine months ended September 30, 2004, we sold 151 Front Street in Toronto, Ontario, recognizing a foreign currency exchange gain of approximately $3.3 million.

(Loss) Gain on Early Debt Retirement

During the nine months ended September 30, 2004, we recorded an aggregate loss on early debt retirement of approximately $4.4 million. During the nine months ended September 30, 2004, we recorded a loss on early debt retirement of approximately $1.4 million due to the write-off of unamortized deferred financing costs related to the retirement of our $350.0 million unsecured revolving credit facility. We recorded a loss on early debt retirement of approximately $3.2 million due to the write-off of unamortized deferred financing costs of approximately $2.4 million and a prepayment fee of approximately $0.8 million related to the paydown of approximately $444.1 million of our variable interest rate commercial mortgage pass-through certificates. In addition, we recorded a loss on early debt retirement of approximately $0.6 million due to the write-off of unamortized deferred financing costs as a result of the repayment of secured mortgages coinciding with the sale of the underlying properties, as well as the write-off of unamortized deferred financing costs due to the refinancing of a $120.0 million mortgage loan. These losses were partially offset by a gain on early debt retirement of approximately $0.9 million related to the sale of the Hollywood & Highland Hotel comprised primarily of the forgiveness of debt of approximately $1.2 million, partially offset by the write-off of unamortized deferred financing costs.

During the nine months ended September 30, 2003, we recorded a gain on early debt retirement of approximately $3.6 million related to the forgiveness of a $17.9 million construction facility on our remaining technology property. On June 30, 2003, we conveyed title of our remaining technology property to the lender and are no longer obligated to the lender under the $17.9 million construction facility. The $3.6 million gain on early debt retirement is net of approximately $0.5 million remitted to the lender in full satisfaction of any exposure related to the construction facility.

Recovery on Insurance Claims

During the nine months ended September 30, 2004, we received approximately $0.4 million in insurance proceeds related to a chiller we replaced at Plaza of the Americas, located in Dallas, Texas, that was damaged in 2003. In addition, we received approximately $0.3 million in insurance proceeds related to window replacements at 550 W. Washington, located in Chicago, Illinois, that were damaged in 2003.

During the nine months ended September 30, 2003, we received approximately $7.1 million in insurance proceeds related to a chiller we replaced at One New York Plaza in New York that was damaged in 2001.

Interest Expense

Interest expense decreased by approximately $3.9 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Early debt retirements resulted in a decrease in interest expense of approximately $11.5 million. The retirement of debt due to property dispositions decreased interest expense by approximately $0.9 million. In addition, lower average outstanding debt balances outstanding for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due primarily to

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regular principal amortization and lump sum repayments decreased interest expense by approximately $0.4 million. These decreases were partially offset by an increase in interest expense of approximately $5.5 million due to an increase in average interest rates and additional interest expense related to refinancings for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. A higher outstanding balance on our credit facility resulted in an increase of approximately $2.2 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. In addition, in conjunction with the purchase of Bank of America Plaza in Los Angeles, California, we entered into an approximately $242.0 million loan which resulted in an increase in interest expense of approximately $1.2 million during the nine months ended September 30, 2004.

Derivative Loss

During the nine months ended September 30, 2004, we recognized a derivative loss of approximately $2.7 million representing the total ineffectiveness of our interest rate swap contracts. Due to the pay off and retirement of certain amounts of variable rate debt during 2004 and due to the anticipated pay off and retirement of certain variable rate debt in the future, we dedesignated interest rate swap contracts in the notional amount of $375.0 million.

Lawsuit Settlement

In July 2003, we reached an agreement in which we agreed to end litigation and resolve standing disputes concerning the development and subsequent bankruptcy of the hotel and casino adjacent to our Desert Passage project. In exchange for our agreement to end the development litigation and our agreement to permit and assist in the re-theming of the hotel and casino complex, the other parties to the litigation have agreed to dismiss all claims against us. In the third quarter of 2003, we recognized a gain on lawsuit settlement of approximately $26.7 million comprised primarily of the forgiveness of debt. We did not receive any cash proceeds from the litigation settlement.

Benefit (Provision) for Income and Other Corporate Taxes, Net

Income and other taxes includes franchise, capital, alternative minimum and foreign taxes related to ongoing real estate operations. Benefit for income and other taxes decreased by approximately $10.4 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 primarily due to the tax impact of the disposition of our investment in the Sears Tower in Chicago, Illinois of approximately $12.0 million which was recognized during the nine months ended September 30, 2003.

Minority Interest

During the nine months ended September 30, 2004, an increase in the redemption value in the TrizecHahn Mid-Atlantic Limited Partnership redeemable units resulted in minority interest loss of approximately $0.2 million and minority interest attributable to our consolidated joint venture resulted in a loss of approximately $0.1 million. In addition, preferred returns to the minority interest partner upon the sale of the Hollywood & Highland Hotel in Los Angeles, California during the first quarter of 2004 resulted in minority interest loss of approximately $0.6 million and the redemption of TrizecHahn Mid-Atlantic Limited Partnership redeemable units resulted in minority interest loss of approximately $1.0 million. Minority interest loss is offset by minority interest income of approximately $0.9 million resulting from the sale of a 90% ownership in a land parcel during the second quarter of 2004.

During the nine months ended September 30, 2003, an increase in the redemption value in the TrizecHahn Mid-Atlantic Limited Partnership redeemable units resulted in a minority interest loss of approximately $0.8 million.

Income from Unconsolidated Real Estate Joint Ventures

Income from unconsolidated real estate joint ventures decreased by approximately $6.7 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Income from unconsolidated real estate joint ventures decreased by approximately $4.8 million due to the loss on early debt retirement related to the refinancing of the mortgage loans on 1114 Avenue of the Americas, located in New York, New York, and 1411 Broadway, located in New York, New York, in June 2004. In addition, there was a decrease of approximately $1.8 million primarily due to an increase in interest expense related to the refinancing of certain mortgage loans in June 2004. Approximately $6.3 million of the decrease is related to the sale of New Center One in Detroit, Michigan during the first quarter of 2003. These decreases were partially offset by an increase of approximately $0.7 million due to the gain on sale of the Waterview Development, located in Arlington, Virginia and an increase of approximately $3.1 million related to the decrease in the net loss of the Hollywood & Highland Hotel in Los Angeles, California due to the sale of property in the first quarter of 2004. In addition, there was an increase of approximately $1.5 million primarily related to a decrease in the net loss at Bank One Center in Dallas, Texas, an increase of approximately $0.3 million related to the Plaza of the Americas joint venture, which was formed in the second quarter of 2004, and additional minor increases in net income in our other joint ventures for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Discontinued Operations

Income from properties classified as discontinued operations, excluding provision for loss on disposition of real estate, increased by approximately $4.3 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. This increase is primarily due to a decrease in interest expense of approximately $14.8 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to the retirement of debt related to properties sold subsequent to December 31, 2002. This increase is offset by the loss of net income due to property sold subsequent to December 31, 2002. Income from discontinued properties for the nine months ended September 30, 2003 includes the net income of properties sold subsequent to December 31, 2002, whereas income from discontinued operations for the nine months ended September 30, 2004 includes only the net income of properties sold subsequent to December 31, 2003.

During the nine months ended September 30, 2004, we recognized a provision for loss on disposition of discontinued real estate of approximately $109.0 million relating to seven properties that were designated as held for disposition on June 30, 2004 to reduce the carrying value of such properties to fair value. Fair value was determined by internal valuation.

During the nine months ended September 30, 2003, we recognized a provision for loss on disposition of discontinued real estate of approximately $14.6 million relating to Clark Tower in Memphis, Tennessee and $3.6 million relating to Minnesota Center in Minneapolis, Minnesota that was designated as held for disposition on September 30, 2003. The fair values of both office properties were determined by a contract price, less estimated transaction costs.

