# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**OR**

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

# Transcontinental Realty Investors, Inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Nevada**<br>**(State or other jurisdiction of** | **94-6565852**<br>**(IRS Employer** |
| **Incorporation or organization)**<br>**1603 LBJ Freeway,** | **Identification Number)** |
| **Suite 300, Dallas, Texas**<br>**(Address of principal executive offices)** | **75234**<br>**(Zip Code)** |

**(469) 522-4200**

**Registrant s Telephone Number, including area code**

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

| *Title of Each Class* | *Name of each exchange on which registered* |
|---|---|
| Common Stock, $0.01 par value | New York Stock Exchange |

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

NONE

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

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

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

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

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

| | |
|---|---|
| **Large accelerated filer** ¨ | **Accelerated filer** ¨ |
| **Non-accelerated filer** ¨ **(Do not check if smaller reporting company)** | **Smaller Reporting Company** x |

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE:**

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

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

**INDEX TO**

**ANNUAL REPORT ON FORM 10-K**

**FORWARD-LOOKING STATEMENTS**

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

**PART I**

**ITEM 1.** ***BUSINESS***

**General**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Significant Real Estate Acquisitions/Dispositions and Financings**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Business Plan and Investment Policy**

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

For our portfolio of commercial properties, we generate increased operating cash flow through annual contractual increases in rental rates under existing leases. We also seek to identify best practices within our industry and across our business units in order to enhance cost savings and gain operating efficiencies. We employ capital improvement and preventive maintenance programs specifically designed to reduce operating costs and increase the long-term value of our real estate investments.

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

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

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

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

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

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

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

**Competition**

The real estate business is highly competitive and TCI competes with numerous companies engaged in real estate activities (including certain entities described in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence ), some of which have greater financial resources than TCI. We believe that success against such competition is dependent upon the geographic location of a property, the performance of property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to a property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item1A. Risk Factors .

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

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

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

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

**Available Information**

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

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

**ITEM 1A.** ***RISK FACTORS***

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

**Risk Factors Related to our Business**

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

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

- lack of demand for space in areas where the properties are located;
- inability to retain existing tenants and attract new tenants;
- oversupply of or reduced demand for space and changes in market rental rates;
- defaults by tenants or failure to pay rent on a timely basis;
- the need to periodically renovate and repair marketable space;
- physical damage to properties;
- economic or physical decline of the areas where properties are located; and
- potential risk of functional obsolescence of properties over time.

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

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

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

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

In our effort to lease properties, we compete for tenants with a broad spectrum of other landlords in each of the markets. These competitors include, among others, publicly-held REITs, privately-held entities, individual property owners and tenants who wish to sublease their space. Some of these competitors may be able to offer prospective tenants more attractive financial terms than we are able to offer.

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

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

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

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

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

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

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

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

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

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

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

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

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

***We face risks associated with property acquisitions.***

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

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

- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;
- acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

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

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

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

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

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

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

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

- general economic conditions affecting these markets;
- our own financial structure and performance;
- the market s opinion of real estate companies in general; and
- the market s opinion of real estate companies that own similar properties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- we may abandon a project after spending time and money determining its feasibility;
- construction costs may materially exceed original estimates;
- the revenue from a new project may not be enough to make it profitable or generate a positive cash flow;
- we may not be able to obtain financing on favorable terms for development of a property, if at all;
- we may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs; and
- we may not be able to obtain, or may be delayed in obtaining, necessary governmental permits.

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

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

- our real estate assets are concentrated primarily in the southwest and any deterioration in the general economic conditions of this region could have an adverse effect;
- changes in interest rates may make the ability to satisfy debt service requirements more burdensome;
- lack of availability of financing may render the purchase, sale or refinancing of a property more difficult or unattractive;
- changes in real estate and zoning laws;
- increases in real estate taxes and insurance costs;
- federal or local economic or rent control;
- acts of terrorism; and
- hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

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

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

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);
- competition from other office and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office or other commercial space;
- changes in interest rates and availability of financing;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;

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

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

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

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

- decreases in the underlying value of our real estate.

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

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

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

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

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

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

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

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

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

**ITEM 1B.** ***UNRESOLVED STAFF COMMENTS***

None.

**ITEM 2.** ***PROPERTIES***

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

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

| Apartments Subject to Sales Contract | Location | Units | Occupancy |
|---|---|---|---|
| Quail Hollow | Holland, OH | 200 | 98.50% |
| | ***Total Apartments Subject to Sale*** | **200** | |

| Apartments Held for Sale | Location | Units | Occupancy |
|---|---|---|---|
| Wildflower Villas | Temple, TX | 220 | 93.20% |
| | ***Total Apartments Held for Sale*** | **220** | |
| | ***Total Apartments*** | **9,317** | |

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

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

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

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

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

| Industrial Warehouses Subject to Sales Contract | Location | SqFt | Occupancy |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Thermalloy | Farmers Branch, TX | 177,805 | 100.00% |
| | ***Total Industrial Warehouses Subject to Sales Contract*** | **177,805** | |
| | ***Total Commercial*** | **3,631,345** | |

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

**Lease Expirations**

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

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

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

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

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

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

**ITEM 3.** ***LEGAL PROCEEDINGS***

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

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

**ITEM 4.** ***MINE SAFETY DISCLOSURES***

Not applicable.

**PART II**

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

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

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

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

**Performance Graph**

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

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

Fiscal year ending December 31:

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

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

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

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

**ITEM 6.** ***SELECTED FINANCIAL DATA***

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

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

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Book value per share | $ | 16.88 | $ | 22.61 | $ | 30.25 | $ | 40.15 | $ | 36.10 |

**ITEM 7.** ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***
The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

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

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

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

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

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

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

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

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

potential liability for uninsured losses and environmental contamination;

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

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

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

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

**Overview**

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

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

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

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

**Critical Accounting Policies**

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

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

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

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

***Real Estate***

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

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

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

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

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

***Depreciation and Impairment***

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

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

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

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 Interest Capitalization of Interest and ASC Topic 970 Real Estate General . The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

***Investment in Unconsolidated Real Estate Ventures***

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

***Recognition of Rental Income***

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

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

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

***Revenue Recognition on the Sale of Real Estate***

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

***Non-performing Notes Receivable***

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

***Interest Recognition on Notes Receivable***

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

***Allowance for Estimated Losses***

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

***Fair Value of Financial Instruments***

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

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

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

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