UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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, 2007

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission File Number 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**95-6565852**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

1800 Valley View Lane, Suite 300

Dallas, Texas 75234

(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE

PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of the latest practicable date.

Common Stock, $.01 par value	**8,085,067**
(Class)	**(Outstanding at November 1, 2007)**

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TRANSCONTINENTAL REALTY INVESTORS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	December 31, 2006
	(dollars in thousands)	
Assets		
Real estate held for investment	$ 1,333,762	$ 1,089,995
Less accumulated depreciation	(109,631)	(97,541)
	1,224,131	992,454
Real estate held for sale	35,740	54,935
Real estate subject to sales contract	64,747	66,027
Notes and interest receivable (including $4,390 in 2007 and $23,848 in 2006 from affiliates and related parties)	29,069	39,566
Investment in unconsolidated real estate entities	35,035	30,573
Marketable equity securities, at market value	14,195	9,038
Cash and cash equivalents	7,200	4,803
Other assets (including $212 in 2007 and $26,086 in 2006 from affiliates and related parties)	73,357	52,771
Total assets	$ 1,483,474	$ 1,250,167
Liabilities and Stockholders Equity		
Liabilities:		
Notes and interest payable (including $8,227 in 2007 and $7,499 in 2006 to affiliates and related parties)	$ 1,018,605	$ 799,069
Liabilities related to assets held for sale	36,079	43,579
Liabilities related to assets subject to sales contract	62,402	58,816
Other liabilities (including $21,568 in 2007 and $618 in 2006 to affiliates and related parties)	100,481	66,608
	1,217,567	968,072
Commitments and contingencies		
Minority interest	1,621	16,166
Stockholders equity:		
Common Stock; $.01 par value; authorized 10,000,000 shares; issued 8,113,669 shares at September 30, 2007 and December 31, 2006	81	81
Preferred Stock		
Series C Cumulative Convertible; $.01 par value; authorized, issued and outstanding 30,000 shares at September 30, 2007 and December 31, 2006; (liquidation preference $3,000)		
Series D; $.01 par value; authorized, issued and outstanding 100,000 shares at September 30, 2007 and December 31, 2006 (liquidation preference $100 per share)	1	1
Additional paid-in capital	282,929	266,206
Treasury stock, at cost (28,002 shares at September 30, 2007 and 212,800 shares at December 31, 2006)	(470)	(3,086)
Retained earnings (deficit)	(22,152)	1,660
Accumulated other comprehensive income	3,897	1,067
Total stockholder s equity	264,286	265,929

Total liabilities and stockholders equity	$ 1,483,474	$ 1,250,167

The accompanying notes are an integral part of these Consolidated Financial Statements.

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the Three Months Ended September 30, 2007	2006	For the Nine Months Ended September 30, 2007	2006
	(dollars in thousands)		(dollars in thousands)	
Property revenue:				
Rental and other property revenues	$ 38,375	$ 32,378	$ 114,208	$ 89,620
Expenses:				
Property operating expenses ($5,294 in 2007 and $4,672 in 2006 to affiliates)	23,273	19,629	66,693	54,660
Depreciation and amortization	6,560	5,461	18,457	15,310
General and administrative ($2,412 in 2007 and $2,222 in 2006 to affiliates)	2,209	2,083	7,414	3,318
Advisory fee to affiliate	2,774	2,149	7,869	6,336
Total operating expenses	34,816	29,322	100,433	79,624
Operating income	3,559	3,056	13,775	9,996
Other income (expense):				
Interest income from notes receivable ($743 in 2007 and $1,426 in 2006 from affiliates)	526	724	1,917	2,443
Gain (loss) on foreign currency transaction	(33)		(37)	5
Other income	251	31	1,069	541
Impairment	(2,683)		(2,683)	
Net income fee to affiliate			704	
Mortgage and loan interest ($546 in 2007 and $730 in 2006 to affiliates)	(19,342)	(12,526)	(54,400)	(36,963)
Total other income (expense)	(21,281)	(11,771)	(53,430)	(33,974)
Loss before gain on land sales, minority interest and equity in earnings of investees	(17,722)	(8,715)	(39,655)	(23,978)
Gain on land sales	5,754	2,974	6,875	11,995
Minority interest	19	355	22	544
Equity in earnings of investees		(257)		
Loss from continuing operations, before income taxes	(11,949)	(5,643)	(32,758)	(11,439)
Income tax benefit	2,633	465	3,131	1,149
Loss from continuing operations	(9,316)	(5,178)	(29,627)	(10,290)
Income from discontinued operations, before income taxes	7,523	1,329	8,946	3,284
Income tax expense	(2,633)	(465)	(3,131)	(1,149)
Income from discontinued operations	4,890	864	5,815	2,135
Net loss	(4,426)	(4,314)	(23,812)	(8,155)
Preferred dividend requirement	(228)	(53)	(684)	(158)
Net loss applicable to common shares	$ (4,654)	$ (4,367)	$ (24,496)	$ (8,313)