During the nine months ended September 30, 2004, we recognized a gain on disposition of discontinued real estate of approximately $47.8 million, net of the related tax effect, due to the sale of the Hollywood and Highland Complex in Los Angeles, California and seven non-core office properties.

During the nine months ended September 30, 2003, we recognized a gain on disposition of discontinued real estate of approximately $28.7 million, net of the related tax effect, due to the sales of Goddard Corporate Park in Lanham, Maryland, Rosslyn Gateway in Arlington, Virginia, Clark Tower in Memphis, Tennessee and the Esperante Office Building in West Palm Beach, Florida.

Gain on Disposition of Real Estate, Net

In May 2004, we entered into a joint venture agreement with a third party to own and operate Plaza of the Americas, located in Dallas, Texas, Trizec Plaza of the Americas, L.P. Prior to the formation of Trizec Plaza of the

Americas, L.P., Plaza of the Americas was 100% owned by us. In conjunction with the formation of Trizec Plaza of the Americas, L.P., we sold a 50% interest in Plaza of the Americas to the third party for a net sales price of approximately $47.7 million, resulting in a loss on disposition of real estate, net, of approximately $21.0 million, for the sale of the 50% interest. This loss is offset by a gain on disposition of real estate, net of the related tax effect, of approximately $15.2 million due to the sale of 151 Front Street in Toronto, Ontario which was subject to the transition rules of SFAS No. 144. In addition, during the nine months ended September 30, 2004, we disposed of two land parcels that resulted in a gain on disposition of real estate of approximately $8.4 million.

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During the nine months ended September 30, 2003, we recognized a gain on disposition of real estate of approximately $13.6 million due to the sale of Paseo Colorado in Pasadena, California which was subject to the transition rules of SFAS No. 144.

Liquidity and Capital Resources

Our objective is to ensure, in advance, that there are ample resources to fund ongoing operating expenses, capital expenditures, debt service requirements and the distributions required to maintain our REIT status.

We expect to meet our liquidity requirements over the next twelve months for normal recurring expenditures, non-recurring capital expenditures, potential future acquisitions and developments, major renovations, expansions, scheduled debt maturities, ground lease payments, operational tax obligations, settlement of pre-REIT tax issues and distributions required to maintain our REIT status through cash flows from operations, asset sales, entering into joint venture arrangements or partnerships with equity providers, current cash and credit availability, refinancing of existing mortgage debt, incurrence of secured debt, proceeds from the possible sale of our capital stock or a combination of these sources. Our net cash flow from operations is dependent upon the occupancy levels of our properties, net effective rental rates on current and future leases, collectibility of rent from our tenants, the level of operating and other expenses, and other factors. Material changes in these factors may adversely affect our net cash flow from operations.

We expect to meet our liquidity requirements beyond twelve months for normal recurring expenditures, non-recurring capital expenditures, potential future acquisitions and developments, major renovations, expansions, scheduled debt maturities, ground lease payments, operational tax obligations, settlement of pre-REIT tax issues and distributions required to maintain our REIT status through cash flows from operations, asset sales, entering into joint venture arrangements or partnerships with equity providers, current cash and credit availability, refinancing of existing mortgage debt, incurrence of secured debt, proceeds from the possible sale of our capital stock or a combination of these sources. Our net cash flow from operations is dependent upon the occupancy levels of our properties, net effective rental rates on current and future leases, collectibility of rent from our tenants, the level of operating and other expenses, and other factors. Material changes in these factors may adversely affect our net cash flow from operations.

We have a $750.0 million unsecured credit facility which matures in June 2007. The amount available to be borrowed under the unsecured credit facility at any time is determined by the value of certain properties that we, or our subsidiaries that may from time to time guarantee the unsecured credit facility, own that satisfy certain conditions of eligibility. These conditions are not uncommon for unsecured credit facilities of this nature. During the remainder of its term, the amount available to be borrowed under the unsecured credit facility will likely fluctuate. The capacity under the unsecured credit facility may decrease as we sell or place permanent financing on assets currently supporting the unsecured credit facility. In addition, the capacity under the unsecured credit facility may decrease if assets no longer meet certain eligibility requirements or if the assets decrease in value. Likewise, the capacity under the unsecured credit facility may increase as certain assets otherwise meet the eligibility requirements. As of September 30, 2004, the amount available to be borrowed under the unsecured credit facility was approximately $631.2 million, of which approximately $365.0 million was outstanding. During the remainder of the term of the unsecured credit facility, we expect the outstanding balance to fluctuate. The balance under the unsecured credit facility will likely increase from time to time as we use funds from the unsecured credit facility to meet a variety of liquidity requirements such as dividend payments, tenant installation costs, future tax payments and acquisitions that may not be fully met through operations. The balance under the unsecured credit facility will also likely be reduced as a result of proceeds generated from asset sales, secured borrowings, operating cash flows and other sources of liquidity.

Under our unsecured credit facility, we are subject to covenants, including financial covenants, restrictions on other indebtedness, restrictions on encumbrances of properties that we use in determining our borrowing capacity and certain customary investment restrictions. The financial covenants include the quarterly requirements for the total leverage ratio not to exceed 65.0% during year one, 62.5% during year two and 60.0% during year three; the requirement for the interest coverage ratio to be greater than 2.0 times; the requirement for the fixed charge coverage ratio to be greater than 1.5 times; and the requirement for the net worth to be in excess of $1.5 billion. Our financial covenants also include a restriction on dividends or distributions of more than 90% of our funds from operations (as

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defined in the unsecured credit facility agreement). If we are in default in respect of our obligations under the unsecured credit facility agreement, dividends will be limited to the amount necessary to maintain REIT status. We anticipated we would not meet all requirements with respect to the dividend restriction covenant under the unsecured credit facility agreement for the nine months ended September 30, 2004 and the remainder of 2004. As such, we requested and received a waiver from the lenders of the unsecured credit facility which waives said requirements for such covenant for the nine months ended September 30, 2004 and the remainder of 2004. Other than noted, at September 30, 2004, we were in compliance with these financial covenants.

We also have available, as of July 19, 2004, an effective shelf registration statement under which we may offer and sell of up to an aggregate amount of $750.0 million of preferred stock, depositary shares representing shares of our preferred stock, common stock and warrants exercisable for common stock or preferred stock. However, our ability to raise funds through sales of preferred stock, depositary shares representing shares of our preferred stock, common stock and common and preferred stock warrants is dependent upon, among other things, general market conditions for REITs, market perceptions about our company and the current trading price of our stock. The proceeds from the sale of shares of preferred stock, depositary shares representing shares of our preferred stock, common stock or common and preferred stock warrants, if any, would be used for general corporate purposes, which may include, among other things, the acquisition of additional properties or the repayment of outstanding indebtedness.

After dividend distributions, our remaining cash from operations may not be sufficient to allow us to retire all of our debt as it comes due. Accordingly, we may be required to refinance maturing debt or repay it utilizing proceeds from property dispositions, the issuance of equity securities or draws on our unsecured credit facility. Our ability to refinance maturing debt will be dependent on our financial position, the cash flow from our properties, the value of our properties, liquidity in the debt markets and general economic and real estate market conditions. There can be no assurance that such refinancing or proceeds will be available or be available on economical terms when necessary in the future.

Contractual Obligations

In conjunction with the disposition of certain properties and the sale of our 50% interest in Plaza of the Americas in Dallas, Texas, as well as the pay off and retirement of the mortgage loan on Galleria Towers in Dallas, Texas, the repayment of the mortgage loan on Plaza of the Americas in Dallas, Texas, the mortgage loan on Newport Tower in Jersey City, New Jersey and certain variable interest rate commercial mortgage pass-through certificates, we are no longer liable for future mortgage obligations and other loans of approximately $986.7 million, capital lease obligations of approximately $10.9 million, ground lease obligations of approximately $28.0 million, operating lease obligations of approximately $24.5 million and purchase obligations of approximately $16.5 million, all of which were previously disclosed in the contractual obligations table in our Annual Report on Form 10-K for the year ended December 31, 2003. In addition, in conjunction with the acquisition of Bank of America Plaza, located at 333 Hope Street, Los Angeles, California, in August 2004, we entered into two non-recourse mortgage loans totaling approximately $242.0 million and scheduled to mature in September 2014.