The accompanying notes are an integral part of these Consolidated Financial Statements.

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS - Continued

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
	(dollars in thousands)		(dollars in thousands)	
Basic earnings per share:				
Loss from continuing operations	$ (1.20)	$ (0.66)	$ (3.83)	$ (1.32)
Income from discontinued operations	0.62	0.11	0.74	0.27
Net loss applicable to common shares	$ (0.58)	$ (0.55)	$ (3.09)	$ (1.05)
Diluted earnings per share:				
Income (loss) from continuing operations	$ (1.20)	$ (0.66)	$ (3.83)	$ (1.32)
Income (loss) from discontinued operations	0.62	0.11	0.74	0.27
Net income (loss) applicable to common shares	$ (0.58)	$ (0.55)	$ (3.09)	$ (1.05)
Weighted average common shares used in computing earnings per share:				
Basic	7,942,089	7,900,869	7,910,111	7,900,869
Diluted	7,942,089	7,900,869	7,910,111	7,900,869

Series C Cumulative Convertible Preferred stock (convertible after September 30, 2006 into common stock estimated to be approximately 249,650 shares) and options to purchase 40,000 shares of TCI s common stock were excluded from the computation of diluted earnings per share for the three months ended September 30, 2007 and the nine months ended September 30, 2007 and 2006, because the effect of their inclusion would be antidilutive.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Nine Months Ended September 30, 2007

(dollars in thousands)

(unaudited)

	Common Stock		Preferred Stock		Additional Paid-in	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Stockholders
	Shares	Amount	Shares	Amount	Capital	Shares	Amount	(Deficit)	(Loss)	Equity
Balance, January 1, 2007	8,113,669	$ 81	130,000	$ 1	$ 266,206	212,800	$ (3,086)	$ 1,660	$ 1,067	$ 265,929
Unrealized loss on foreign currency translation									(1,596)	(1,596)
Unrealized gain on marketable securities									4,426	4,426
Net loss								(23,812)		(23,812)
Acquisition of minority interest					17,407					17,407
Repurchase of Common Stock						28,002	(470)			(470)
Sale of Treasury Stock to affiliate						(212,800)	3,086			3,086
Series C Preferred Stock cash dividend					(158)					(158)
Series D Preferred Stock cash dividend					(526)					(526)
Balance, September 30, 2007	8,113,669	$ 81	130,000	$ 1	$ 282,929	28,002	$ (470)	$ (22,152)	$ 3,897	$ 264,286

The accompanying notes are an integral part of these Consolidated Financial Statements.