Cash Flow Activity

At September 30, 2004, we had approximately $75.5 million in cash and cash equivalents as compared to approximately $129.3 million at December 31, 2003. The increase in cash for the nine months ended September 30, 2004 and 2003 are a result of the following cash flows:

	For the nine months ended September 30

	2004	2003
	(dollars in thousands)	
Cash provided by operating activities	**$ 211,924**	$ 178,290
Cash provided by investing activities	**195,223**	162,314
Cash used in financing activities	**(460,918)**	(290,178)
	$ (53,771)	$ 50,426

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Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2004 was approximately $211.9 million compared to approximately $178.3 million for the nine months ended September 30, 2003. Cash flows from operations depends primarily on cash generated from lease payments from leased spaces at our office properties. The change in cash flows from operating activities is primarily attributable to the factors discussed in our analysis of results of operations for the nine months ended September 30, 2004 compared to September 30, 2003 as well as the timing of receipt of revenues and the payment of expenses.

Investing Activities

Net cash provided by investing activities reflects the net impact of the acquisition and disposition of certain properties, investments in, and distributions from, our unconsolidated real estate joint ventures and the ongoing impact of expenditures on tenant installations costs and capital expenditures. During the nine months ended September 30, 2004, approximately $195.2 million of cash was generated in our investing activities compared to approximately $162.3 million of cash generated in our investing activities during the nine months ended September 30, 2003, which are described below.

Tenant Installation Costs

Our office properties require periodic investments of capital for tenant installation costs related to new and renewal leasing. As noted above, overall stagnant market conditions for the nine months ended September 30, 2004 resulted in a modest decrease in vacancies over the same period in the prior year. The stagnant market conditions, combined with sublet space inventory in our major markets, has increased the downward pressure on rental rates and the upward pressure on tenant installation costs. For comparative purposes, the absolute total dollar amount of tenant installation costs in any given period is less relevant than the cost on a per square foot basis. This is because the total is impacted by the square footage both leased and occupied in any given period. Tenant installation costs consist of tenant allowances and leasing costs. Leasing costs include leasing commissions paid to third-party brokers representing tenants and costs associated with dedicated regional leasing teams who represent us and deal with tenant representatives. The following table reflects tenant installation costs for the total office portfolio that we owned at September 30, 2004 and for the total office portfolio we owned at September 30, 2003, including our share of such costs incurred by unconsolidated joint ventures, for both new and renewal office leases that commenced during the respective periods, regardless of when such costs were actually paid. The square feet leased data in the table represents leasing activity based on our pro rata economic ownership interest in joint ventures.

	For the nine months ended September 30	
	2004	**2003**
	(in thousands)	
Square feet leased		
- new leasing	**2,250**	2,126
- renewal leasing	**2,299**	2,314
Total square feet leased	**4,549**	4,440
Tenant installation costs	**$84,808**	$61,129

Capital Expenditures

To maintain the quality of our properties and preserve competitiveness and long-term value, we pursue an ongoing program of capital expenditures, certain of which are not recoverable from tenants. For the nine months ended September 30, 2004 and 2003, capital expenditures for the total office portfolio, including our share of such expenditures incurred by unconsolidated real estate joint ventures, was approximately $10.3 million and approximately $11.8 million, respectively. Recurring capital expenditures include, for example, the cost of roof replacement and the cost of replacing heating, ventilation, air conditioning and other building systems. In addition to recurring capital expenditures, expenditures are made in connection with non-recurring events such as asbestos abatement or removal costs, major mechanical attribute or system replacement, and redevelopment or reconstruction costs directly attributable to extending or preserving the useful life of the base building. Furthermore, as part of our office property acquisitions, we have routinely acquired and repositioned properties in their respective markets, many of which have required significant capital improvements due to deferred maintenance and the existence of shell space requiring initial tenant build-out at the time of acquisition. Some of these properties required substantial renovation to enable them to compete effectively. We take these capital improvement and new leasing tenant inducement costs into consideration when negotiating our purchase price at the time of acquisition.

Reconciliation to Combined Consolidated Statements of Cash Flows

The above information includes tenant installation costs granted, including leasing costs, and capital expenditures for the total portfolio, including our share of such costs granted by unconsolidated joint ventures, for leases that commenced during the periods presented. The amounts included in our consolidated statements of cash flows represent the actual cash spent during the periods, excluding our share of such costs and expenditures incurred by unconsolidated joint ventures. The reconciliation between the above amounts and our consolidated statements of cash flows is as follows:

	For the nine months ended September 30	
	2004	**2003**
	(dollars in thousands)	
Tenant installation costs, including leasing costs for the owned office portfolio	**$84,808**	$ 61,129
Tenant installation costs, including leasing costs for properties disposed of during the period	**4,934**	2,843
Capital expenditures	**10,256**	11,846
Pro rata joint venture activity	**(5,395)**	(13,872)
Timing differences	**(7,449)**	15,940
Retail activity	**150**	6,854
Total of tenant improvements and capital expenditures and tenant leasing costs per consolidated statements of cash flows	**$87,304**	$ 84,740

Acquisitions

In August 2004, we acquired Bank of America Plaza, located at 333 South Hope Street, Los Angeles, California, from an unrelated third party for a net purchase price of approximately $420.7 million. The acquisition was financed with two non-recourse mortgage loans totaling approximately $242.0 million, bearing interest at an average fixed rate of 5.31% and scheduled to mature in September 2014. The remainder of the purchase price was funded from proceeds from our 2004 Unsecured Credit Facility (hereinafter defined).

Dispositions

During the nine months ended September 30, 2004, we sold eight office properties, a partial interest in an office property, a partial interest in a joint venture development, two retail/entertainment properties and two land parcels, generating aggregate net proceeds of approximately $533.5 million, or approximately $295.2 million after debt repayment. During the nine months ended September 30, 2003, we sold four office properties and a retail property generating aggregate net proceeds of approximately $264.7 million, or approximately $157.9 million after debt repayment.

Development Expenditures

During the nine months ended September 30, 2003, we spent approximately $0.9 million on the final payment requirements for construction costs related to developments that were completed in 2001 and 2002.

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Unconsolidated Real Estate Joint Ventures

In April 2004, the JBG/TrizecHahn Waterview Venture L.L.C., a joint venture through which we owned an 80% interest in the Waterview Development, located in Arlington, Virginia, sold the property, a mixed-use development parcel, to a newly formed joint venture, Waterview L.P., in which we acquired a 25% interest. The JBG/TrizecHahn Waterview Venture L.L.C. recognized a gain on disposition of real estate of approximately $1.1 million in conjunction with such sale.

As part of the periodic assessment of our real estate investments relative to both the extent to which such investments are consistent with our long-term real estate investment objectives and performance and prospects of each investment, we determined in the second quarter of 2004 that our investment in Main Street Partners, L.P., a joint venture through which we own a 50% interest in Bank One Center in Dallas, Texas, was impaired. As a result of the reassessment of the anticipated future operating results of such non-core investment, we determined that our investment in such joint venture was impaired. We recognized a provision for loss on investment of approximately $14.6 million to reduce the carrying value of such investment to its fair value.