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Nine Months Ended September 30, 2007	2006
	(dollars in thousands)	
Cash Flows from Operating Activities:		
Net loss applicable to common shares	$ (24,496)	$ (8,313)
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities		
Depreciation and amortization	18,993	16,751
Amortization of deferred borrowing costs	3,572	2,387
Gain on sale of land	(6,875)	(11,995)
Equity in earnings of investees		
Gain (loss) on foreign currency transaction	37	(5)
Provision for Impairment	2,683	
(Income) allocated to minority interest	(22)	(544)
Gain on sale of income producing properties	(12,175)	(5,689)
(Increase) decrease in assets:		
Prepaid expense	(2,436)	
Interest receivable	(215)	162
Escrows	(8,720)	
Rent receivables	(795)	
Other assets	6,598	14,207
Earnest money	4,597	(7,818)
Increase (decrease) in liabilities:		
Interest payable		472
Other liabilities	12,306	(4,711)
Net cash used in operating activities	(6,948)	(5,096)
Cash Flows from Investing Activities:		
Collections on notes receivable	13,582	12,970
Funding of notes receivable		(1,892)
Acquisition of income producing properties	(112,180)	(105,965)
Acquisition of land held for development	(24,940)	
Real estate improvements		(19,400)
Improvement of income producing properties	(8,834)	
Improvement of land held for development	(352)	
Proceeds from sale of income producing properties	40,203	15,350
Construction and new development of properties	(165,871)	
Proceeds from sale of land	58,145	41,391
Investments in marketable equity securities	(731)	
Acquisition of minority interest	2,884	
Investments in unconsolidated real estate entities	(6,095)	
Net cash used in investing activities	(204,189)	(57,546)
Cash Flows from Financing Activities:		
Recurring amortization on notes payable	(9,811)	
Other payments on notes payable	(159,716)	(34,947)
Proceeds from notes payable	385,365	111,336
Increase in due from affiliates	10,724	
Repurchase of common stock	(470)	

Dividends paid to preferred shareholders		(158)
Payment on notes payable from income producing properties sold		(8,532)
Deferred financing costs	(12,558)	(3,661)
Net cash provided by financing activities	213,534	64,038

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

(unaudited)

	For the Nine Months Ended September 30,	
	2007	2006
	(dollars in thousands)	
Net increase in cash and cash equivalents	2,397	1,396
Cash and cash equivalents, beginning of period	4,803	5,462
Cash and cash equivalents, end of period	$ 7,200	$ 6,858
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 57,864	$ 40,726
Schedule of Non-Cash Investing and Financing Activities:		
Unrealized gain foreign currency translation	4,427	
Unrealized loss on marketable securities	(1,596)	
Increase in minority interest related to acquisition of real estate		14,835
Real estate purchased from affiliate, decreasing affiliate receivable		11,273
Note payable assumed by affiliate		4,000
Notes payable assumed on purchase of real estate		10,475
Notes payable assumed to decrease affiliated payable		5,150
Land Exchanged with non affiliated party	(900)	1,500
Note Receivable for Treasury Stock	3,353	

The accompanying notes are an integral part of these Consolidated Financial Statements.

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TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Transcontinental Realty Investors, Inc. (TCI , We , The Company , Our or Us) is a Nevada corporation and successor to a California business trust, which was organized on September 6, 1983. TCI invests in real estate through direct ownership, leases and partnerships. TCI owns a diverse portfolio of residential apartment communities, commercial properties, hotels and land. The Company currently owns approximately 12,850 units in 68 residential apartment communities, 25 commercial properties comprising over 4.9 million rentable square feet and four hotels. In addition, TCI owns over 6,500 acres of land held for development and currently has over 2,400 apartment units in 14 projects under construction. The Company currently owns operating properties or land in 20 states as well as in Poland and the U.S. Virgin Islands. The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange under the symbol TCI . Approximately 82 percent of the Company s common stock is owned by American Realty Investors, Inc. (NYSE: ARL). Prime Income Asset Management, LLC (Prime) is the Company s external advisor. Regis Realty I, LLC, an affiliate of Prime, manages the Company s commercial properties. Regis Hotel I, LLC, another Prime affiliate, manages the Company s hotel investments. TCI engages four third-party companies to lease and manage its apartment properties.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the financial statements for these periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statement and notes thereto contained in the Company s Annual Report on Form 10-K for its fiscal year ended December 31, 2006.

Newly issued accounting standards. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 157 to have a material impact on the Company s cash flows, results of operations, financial position or liquidity.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating and assessing the impact of this statement.