During the nine months ended September 30, 2004, we made cash and non-cash contributions and advances to our unconsolidated real estate joint ventures in the aggregate amount of approximately $95.5 million, of which, approximately $47.5 million were cash contributions, and received distributions from our unconsolidated real estate joint ventures in the aggregate amount of approximately $236.1 million. Included in distributions received from our unconsolidated real estate joint ventures is approximately $167.2 million of distributions received from the Swig Joint Ventures (defined hereinafter) due to proceeds received from the refinancing of its mortgage loan. This distribution exceeded our cumulative investment in the Swig Joint Ventures (defined hereinafter) by approximately $29.6 million, which has been recorded in other accrued liabilities. During the nine months ended September 30, 2003, we made contributions and advances to our unconsolidated real estate joint ventures in the aggregate amount of approximately $22.6 million, and received distributions from our unconsolidated real estate joint ventures in the aggregate amount of approximately $18.1 million.

Financing Activities

During the nine months ended September 30, 2004, we used approximately $460.9 million in our financing activities due primarily to approximately $856.3 million of principal repayments on mortgage debt, approximately $238.3 million of repayments of mortgage debt and other loans upon property dispositions and approximately $6.9 million of financing fees related to refinancing of certain mortgage debt and financing costs incurred in conjunction with our $750.0 million unsecured credit facility. Additionally, we incurred and paid approximately $3.8 million in settlement of forward rate contracts used to lock into a maximum effective interest rate on certain mortgage debt. We also paid approximately $93.8 million in dividends to our stockholders. These uses were partially offset by proceeds from mortgage debt refinancings, net draws from the 2004 Unsecured Credit Facility (defined hereinafter) and proceeds from the issuance of common stock.

During the nine months ended September 30, 2003, we used approximately $290.2 million in our financing activities due primarily to approximately $112.3 million of principal repayments on mortgage debt, approximately $106.8 million of repayments of mortgage debt and other loans upon property dispositions, approximately $90.0 million of a net pay down of our revolving credit facility and approximately $2.1 million of financing fees. Additionally, we incurred and paid approximately $3.4 million in settlement of forward rate contracts used to lock into a maximum effective interest rate on certain mortgage debt. We also paid approximately $61.5 million in dividends to our stockholders. These uses were partially offset by proceeds from mortgage debt financings.

Mortgage Debt and Other Loans

At September 30, 2004, our consolidated debt was approximately $2.5 billion. The weighted average interest rate on our debt was approximately 5.95% and the weighted average maturity was approximately 4.9 years.

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The following table sets forth information concerning our consolidated mortgage debt and other loans as of September 30, 2004.

Property/(ownership)	F/V	Maturity Date	Current Rate	Principal Balance	Term to Maturity
				($ 000 s)	(Years)
CMBS Transaction					
Class A-2	F	15-May-11	6.09%	$ 61,761	6.6
Class A-3 FL	V	15-Mar-08	1.98%	91,884	3.5
Class A-3	F	15-Mar-08	6.21%	78,900	3.5
Class A-4	F	15-May-11	6.53%	240,600	6.6
Class B-3 FL	V	15-Mar-08	2.13%	16,886	3.5
Class B-3	F	15-Mar-08	6.36%	14,500	3.5
Class B-4	F	15-May-11	6.72%	47,000	6.6
Class C-3	F	15-Mar-08	6.52%	101,400	3.5
Class C-4	F	15-May-11	6.89%	45,600	6.6
Class D-3	F	15-Mar-08	6.94%	106,100	3.5
Class D-4	F	15-May-11	7.28%	40,700	6.6
Class E-3	F	15-Mar-08	7.25%	73,300	3.5
Class E-4	F	15-May-11	7.60%	32,300	6.6
Pre-swap:			6.15%	$ 950,931	5.0
Post-swap:			6.60%	$ 950,931	5.0
Renaissance Tower	F	Jan-10	4.98%	$ 92,000	5.3
Ernst & Young Plaza	F	Feb-14	5.07%	119,041	9.3
One New York Plaza	F	May-06	7.27%	232,889	1.6
2000 L Street, N.W.	F	Aug-07	6.26%	56,100	2.8
Watergate Office Building	F	Feb-07	8.02%	17,118	2.4
1400 K Street, N.W.	F	May-06	7.20%	21,340	1.6
Bethesda Crescent	F	Jan-08	7.10%	32,592	3.3
Bethesda Crescent	F	Jan-08	6.70%	2,700	3.3
Twinbrook Metro Plaza	F	Sep-08	6.65%	16,372	3.9
Two Ballston Plaza	F	Jun-08	6.91%	26,500	3.7
Sunrise Tech Park	F	Jan-06	6.75%	22,900	1.3
Gateway Center	F	Sep-10	8.50%	39,838	5.9
Metropolitan Square	F	Jan-08	7.05%	83,599	3.3
250 West Pratt Street	F	Apr-05	6.77%	28,629	0.5
Bank of America Plaza (Columbia)	F	Mar-05	6.90%	19,993	0.4
Bank of America Plaza (Los Angeles)	F	Sep-14	5.31%	242,000	9.9
One Alliance Center	F	Jul-13	4.78%	68,816	8.8
Unsecured Credit Facility	V	Jun-07	3.43%	365,000	2.7
Other Fixed	F	Various	6.01%	18,695	6.4

Total Consolidated Debt			**5.95%**	**$2,457,053**	**4.9**
Bank One Center (50%)	V	Dec-04	4.76%	$ 54,831	0.2
Marina Towers (50%)	F	Aug-07	7.92%	15,181	2.8
The Grace Building (50%)	F	Jul-14	5.54%	190,119	9.8
World Apparel Center (50%)	F	Jul-14	5.50%	109,281	9.8
1460 Broadway (50%)	V	May-05	3.19%	12,475	0.7
Plaza of the Americas (50%)	F	Jul-11	5.12%	34,000	6.8
Waterview (25%)	V	Sep-05	6.25%	4,522	0.9
Unconsolidated Real Estate Joint Venture Mortgage Debt			**5.42%**	**$ 420,409**	**7.7**
Total Mortgage and Other Debt			**5.87%**	**$2,877,462**	**5.3**

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The table that follows summarizes the mortgage and other loan debt at September 30, 2004 and December 31, 2003:

Debt Summary

	September 30 2004	December 31 2003
	(dollars in thousands)	
Balance:		
Fixed rate	**$2,457,053**	$2,608,877
Variable rate subject to interest rate caps		120,000
Variable rate		138,098
Total	**$2,457,053**	$2,866,975
Collateralized property	**$2,073,358**	$2,806,233
Unsecured credit facility	**365,000**	
Other loans	**18,695**	60,742
Total	**$2,457,053**	$2,866,975
Percent of total debt:		
Fixed rate	**100.0%**	91.0%
Variable rate subject to interest rate caps		4.2%
Variable rate		4.8%
Total	**100.0%**	100.0%
Weighted average interest rate at period end:		
Fixed rate	**5.95%**	5.95%
Variable rate subject to interest rate caps		3.91%
Variable rate		4.20%
Total	**5.95%**	5.78%
Leverage ratio:		
Debt to debt plus book equity	**56.6%**	59.2%

Unsecured Credit Facility

We entered into a three-year, $350.0 million unsecured revolving credit facility, the 2001 Revolving Credit Facility, with a group of banks in the fourth quarter of 2001. In the fourth quarter of 2002, the group of banks unanimously agreed to amend and restate the 2001 Revolving Credit Facility, the 2002 Revolving Credit Facility. Generally, in exchange for the receipt of collateral, the group of banks agreed to provide more flexible financial covenants than had been originally negotiated. In June 2004, we retired the 2002 Revolving Credit Facility and entered into a $750.0 million unsecured credit facility with a group of banks, the 2004 Unsecured Credit Facility. The 2004 Unsecured Credit Facility consists of a $600.0 million revolving component and a $150.0 million term component, bears interest at LIBOR plus a spread of 1.15% to 2.0% based on our total leverage, and matures in June 2007. The financial covenants, as defined in the 2004 Unsecured Credit Facility, include the quarterly requirements for the total leverage ratio not to exceed 65.0% during year one, 62.5% during year two and 60.0% during year three; the requirement for the interest coverage ratio to be greater than 2.0 times; the requirement for the fixed charge coverage ratio to be greater than 1.5 times; and the requirement for the net worth to be in excess of $1.5 billion. Our financial covenants also include a restriction on dividends or distributions of more than 90% of our funds from operations (as defined in the 2004 Unsecured Credit Facility Agreement). If we are in default in respect of our obligations under the 2004 Unsecured Credit Facility Agreement, dividends will be limited to the amount necessary to maintain REIT status. We anticipated we would not meet all requirements with respect to the dividend restriction covenant under the 2004 Unsecured Credit Facility Agreement for the nine months ended September 30, 2004 and the remainder of 2004. As such, we requested and received a waiver from the lenders of the 2004 Unsecured Credit Facility which waives said requirements for such covenant for the nine months ended September 30, 2004 and the remainder of 2004. Other than noted, at September 30, 2004, we were in compliance with these financial covenants. Certain conditions of the 2004 Unsecured Credit Facility may restrict the amount eligible to be borrowed at any time. In conjunction with the retirement of the 2002 Unsecured Credit Facility, we recorded a loss on early debt retirement of approximately $1.4 million comprised of the write-off of unamortized deferred financing costs.

At September 30, 2004, the amount eligible to be borrowed under the 2004 Unsecured Credit Facility was approximately $631.2 million, of which approximately $365.0 million was drawn and outstanding. At December 31, 2003, the amount eligible to be borrowed under the 2002 Unsecured Credit Facility was approximately $217.0 million, none of which was drawn and outstanding.

Financing, Refinancing and Early Debt Retirement

In January 2004, we refinanced the $120.0 million mortgage loan on Ernst & Young Plaza in Los Angeles, California, which bore a variable interest rate of LIBOR plus 2.75% and was scheduled to mature in June 2004, with a $120.0 million mortgage loan bearing a fixed interest rate of 5.07% and scheduled to mature in February 2014. In December 2003, we entered into forward rate swap agreements to lock in a maximum effective interest rate on the refinanced mortgage loan. The forward rate swap agreements were entered into at current market rates and, therefore, had no initial cost. Upon closing of the refinanced mortgage loan, we paid approximately $3.8 million in settlement of the forward rate swap agreements, which has been recorded in other comprehensive income. The approximately $3.8 million paid on settlement will be amortized to interest expense over the life of the mortgage loan. In addition, we recorded a loss on early debt retirement of approximately $0.3 million, comprised primarily of the write-off of unamortized deferred financing costs.

In February 2004, we paid off and retired the mortgage loan on Galleria Towers in Dallas, Texas. The mortgage loan had a principal balance of approximately $133.5 million, bore interest at a fixed rate of 6.79% and was scheduled to mature in May 2004. In conjunction with the pay off and retirement of the mortgage loan, we recorded a loss on early debt retirement of approximately $0.04 million, comprised primarily of the write-off of unamortized deferred financing costs.

In June 2004, we paid off and retired the mortgage loan on 1065 Avenue of the Americas in New York, New York. The mortgage loan had a principal balance of approximately $36.5 million, bore interest at a fixed rate of 7.18% and was scheduled to mature in December 2004.

In July 2004, we paid off and retired the mortgage loan on Newport Tower in Jersey City, New Jersey. The mortgage loan had a principal balance of approximately $102.8 million, bore interest at a fixed rate of 7.09% and was scheduled to mature in November 2004.

In July 2004, we paid down approximately $444.1 million of our variable interest rate commercial mortgage pass-through certificates primarily by drawing on the 2004 Unsecured Credit Facility. The variable interest rate commercial mortgage pass-through certificates bore interest at a variable rate of LIBOR plus various spreads between 0.289% and 0.529% and were scheduled to mature between 2006 and 2008. In conjunction with the pay down of the variable interest rate commercial mortgage pass-through certificates, we recorded a loss on early retirement of debt of approximately $3.2 million, comprised of the write-off of unamortized deferred financing costs of approximately $2.4 million and a prepayment fee of approximately $0.8 million.

In conjunction with the acquisition of Bank of America Plaza, located at 333 Hope Street, Los Angeles, California, we entered into two non-recourse mortgage loans totaling approximately $242.0 million, bearing interest at an average fixed rate of 5.31% and scheduled to mature in September 2014.

In conjunction with the sale of real estate during the nine months ended September 30, 2004, we paid off an aggregate of approximately $238.3 million of mortgage debt, resulting in a gain on early debt retirement of approximately $0.6 million comprised primarily of a gain from the forgiveness of debt of approximately $1.2 million, offset by the write-off of unamortized deferred financing costs.

Hedging Activities

At September 30, 2004 and December 31, 2003, we had outstanding interest rate swap contracts in the notional amount of $150.0 million, bearing a weighted average interest rate of 6.02% and maturing on March 15, 2008. In addition, at September 30, 2004 and December 31, 2003, we had outstanding interest rate swap contracts in the notional amount of $500.0 million, bearing a weighted average interest rate of 2.61% plus various spreads and maturing between July 1, 2005 and January 1, 2006. Due to the pay off and retirement of certain amounts of variable rate debt during the nine months ended September 30, 2004 and due to the anticipated pay off and retirement of certain variable rate debt in the future, we de-designated interest rate swap contracts in the notional amount of $375.0 million. For the three and nine months ended September 30, 2004, we recorded through earnings a derivative loss of approximately $1.2 million and $2.7 million, respectively, representing the total ineffectiveness of our interest rate swap contracts. All components of each derivative s gain or loss were included in the assessment of hedge effectiveness. At September 30, 2004 and December 31, 2003, the debt hedged by the interest rate swap contracts was classified as fixed in the above table. The aggregate cost to unwind these interest rate swap contracts was approximately $12.4 million and $20.3 million at September 30, 2004 and December 31, 2003, respectively.

We entered into interest rate cap contracts that expired in June 2004 on $120.0 million of our variable rate debt, which limited the underlying LIBOR interest rate on such debt to 6.50%. At December 31, 2003, the fair value of these interest rate cap contracts was nominal. In addition, and not reclassified in the table above at December 31, 2003, we entered into an interest rate cap contract that expired in April 2004 on approximately $584.7 million of our variable rate debt, which limited the underlying LIBOR rate on such debt to 11.01%. At December 31, 2003, the fair value of this interest rate cap contract was nominal.

In April 2004, we elected to exercise the first of two one-year extensions on approximately $272.7 million of our variable interest rate commercial mortgage pass-through certificates, thereby extending the maturity date of such variable interest rate commercial mortgage pass-through certificates to April 2005. In conjunction with such extension, we entered into an interest rate cap agreement expiring on April 15, 2005 that limits the underlying LIBOR interest rate on the variable interest rate commercial mortgage pass-through certificates to 8.93%.

The variable rate debt shown above bears interest based primarily on various spreads over LIBOR. The leverage ratio is the ratio of mortgage and other debt to the sum of mortgage and other debt and the book value of stockholders equity. The decrease in our leverage ratio from December 31, 2003 to September 30, 2004 was primarily attributable to the pay-down of existing debt upon the sale of non-core properties.

Some of our collateralized loans are cross-collateralized or subject to cross-default or cross-acceleration provisions with other loans.

Unconsolidated Joint Venture Mortgage Debt

The consolidated mortgage and other debt information presented above does not reflect indebtedness secured by property owned in joint venture partnerships as they are accounted for under the equity method of accounting. At September 30, 2004, our pro rata share of this debt amounted to approximately $420.4 million in the aggregate (approximately $232.7 million in the aggregate at December 31, 2003).