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NOTE 2. REAL ESTATE

	Cost Beginning of Year	Acquisitions	Capital Improvements	Development Costs	Completed Developments	Property Sales	Impairment Charges	Reclassifications and Other Adjustments	Cost Sep. 30, 2007	Accumulated Depreciation Sep. 30, 2007
Apartments	$ 390,995	$ 1,896	$	$	$ 89,985	$	$ (1,674)	$ (6,171)	$ 475,031	$ 40,662
Apartments under construction	70,618			123,755	(89,985)			-	104,388	9
Other developments in progress	78,230			26,687					104,917	
Commercial properties	252,315	110,284	6,286				(1,009)	(8,285)	359,591	58,782
Hotels	37,811		3,872						41,683	9,983
Land held for development	260,026	8,502	636			(7,951)		(13,061)	248,152	195
Real estate held for investment	$ 1,089,995	$ 120,682	$ 10,794	$ 150,442		$ (7,951)	$ (2,683)	$ (27,517)	$ 1,333,762	$ 109,631
Real estate held for sale	$ 59,970	$	$	$		$ (33,141)	$	$ 14,456	$ 41,285	$ 5,545
Real estate subject to sales contract	$ 73,033	$	$	$		$	$	$	$ 73,033	$ 8,286

In January 2007, two wholly-owned subsidiaries of the Company acquired two office buildings projects in Farmers Branch, Texas known as Park West I and Park West II (subsequently renamed Browning Place and Fenton Centre, respectively) along with an adjacent 4.7 acre tract of undeveloped land at an aggregate purchase price of $110 million plus closing costs. The acquisition was financed in part with $97.0 million in two separate mortgage loans; a $35.0 million loan from an institutional lender which accrues interest at 6.06 percent maturing January 2013 (Park West II) and a $62.0 million loan from a commercial bank which accrues interest at Wall Street Journal Prime plus one percent maturing January 2009 (Park West I). Both loans are secured by the respective office buildings and are guaranteed by TCI.

In 2007, TCI sold two apartment communities and one office building for sales prices totaling $37.1 million, generating cash proceeds of $7.0 million and recognized gains of $8.1 million. The apartment properties were located in Lewisville, Texas and Texas City, Texas; the office building was located in Richmond, Virginia. In addition, TCI recognized previously deferred gains in the amount of $4.1 million related to the June 2007 sale of an office building in Durham, North Carolina.

In May 2007 we acquired 40.1 acres of land know as Hines Meridian in Las Colinas, Texas for $8.5 million. The acquisition was financed with $3.0 million cash and a new note for $5.0 million. The note accrues interest at 9.25 percent, is payable in installment of interest only for 12 months, then installment of principal and interest for 23 months and one final payment of all accrued, unpaid interest and the outstanding principal balance on maturity in May 2010.

In July 2007 we acquired 1.7 acres of land known as the Jackson Convention Center land for development. The acquisition was purchased with $3.9 million in cash generated through various refinancings.

TCI has formed a number of joint ventures with Icon Partners, LLC (Icon) to develop various residential, commercial and mixed-use projects. TCI typically owns 75 percent of these joint ventures, arranges for and guarantees all debt financing and provides all required equity capital. The terms of the joint ventures also allow TCI to receive its cumulative investment plus a preferred return before Icon receives any equity distribution. Icon provides various development and project management services to the joint ventures and is paid monthly developer fees for those services. At September 30, 2007, TCI had formed a total of eleven joint ventures with Icon to develop eleven projects. Total costs incurred to date, including land acquisition costs, for these eleven projects are $104.9 million, of which $94.9 million has been funded with land and construction loans from various commercial banks. At September 30, 2007, only one of the eleven projects was undergoing vertical construction the 212 unit Portofino apartment project located within TCI s Mercer Crossing development in Farmer s Branch, Texas which will be completed in the fourth quarter of 2007. TCI includes these joint ventures in the Company s consolidated financial statements and records a minority interest for Icon s equity in the ventures.