In March 2004, 1114 TrizecHahn-Swig, L.L.C. and 1411 TrizecHahn-Swig, L.L.C., joint ventures through which we own approximately 50% interests in The Grace Building and 1411 Broadway, respectively, together, the Swig Joint Ventures, repaid and retired a mortgage loan with a principal balance of approximately $39.8 million that bore interest at a rate of LIBOR plus 3.5%. We loaned our joint venture partner approximately $20.0 million in conjunction with the debt pay off and retirement. The loan to our joint venture partner bore interest at a rate of LIBOR plus 2.75%, was payable in full on the earlier of March 18, 2005 or the date of the refinancing of the joint venture s remaining mortgage loan, and was collateralized by the joint venture partner s investment in the joint venture. The loan to our joint venture partner was repaid in full and retired in June 2004 in conjunction with the refinancing discussed below.

In June 2004, the Swig Joint Ventures refinanced an approximately $206.9 million mortgage loan, which bore interest at a fixed rate of 7.50% and was scheduled to mature in March 2005, with two mortgage loans totaling approximately $600.0 million, bearing interest at an average fixed rate of 5.52% and scheduled to mature in July 2014. In May 2004, the Swig Joint Ventures entered into forward rate swap agreements to lock in a maximum effective interest rate on the refinanced mortgage loans. The forward rate swap agreements were entered into at current market rates and, therefore, had no initial cost. Upon closing of the refinanced mortgage loans, we advanced approximately $11.5 million to the Swig Joint Ventures and the Swig Joint Ventures paid approximately $11.5 million to settle the forward rate swap agreements, which has been recorded in other comprehensive income. The approximately $11.5 million paid on settlement of the forward rate swap agreements will be amortized into interest expense over the life of the mortgage loan. The Swig Joint Ventures repaid the approximately $11.5 million advance in the third quarter of 2004. The Swig Joint Ventures recorded a loss on early debt retirement of approximately $10.2 million comprised primarily of the write-off of unamortized deferred financing costs and a yield maintenance fee.

In May 2004, we entered into a joint venture agreement with a third party to own and operate Plaza of the Americas, located in Dallas, Texas. Prior to the formation of Trizec Plaza of the Americas, L.P., Plaza of the Americas was 100% owned by us. In conjunction with the formation of Trizec Plaza of the Americas, L. P., we sold a 50% interest in Plaza of the Americas to the third party for a net sales price of approximately $47.7 million, resulting in a loss on disposition of real estate, net, of approximately $21.0 million, for the sale of the 50% interest. In conjunction with the sale of our 50% interest in Plaza of the Americas, we determined that the fair value of Plaza of the Americas, based upon the contract price, was less than our carrying value of such asset. Accordingly, we recognized a provision for loss on real estate of approximately $12.7 million related to our 50% interest in Plaza of the Americas to reduce the carrying value of such property to its fair value.

In June 2004, Trizec Plaza of the Americas, L.P. entered into an approximately $68.0 million mortgage loan, bearing interest at a fixed rate of 5.12% and maturing in June 2011. Plaza of the Americas was removed from a pool of cross-collateralized loans that are part of a 2001 commercial mortgage-backed security financing.

In August 2004, Main Street Partners, L.P. repaid and retired the mezzanine loan on Bank One Center. The mezzanine loan had a principal balance of approximately $19.1 million, bore interest at a variable rate of 11.90% and was scheduled to mature in December 2004. Main Street Partners, L.P. recorded a loss on early debt retirement of approximately $0.03 million comprised of the write off of unamortized deferred financing costs.

Liability for Obligations of Partners

We were contingently liable for certain obligations related to the Hollywood & Highland Hotel, one of our consolidated real estate joint ventures. At December 31, 2003, we had guaranteed or were otherwise contingently liable for an approximately $74.0 million mortgage loan that was scheduled to mature in April 2005. All of the assets of the Hollywood & Highland Hotel were available for the purpose of satisfying this obligation. On February 27, 2004, we sold the Hollywood & Highland Complex and, thus, are no longer contingently liable for obligations related to the Hollywood & Highland Hotel.

Principal Repayments

The table below presents the schedule of maturities of the collateralized property loans, unsecured credit facility and other loans:

	Total Debt (dollars in thousands)
Principal repayments due in:	
Balance of 2004	$ 6,109
2005	72,798
2006	431,264
2007	462,797

2008	514,464
Subsequent to 2008	969,621
Total	$2,457,053
Weighted average interest rate at September 30, 2004	5.95%
Weighted average term to maturity, in years	4.9
Percentage of fixed rate debt including variable rate debt subject to interest rate caps and interest rate swap agreements	100.0%

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Dividends

On March 10, 2004, we declared a quarterly dividend of $0.20 per share of common stock, payable on April 15, 2004, to the holders of record at the close of business on March 31, 2004. On June 14, 2004, we declared a quarterly dividend of $0.20 per share of common stock, payable on July 15, 2004, to the holders of record at the close of business on June 30, 2004. On September 14, 2004, we declared a quarterly dividend of $0.20 per common share, payable on October 15, 2004, to the holders of record at the close of business on September 30, 2004. The aggregate amount of dividends paid on April 15, 2004, July 15, 2004, and October 15, 2004 totaled approximately $30.5 million, $30.5 million, and $30.5 million, respectively.

On March 10, 2004, we declared an aggregate dividend of approximately $0.005 million for the Class F convertible stock, payable on April 15, 2004, to the holders of record at the close of business on March 31, 2004. We accrued an additional $0.001 million dividend for the Class F convertible stock on March 31, 2004, June 30, 2004, and September 30, 2004, respectively.

On March 10, 2004, we declared an aggregate dividend of approximately $0.6 million for the special voting stock, payable on April 15, 2004, to the holders of record at the close of business on March 31, 2004, and accrued an additional $0.7 million dividend for the special voting stock. On June 14, 2004, we declared an aggregate dividend of approximately $0.6 million for the special voting stock, payable on July 15, 2004, to the holders of record at the close of business on June 30, 2004, and accrued an additional $0.6 million dividend for the special voting stock. On September 14, 2004, we declared an aggregate dividend of approximately $1.7 million for the special voting stock, payable on October 15, 2004, of which, approximately $0.3 million had been previously accrued.

Provision for Loss on Real Estate

In May 2004, we entered into a joint venture agreement with a third party to own and operate Plaza of the Americas, located in Dallas, Texas, Trizec Plaza of the Americas, L.P. . Prior to the formation of Trizec Plaza of the Americas, L.P., Plaza of the Americas was 100% owned by us. In conjunction with the formation of Trizec Plaza of the Americas, L. P., we sold a 50% interest in Plaza of the Americas to the third party for a net sales price of approximately $47.7 million, resulting in a loss on disposition of real estate, net, of approximately $21.0 million, for the sale of the 50% interest. In conjunction with the sale of our 50% interest in Plaza of the Americas, we determined that the fair value of Plaza of the Americas, based upon the contract price, was less than our carrying value of such asset. Accordingly, we recognized a provision for loss on real estate of approximately $12.7 million related to our 50% interest in Plaza of the Americas to reduce the carrying value of such property to its fair value.

Recovery of Provision for Loss on Discontinued Real Estate and Provision for Loss on Discontinued Real Estate

As part of the periodic assessment of our real estate properties relative to both the extent to which such assets are consistent with our long-term real estate investment objectives and the performance and prospects of each asset, we determined in the second quarter of 2004 that our investments in seven real estate properties were impaired. Given our strategy focused on owning core real estate in our seven core markets, we reduced our anticipated recovery period for certain of our remaining non-core assets. As a result of the reduction in the anticipated holding period, together with a reassessement of the anticipated future operating income of such non-core real estate properties and the effects of new competition and demand for the properties, we determined that our investments in the Borden Building, Park Central I, 1333 Main Street, Lakeside Centre, New Market Business Park, Bank of America-Columbia and Williams Center I & II were impaired. In accordance with SFAS No. 144, we recorded a provision for loss on discontinued real estate in the aggregate amount of approximately $78.3 million in the second quarter of 2004 to reduce the book value of such non-core assets to their estimated fair values. During the third quarter of 2004, we entered into agreements to sell

Lakeside Centre, New Market Business Park and Bank of America- Columbia at sales prices in excess of previous expectations. In accordance with SFAS No. 144, we reduced our provision for loss on discontinued real estate in the aggregate amount of approximately $9.6 million to increase the book values of Lakeside Centre, New Market Business Park and Bank of America- Columbia to their fair values based upon established contract prices, less estimated costs to sell.

During the second quarter of 2004, internal valuations indicated that the value of Gateway Center, located in Pittsburgh, Pennsylvania, had declined. Accordingly, a provision for loss on real estate in the amount of approximately $40.3 million was recorded in the second quarter of 2004. Gateway Center is encumbered by a mortgage loan in the principal amount of approximately $39.8 million. In August 2004, we received a notice of default related to the debt service from the lender of the mortgage loan on Gateway Center. In September 2004, we came to an agreement with the lender of the mortgage loan on Gateway Center to modify certain terms of this mortgage loan primarily to reduce the yield maintenance penalty upon prepayment of the mortgage loan, as well as to allow the lender of the mortgage loan to participate in sales proceeds in excess of certain debt repayment and debt repayment costs upon the sale of Gateway Center. In conjunction with this loan modification, the lender of the mortgage loan granted a forbearance with respect to any default by us under the terms of the mortgage loan prior to modification. If we default on any of the terms of the loan modification, the forbearance becomes null and void and the lender of the mortgage loan is entitled to exercise all of its rights and remedies under the original mortgage loan, including acceleration of the payment of the mortgage loan in full.

In accordance with SFAS No. 144, the results of operations of Gateway Center, the Borden Building, Park Central I, 1333 Main Street, Lakeside Centre, New Market Business Park, Bank of America-Columbia and Williams Center I & II have been reported as discontinued operations for all periods presented.

Market Risk Quantitative and Qualitative Information

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. The primary market risk facing us is long-term indebtedness, which bears interest at fixed and variable rates. The fair value of our long-term debt obligations is affected by changes in market interest rates. We manage our market risk by matching long-term leases on our properties with long-term fixed rate non-recourse debt of similar durations. At September 30, 2004, all of our outstanding debt had fixed interest rates (including variable rate debt subject to interest rate caps and interest rate swap agreements), which minimizes the interest rate risk until the maturity of such outstanding debt.

We utilize certain derivative financial instruments at times to limit interest rate risk. Interest rate protection agreements are used to convert variable rate debt to a fixed rate basis or to hedge anticipated financing transactions. Derivatives are used for hedging purposes rather than speculation. We do not enter into financial instruments for trading purposes. We have entered into hedging arrangements with financial institutions we believe to be creditworthy counterparties. Our primary objective when undertaking hedging transactions and derivative positions is to reduce our floating rate exposure, which, in turn, reduces the risks that variable rate debt imposes on our cash flows. Our strategy partially protects us against future increases in interest rates. At September 30, 2004, we had hedge contracts totaling $650.0 million. Hedge contracts totaling $150.0 million convert variable rate debt at LIBOR plus various spreads to a fixed rate of 6.02% and mature on March 15, 2008. Hedge contract agreements totaling $500.0 million convert variable rate debt at LIBOR plus various spreads to a fixed rate of 2.61% plus various spreads and mature between July 1, 2005 and January 1, 2006. At September 30, 2004, such hedge contracts fixed the interest rate on approximately $473.8 million of our variable rate debt. Due to the pay off and retirement of certain amounts of variable rate debt during the nine months ended September 30, 2004, we de-designated interest rate swap contracts in the notional amount of $375.0 million. For the nine months ended September 30, 2004, we recorded through earnings a derivative loss of approximately $2.7 million, representing the total ineffectiveness of our interest rate swap contracts. All components of each derivative s gain or loss were included in the assessment of hedge effectiveness. We may consider entering into additional hedging agreements with respect to all or a portion of our variable rate debt. We may borrow additional money with variable rates in the future. Increases in interest rates could increase interest expense in unhedged variable rate debt, which, in turn, could affect cash flows and our ability to service our debt. As a result of the hedging agreements, decreases in interest rates could increase interest expense as compared to the underlying variable rate debt and could result in us making payments to unwind such agreements.

At September 30, 2004, our total outstanding debt was approximately $2.5 billion, all of which was fixed rate debt after the impact of the hedge agreements. Taking the hedging agreements into consideration, if market interest rates on our variable rate debt were to increase by 10%, there would be no impact on interest expense. If

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market rates of interest increased by 10%, the fair value of the total debt outstanding would decrease by approximately $47.6 million.

Taking the hedging agreements into consideration, if market rates of interest on the variable rate debt were to decrease by 10%, there would be no impact on interest expense. If market rates of interest decrease by 10%, the fair value of the total outstanding debt would increase by approximately $48.6 million.

These amounts were determined solely by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of the reduced level of overall economic activity that could exist in an environment with significantly fluctuating interest rates. Further, in the event of significant change, management would likely take actions to further mitigate our exposure to the change. Due to the uncertainty of specific actions we may undertake to minimize possible effects of market interest rate increases, this analysis assumes no changes in our financial structure.

Related Party Transactions

On October 9, 2003, 4172352 Canada, Inc., an affiliate of Trizec Canada, Inc., contributed approximately $4.0 million to us in exchange for preferred membership units in an entity that indirectly held a 91.5% interest in the Hollywood & Highland Hotel. The holders of the preferred membership units were entitled to an initial dividend of 8% per annum, increasing to 12% per annum, as well as any unrecovered capital contribution at the time of liquidation. On February 27, 2004, we sold the Hollywood & Highland Hotel. We remitted approximately $4.6 million to 4172352 Canada, Inc. in full satisfaction of any outstanding dividends and unrecovered capital contribution.

In October 2004, we reached an agreement to sell 110 William Street, located in New York, New York, to an affiliate of Swig Investment Company, one of our joint venture partners, for approximately $164.5 million. The transaction is expected to occur in the fourth quarter of 2004 and remains subject to the satisfaction of customary closing conditions.

Gain Contingencies

On September 8, 2004, we and the Los Angeles County Assessor s Office presented to the Los Angeles County Assessment Appeals Board a written stipulation agreeing to the base year value in 2000, and the 2001, 2002, 2003 and 2004 assessed values of the Hollywood & Highland Complex, located in Los Angeles, California. The stipulation provided for substantial reductions in the assessed value of the Hollywood & Highland Complex for all years. The Los Angeles County Assessment Appeals Board approved the stipulation and adopted the values as set forth in the stipulation, which will result in a real estate tax refund. We will recognize this real estate tax refund in the period it is received.

Beginning in late 2001 and during 2002, we replaced a chiller at One New York Plaza, located in New York, New York, that was damaged in 2001. Total remediation and improvement costs were approximately $19.1 million. Through September 30, 2004, we have received approximately $12.1 million in insurance proceeds related to this incident. We have filed a claim for additional proceeds of approximately $7.0 million; however, we cannot provide assurance that we will be successful in collecting the additional proceeds. We will recognize the additional proceeds, if any, in the period received.

Other

In June 2004, we established a dividend reinvestment and stock purchase plan which allows stockholders to reinvest all or a portion of their dividends in additional shares of our common stock. The dividend reinvestment and stock purchase plan also allows non-stockholders to purchase shares of our common stock through the plan and provides both stockholders and non-stockholders the option to purchase shares of our common stock without paying fees or commissions by making optional cash investments of $0.0001 million to $0.01 million per month for current stockholders or $0.0003 million to $0.01 million per month for persons who are not current stockholders. Purchases of greater than $0.01 million per month can be accomplished by us granting a waiver to the $0.01 million limit.