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At September 30, 2007, TCI had the following properties under construction:

Property	Location	Units	Amount Expended	Additional Amount to Expend	Construction Loan Funding
Apartments					
Bolivar Homes	Cleveland, MS	65 Units	$ 3,366	$ 5,248	$ 3,463
Broadway Estates	Greenville, MS	104 Units	2,351	6,011	2,457
Huntington Ridge - Desoto	Odessa, TX	224 Units	6,697	11,176	4,598
Lakeview at Pecan Creek	Denton, TX	192 Units	2,646	15,362	3,425
Lincoln Estate I	Leake County, MS	57 Units	1,246	6,462	1,100
Longfellow Arms	Longview, TX	216 Units	6,257	10,415	5,005
Mansions of Mansfield	Mansfield, TX	208 Units	1,750	16,937	2,483
Mason Park	Houston, TX	312 Units	8,800	14,218	5,039
Parc at Clarksville	Clarksville, TN	168 Units	13,282	284	11,969
Parc at Rogers	Rogers, AR	250 Units	19,610	4,582	16,010
Pecan Pointe	Temple, TX	232 Units	16,676	2,851	14,978
Portofino	Farmers Branch, TX	212 Units	17,451	8,999	12,044
Sunflower Estates	Indianola, MS	65 Units	2,111	6,319	2,229
Yazoo Estates	Yazoo City, MS	96 Units	2,145	6,200	2,254
Total		2,401 Units	$ 104,388	$ 115,064	$ 87,054

The Company is involved in the construction of 14 apartment development projects as of September 30, 2007. In addition, the Company invests in numerous tracts of land and is in the predevelopment on several of these properties. The Company partners with various third-party developers to construct residential projects. The third-party developer typically takes a general partner interest in the development partnership while the Company takes a limited partner (and majority) interest. The Company is required to fund all equity contributions. The third-party developer is responsible for obtaining financing, hiring a general contractor and for the overall management and delivery of the project and is compensated with a fee equal to a certain percentage of the construction costs. Initial equity contributions to development projects are recorded as investments in unconsolidated real estate entities. When vertical construction begins, the Company reclassifies the investment in unconsolidated real estate entities to construction in progress. Increases to construction in progress are recorded as development loans are funded and development costs are incurred. As projects near completion and begin to be leased, the Company records revenues as earned and expenses as incurred. When the occupancy of a developed project reaches stabilization, the Company acquires the general partner interest from the third-party developer and reclassifies the property from construction in progress to property held for investment.

TCI includes these joint ventures in the Company s consolidated financial statements and records a minority interest for Icon s equity in the ventures.

NOTE 3. NOTES AND INTEREST RECEIVABLE

At September 30, 2007, notes and interest receivable consisted of the following:

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
Dallas Fund XVII LP[3]	10/06[3]	9.00	$ 4,083	Partnership interests and lawsuit proceeds
Pioneer Austin Development	10/08	10.00	2,336	33 acres undeveloped land, Austin, TX
Basic Capital Management[1]	4/08	10.25[2]	1,523	Retail building, Cary, NC
Garden Centura LP[1]	N/A	7.00	6,116	Excess cash flow from partnership

Basic Capital Management[1]	4/08	10.25[2]	1,252	Industrial building, Arlington, TX
400 St. Paul	10/08	8.00	3,612	Office building, Dallas, TX
Miscellaneous related party notes[1]	Various	Various	9,064	Various security interests
Accrued interest			1,083	
Total			$ 29,069	

(1) Related party.
(2) Variable rate.
(3) Currently negotiating extension of this note.

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NOTE 4. INVESTMENT IN UNCONSOLIDATED REAL ESTATE ENTITIES

Unconsolidated real estate entities. TCI s investment in unconsolidated real estate entities at September 30, 2007 included equity securities of two publicly traded real estate entities, Income Opportunity Realty Investors, Inc. (AMEX: IORI) and ARI, related parties and interests in real estate joint venture partnerships. ARI is a related party that owns 82.2 percent of TCI s common stock and consolidates TCI s financial accounts and operations.

TCI accounts for its investment in IORI and the joint venture partnerships using the equity method. Garden Centura, L.P. is accounted for on the cost method.

TCI s investment in real estate entities at September 30, 2007, was as follows:

Investee	Percentage of TCI s Ownership at September 30, 2007	Carrying Value of Investment at September 30, 2007	Market Value[1] of Investment at September 30, 2007
IORI	24.8%	$ 6,565	$ 4,875
ARI	6.4	12,057	5,498
Garden Centura, L.P.[2]	5.0	1,944	N/A
Other[2]		14,469	N/A
		$ 35,035	$ 10,373

(1) Based on stock closing price on September 30, 2007 and is not necessarily indicative of the fair market value of the investee s net assets.
(2) No readily determinable market value.

Set forth below is summarized results of operations of equity investees for the first nine months of 2007 and 2006.

	2007	2006
Revenues	$ 66,698	$ 98,439
Property operating expenses	(49,747)	(76,160)
Depreciation	(5,986)	(7,728)
Interest expense	(28,857)	(25,538)
Loss before gains on sale of real estate and discontinued operations	(17,892)	(10,987)
Gain on sale of real estate	3,504	4,799
Equity in earnings of investee	(24)	110
Net income (loss)	$ (14,412)	$ (6,078)

NOTE 5. MARKETABLE EQUITY SECURITIES

We own equity securities of Realty Korea CR-REIT Co., Ltd. No. 1 representing approximately a 9.2 percent ownership interest. This investment is considered an available for sale security. TCI recorded an unrealized gain of $1.6 million for the nine month period ending September 30, 2007 due to an increase in market price.

NOTE 6. RELATED PARTIES

The following table reconciles the beginning and ending affiliate receivable balances as of September 30, 2007.

Balance, December 31, 2006	$ (7,167)
Cash transfers	72,454
Cash repayments	(59,678)
Fees and commissions payable to affiliate	(25,091)
Payables clearing through Prime	19,482
Transfers of notes receivables	(20,121)
Balance, September 30, 2007	$ (20,121)

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NOTE 7. NOTES PAYABLE

	Balance Beginning of Year	Additional Borrowings			Repayments			Reclassifications and Other Adjustments	Balance Sep. 30, 2007
		Acquisitions	Developments	Refinancings	Amortization	Property Sales	Refinancings		
Apartments	$ 369,908	$ 4,421	$	$ 37,312	$ (2,661)	$ (18,109)	$ (15,890)	$	$ 374,981
Apartments under construction	30,073		101,807		(348)				131,532
Other developments in progress	66,547		26,307	10,298	(279)		(7,970)		94,903
Commercial properties	138,974	97,000		19,500	(2,974)	(10,329)	(18,866)	9,300	232,605
Hotels	33,738			18,460	(161)		(10,052)	3,540	45,525
Land held for development	124,816	7,400	3,446	21,946		(7,796)	(14,861)	(10,307)	124,644
Corporate and other	33,136		1,153		(214)		(500)	(23,203)	10,372
Accrued interest	1,877							2,166	4,043
Real estate held for investment	$ 799,069	$ 108,821	$ 132,713	$ 107,516	$ (6,637)	$ (36,234)	$ (68,139)	$ (18,504)	$ 1,018,605
Real estate held for sale	$ 43,579	$	$	$	$ (408)	$ (5,881)	$	$ (1,211)	$ 36,079
Real estate subject to sales contract	$ 58,816	$	$	$ 38,720	$ (1,079)	$	$ (32,885)	$ (1,170)	$ 62,402

In 2007, we financed the acquisition of two office buildings projects in Farmers Branch, Texas known as Park West I and Park West II (subsequently renamed Browning Place and Fenton Centre, respectively) for $97 million, See note 2.

TCI has formed a number of joint ventures with Icon Partners, LLC (Icon) to develop various residential, commercial and mixed-use projects, and construction draws are obtained. See note 2.

In 2007, TCI refinanced the existing debt on its three Chicago hotels. The loans were refinanced in three separate transactions with a single lender. On January 17, 2007, the Company refinanced the existing $3.6 million mortgage on the City Suites Hotel with a new loan of $7.3 million and received $3.8 million in proceeds. The new loan accrues interest at prime and matures in February 2012. Also, on March 5, 2007, TCI refinanced the existing $3.1 million loan on the Majestic Hotel with a new loan of $6.0 million and received $2.9 million in proceeds. The new loan bears an interest rate of 7.76 percent and matures in March 2010. On March 5, 2007, the Company refinanced the existing $3.4 million loan on the Willows Surf Hotel with a new $5.2 million loan and received $1.5 million in proceeds. The new loan bears an interest rate of 7.76 percent and matures in March 2010. The three loans are secured by the individual hotel properties, are not cross-collateralized or cross-defaulted and are guaranteed by TCI.

In September 2007, TCI refinanced the existing $13.1 million loan on the Amoco office building located in downtown New Orleans. The new loan from an institutional lender totaled $19.5 million and resulted in $4.6 million in proceeds. The new loan is secured by the office building, bears interest at the rate of LIBOR plus 400 basis points, matures September 2008 and is guaranteed by TCI.

In June 2007, TCI refinanced the existing $12.3 million debt on eight apartment properties in Midland and Odessa, Texas. The loans were refinanced with a single lender; totaled $33.2 million and generated $21.0 million in proceeds. The new loans bear interest at the rate of 7.03 percent per annum and mature in July 2037. The loans are secured by the individual apartment properties, are not cross-collateralized or cross-defaulted and are guaranteed by TCI. In addition, TCI refinanced the existing $3.6 million debt on two more apartment properties in Midland. The new loans from a commercial bank totaled $6.9 million and resulted in $1.6 million in proceeds. The two loans are secured by the individual apartment properties, bear interest at prime plus 100 basis points and matured in September 2007; the loans were subsequently extended to September 2008. Both loans are guaranteed by TCI.

In 2007, the Company obtained additional financing or refinanced existing loans on seven tracts of land containing a total of approximately 300 acres, virtually all of which is located in the greater Dallas/Ft. Worth area. The new loans totaled $26.8 million and generated $16.7 million in proceeds. The new loans have one-year maturities and bear interest at rates currently averaging approximately 10.5 percent.

In September 2007, affiliates of TCI refinanced $32.8 million of existing matured mortgage loans on three residential apartment communities located in Austin, Dallas and Lewisville, Texas and known as Limestone Canyon, Tivoli and Limestone Ranch, respectively. The new loans, all from a single lender, total $38.7 million, accrue interest at 5.95 percent per annum, mature in October 2042, are collateralized by the properties (but are not cross-collateralized or cross-defaulted). TCI received proceeds of $3.5 million from the refinancings. TCI carries these properties as real estate subject to sales contract based upon certain 2003 transactions (whereby TCI conveyed the three properties to subsidiaries of Unified Housing Foundation, an affiliated organization) which did not qualify as sales under accounting principles generally accepted in the United States of America.

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NOTE 8. OPERATING SEGMENTS

Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow. There are no intersegment revenues and expenses and TCI conducted all of its business within the United States, with the exception of Hotel Akademia, a 161 room hotel in Wroclaw, Poland, which began operations in 2002.

Presented below is the operating income of each operating segment for the three and nine months ended September 30, 2007 and 2006 and each segment s assets at September 30, 2007.

	Commercial					
Three Months Ended September 30, 2007	**Properties**	**Apartments**	**Hotels**	**Land**	**All Other**	**Total**
Operating revenues	$ 13,069	$ 21,166	$ 3,713	$ 421	$ 6	$ 38,375
Operating expenses	8,531	11,602	1,884	567	689	23,273
Depreciation	2,725	3,389	438	8		6,560
Mortgage and Loan Interest	4,712	9,733	732	3,401	764	19,342
Loan Interest Income					526	526
Gain on land sales*				5,754		5,754
Segment loss	$ (2,899)	$ (3,558)	$ 659	$ 2,199	$ (921)	$ (4,520)
Capital Improvements	$ 1,584	$	$ 35	$	$	$ 1,619
Assets	$ 309,094	$ 610,542	$ 31,691	$ 337,551	$	$ 1,288,878
Property Sales:						
Sales price	$					