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Subsequent Events

On October 21, 2004, the Compensation Committee of our Board of Directors made awards to certain senior executives under a long-term incentive compensation program known as the Trizec Properties, Inc. 2004 Long-Term Outperformance Compensation Program (the OPP). The OPP was designed as a feature of the Trizec Properties, Inc. 2002 Long-Term Incentive Plan, as amended (the LTIP), which plan previously was approved by our stockholders, to provide meaningful incentives to senior executives to increase stockholder value by aligning the interests of senior management with the interests of our stockholders. The size and dollar value of the incentive pool, if any, will depend on the extent to which our performance over a three-year period commencing on October 20, 2004 and ending on October 19, 2007, as measured by our total rate of return to stockholders, exceeds a pre-established performance threshold. The pre-established performance threshold under the OPP is equal to the greater of (a) 110% of the average of the total rate of return to stockholders achieved by members of a pre-determined peer group of companies over the three-year measurement period and (b) a 10% total annual rate of return to our stockolders, compounded annually over the three-year measurement period. The aggregate award amount potentially allocable to the senior executives will be a dollar amount equal to 6% of the product of (a) our total rate of return to stockholders over the three-year measurement period minus the pre-established performance threshold, multiplied by (b) our market capitalization on October 20, 2004. The aggregate award amount will be paid in the form of shares of restricted stock granted under the LTIP. Subject to certain limited exceptions, the aggregate award amount and maximum number of shares of restricted stock issuable to participants may not exceed the lesser of (a) $25.0 million and (b) 2.5% of the aggregate number of shares of our common stock outstanding on a fully diluted basis as of October 19, 2007. We will amortize the value of the award in accordance with SFAS No. 123 over the vesting period. Seventy-five percent of the award vests on October 19, 2007 and 25% of the award vests on October 19, 2008.

Competition

The leasing of real estate is highly competitive. We compete for tenants with lessors, sublessors and developers of similar properties located in our respective markets primarily on the basis of location, rent charged, concessions offered, services provided, and the design and condition of our buildings. We also experience competition when attempting to acquire real estate, including competition from domestic and foreign financial institutions, other REITs, life insurance companies, pension trusts, trust funds, partnerships and individual investors.

Environmental Matters

We believe, based on our internal reviews and other factors, that the future costs relating to environmental remediation and compliance will not have a material adverse effect on our financial position, results of operations or liquidity. For a discussion of environmental matters, see Item 1. Business Environmental Matters and Item 1. Business Risk Factors Environmental problems at our properties are possible and may be costly in our Annual Report on Form 10-K for the year ended December 31, 2003.

Inflation

Substantially all of our leases provide for separate property tax and operating expense escalations to tenants over a base amount. In addition, many of our leases provide for fixed base rent increases or indexed increases. We believe that inflationary increases to all of these expenses may be at least partially offset by these contractual rent increases.

Funds from Operations

Funds from operations is a non-GAAP financial measure. Funds from operations is defined by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, as net income, computed in accordance with accounting principles generally accepted in the United States, or GAAP, excluding gains or losses from sales of properties and cumulative effect of a change in accounting principle, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

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Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect funds from operations on the same basis. Effective as of the fourth quarter of 2003, we adopted the NAREIT calculation of funds from operations. Prior to our adoption of the NAREIT methodology for calculating funds from operations, we historically excluded certain items in calculating funds from operations, such as gain on lawsuit settlement, gain on early debt retirement, minority interest, recovery on insurance claims, effects of provision for loss on real estate and loss on and provision for loss on investments, net of the tax benefit, that are required to be factored into the calculation of funds from operations under the NAREIT methodology. We have revised our current and historical calculation of funds from operations in accordance with the NAREIT calculation in the table set forth below. Therefore, prior period amounts also reflect the revised guidance.

We believe that funds from operations is helpful to investors as one of several measures of the performance of an equity REIT. We further believe that by excluding the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, funds from operations can facilitate comparisons of operating performance between periods and between other equity REITs. Investors should review funds from operations, along with GAAP net income and cash flows from operating activities, investing activities and financing activities, when trying to understand an equity REIT s operating performance. As discussed above, we compute funds from operations in accordance with current standards established by NAREIT, which may not be comparable to funds from operations reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. While funds from operations is a relevant and widely used measure of operating performance of equity REITs, it does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance, or to cash flows from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

The following table reflects our calculation of funds from operations for the three and nine months ended September 30, 2004 and 2003:

	For the three months ended September 30		For the nine months ended September 30	
	2004	**2003**	**2004**	**2003**
	(dollars in thousands)			
Net income (loss) available to common stockholders	**$ 48,150**	$ 58,822	**$ (6,709)**	$127,571
Add/(deduct):				
Gain on disposition of real estate, net	**(249)**		**(2,594)**	(11,351)
Gain on disposition of discontinued real estate, net	**(18,233)**	(20,182)	**(47,841)**	(28,708)
Gain on disposition of real estate from unconsolidated real estate joint ventures			**(704)**	(230)
Depreciation and amortization (real estate related) including share of unconsolidated real estate joint ventures and discontinued operations	**44,869**	49,653	**134,984**	150,203

Funds from operations available to common stockholders	**$ 74,537**	$ 88,293	**$ 77,136**	$237,485

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about quantitative and qualitative disclosure about market risk is incorporated herein by reference from Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations -Market Risk - Quantitative and Qualitative Information.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures*. Our chief executive officer and chief financial officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for our company. Our chief executive officer and chief financial officer, after evaluating (under the supervision, and with the participation of, our management) the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures are adequate and effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) *Changes in internal control over financial reporting*. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

We did not sell any securities in the three months ended September 30, 2004 that were not registered under the Securities Act of 1933, as amended.

Use of Proceeds

On May 8, 2002, we commenced an offering of up to 8,700,000 shares of our common stock that holders of our warrants may acquire upon exercise thereof. The warrants were issued in connection with the corporate reorganization of TrizecHahn Corporation to (1) certain holders of then outstanding TrizecHahn Corporation stock options in replacement of such options and (2) TrizecHahn Office Properties Ltd., an indirect, wholly owned subsidiary of Trizec Canada Inc., in an amount sufficient to allow TrizecHahn Office Properties Ltd. to purchase one share of our common stock for each Trizec Canada Inc. stock option granted in the corporate reorganization.

The shares of common stock to be sold in the offering were registered under the Securities Act of 1933, as amended, on a Registration Statement on Form S-11 (Registration No. 333-84878) that was declared effective by the Securities and Exchange Commission on May 2, 2002. The Registration Statement was amended by a Post-Effective Amendment No. 1 to Form S-11 on Form S-3 (Registration No. 333-84878), which was declared effective on October 21, 2003. The shares of common stock are being offered on a continuing basis pursuant to Rule 415 under the Securities Act of 1933, as amended. We did not engage an underwriter for the offering and the aggregate price of the offering amount registered was $143,115,000.

During the period from May 8, 2002 to September 30, 2004, 2,024,731 shares of our common stock registered under the Registration Statement were acquired pursuant to the exercise of warrants. All of the shares of common stock were issued or sold by us and there were no selling stockholders in the offering.

During the period from May 8, 2002 to September 30, 2004, the aggregate net proceeds from the shares of common stock issued or sold by us pursuant to the offering were approximately $834,649. There have been no expenses incurred in connection with the offering to date. These proceeds were used for general corporate purposes.

None of the proceeds from the offering were paid, directly or indirectly, to any of our officers or directors or any of their associates, or to any persons owning ten percent or more of our outstanding common stock or to any of our affiliates.

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Item 6. Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

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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.

	TRIZEC PROPERTIES, INC.
Date: November 5, 2004	By: /s/ Michael C. Colleran
	Michael C. Colleran Executive Vice President and Chief Financial Officer (On behalf of the Registrant and as the Registrant s principal financial and principal accounting officer)

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EXHIBIT INDEX

Exhibit No.	Description
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31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications