

TRANSCONTINENTAL REALTY INVESTORS INC  
Form 10-K  
March 31, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

Commission File Number 001-09240

**Transcontinental Realty Investors, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of Incorporation or organization)  
**1800 Valley View Lane,**

**95-6565852**  
(IRS Employer Identification Number)  
**75234**

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

(Zip Code)

**(469) 522-4200**

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

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

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

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

NONE

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

**Large accelerated filer**  **Accelerated filer**  **Non-accelerated filer**

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales price of the Common Stock on the New York Stock Exchange as of June 29, 2007 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$23,437,091 based upon a total of 1,385,990 shares held as of June 29, 2007 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 20, 2008, there were 8,074,467 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

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

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

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**FORWARD-LOOKING STATEMENTS**

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

**PART I**

**ITEM 1. BUSINESS**

**General**

As used herein, the terms we, us, our, the Company or TCI refer to Transcontinental Realty Investors, Inc. a Nevada corporation. TCI is the successor to a California business trust that was organized on September 6, 1983 and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired all of the outstanding shares of beneficial interest of Continental Mortgage and Equity Trust ( CMET ), a real estate company, in a tax-free exchange of shares, issuing 1.181 shares of its Common Stock for each outstanding CMET share. Prior to January 1, 2000, TCI elected to be treated as a Real Estate Investment Trust ( REIT ) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code ). During the third quarter of 2000, due to a concentration of ownership TCI no longer met the requirement for tax treatment as a REIT. Effective March 31, 2003, TCI financial results were consolidated in the American Realty Investors, Inc. ( ARI ) Form 10-K and related consolidated financial statements. As of December 31, 2007, ARI through subsidiaries owned 82.2% of the outstanding TCI common shares.

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. The Board of Directors has delegated the day-to-day management of the Company to Prime Income Asset Management, LLC ( Prime ) under a written advisory agreement that is reviewed annually by TCI s Board of Directors.

TCI s contractual advisor is Prime Income Asset Management, LLC, a Nevada limited liability Company ( Prime ) the sole member of which is Prime Income Asset Management, Inc. a Nevada corporation ( PIAMI ). PIAMI is owned by Realty Advisors, Inc. (80%) and Syntek West, Inc. ( SWI ) (20%). SWI is owned by Gene E. Phillips, Realty Advisors, Inc. is owned by a trust for the benefit of the children of Gene E. Phillips (the Trust ), Gene E. Phillips is an officer and director of SWI and serves as a representative of the Trust. While Mr. Phillips is not an officer or director of TCI, he does periodically consult with the executive officers and directors of TCI rendering advice and input with respect to investment decisions affecting TCI.

Prime s duties include but are not limited to locating, evaluating and recommending real estate and real estate-related investment opportunities. Prime also arranges, for TCI s benefit, debt and equity financing with third party lenders and investors. Prime is compensated by TCI under an advisory agreement that is more fully described in Part III, Item 10, Directors, Executive Officers and Corporate Governance .

Prime also serves as advisor to American Realty Investors, Inc. (ARI). The directors of TCI are also directors of ARI. Certain officers of TCI also serve as officers of ARI, Basic Capital Management (BCM) and

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Prime. As of December 31, 2007, TCI owned approximately 24% of Income Opportunity Realty Investors, Inc. ( IORI ) outstanding shares of common stock. ARI owns approximately 80.2% of the outstanding shares of TCI s common stock.

For more than the past three years, Triad Realty Services, LP. ( Triad ) an affiliate of Prime has provided property management services to TCI. Triad subcontracts with other entities for the provision of property-level management services to TCI. The general partner of Triad is PIAMI. The limited partner of Triad is HRS Holdings LLC ( HRSHELLC ). ( Highland ). Triad subcontracts the property-level management and leasing of our commercial properties (office buildings, shopping centers and industrial warehouses) to Regis Realty I, LLC ( Regis I ), which is owned by HRSHELLC. Regis I receives property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Regis I is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. Since January 1, 2003, Regis Hotel I, LLC, has managed our hotels. The sole member of Regis I and Regis Hotel I, LLC is HRSHELLC. See ITEM 10. Directors, Executive Officers and Corporate Governance.

TCI has no employees. Employees of Prime render services to TCI in accordance with the terms of the Advisory Agreement dated October 1, 2003.

Our primary business is the acquisition, development and ownership of income-producing residential, hotel 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; leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies; leasing trade show and exhibit space to temporary as well as long-term tenants; and renting hotel rooms to guests. We also generate revenues from gains on sales of income-producing properties and land. At December 31, 2007, our income-producing properties consisted of:

4.8 million rentable square feet of commercial properties, including 15 office buildings, 6 industrial properties, 3 retail properties

61 residential apartment communities comprising almost 11,593 units

4 hotels comprising 317 rooms

Subsequent to the year ended, we purchased and sold various properties. See NOTE 22 Subsequent Events.

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, 2007:

Location	Apartments		Commercial		Hotels	
	No.	Units	No.	SF	No.	Rooms
Greater Dallas-Ft. Worth, TX	17	3,605	10	2,445,226		
Greater Houston, TX	8	2,126				
Midland-Odessa, TX	14	2,217				
San Antonio, TX	5	1,332	1	101,500		
Other Texas	6	1,193				
Mississippi	6	328				
Arkansas	3	428				
Tennessee			1	41,340		
New Orleans, LA			6	1,369,388		
Denver, CO			1	74,816		
Fresno, CA						
Chicago, IL					3	152
Other	2	364	5	777,973	1	165
<b>Totals</b>	<b>61</b>	<b>11,593</b>	<b>24</b>	<b>4,810,243</b>	<b>4</b>	<b>317</b>



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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 partner with various third-party development companies to construct residential apartment communities. 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 and 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.

At December 31, 2007, our apartment projects in development included:

Property	Location	No. of Units	Costs to Date	Total Projected Costs
Bolivar Homes	Cleveland, MS	65	\$ 5,273	\$ 8,613
Broadway Estates	Greenville, MS	104	4,385	8,362
Dorado Ranch	Odessa, TX	224	2,690	19,137
Huntington Ridge Desoto	Desoto, TX	198	13,691	17,873
Lakeview @ Pecan Creek/Preserve	Denton, TX	192	5,296	18,008
Lincoln Estate I	Leake County, MS	55	1,536	7,708
Longfellow Arms	Longview, TX	216	12,684	16,672
Mansions of Mansfield	Mansfield, TX	208	5,618	18,687
Mason Park	Houston, TX	312	14,436	23,018
Northside of Travis	Sherman, TX	200	2,078	16,999
Parc at Rogers	Rogers, AR	250	22,205	24,192
Parc at Clarksville	Clarksville, TN	168	14,291	14,291
Parkway Place	Greenwood, MS	65	1,369	16,999
Pecan Pointe	Temple, TX	232	17,643	19,526
Portafino Lago Vista	Farmer's Branch, TX	212	20,078	26,450
Sunflower Estates	Indianola, MS	65	4,266	8,435
Yazoo Estates	Yazoo City, MS	96	4,101	8,351
Castleglen	Garland, TX	150	760	11,380
Pioneer Crossing	Austin, TX	240	814	22,000
Total		3,252	\$ 153,214	\$ 306,701

TCI has formed a number of joint ventures with Icon Partners, LLC (Icon) to develop various residential, commercial and mixed-use projects. TCI typically owns 75 percent of these joint ventures, arranges for and guarantees all debt financing and provides all required equity capital. The terms of the joint ventures also allow

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our subsidiary to receive its cumulative investment plus a preferred return before Icon receives any equity distribution. Icon provides various development and project management services to the joint ventures and is paid monthly developer fees for those services. We include these joint ventures in the Company's consolidated financial statements and record a minority interest for Icon's equity in the venture.

We have made substantial 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, 2007 our investments in undeveloped and partially developed land consisted of the following:

<b>Property</b>	<b>Location</b>	<b>Date(s) Acquired</b>	<b>Acres</b>	<b>Cost</b>	<b>Primary Intended Use</b>
Mercer Crossing	Dallas, TX	1996-2007	335	\$ 108,230	Mixed use
Pioneer Crossing	Austin, TX	1997-2005	17	33,935	Multi-family residential
Circle C Ranch	Austin, TX	2006	1,092	32,669	Single-family residential
McKinney Ranch	Dallas, TX	1997-2005	306	26,385	Mixed use
Las Colinas Multi-Tracts	Dallas, TX	1995-2006	277	23,238	Commercial
Dallas North Tollway	Dallas, TX	2006	17	15,905	Commercial
Mandhal Bay	St. Thomas, USVI	2005	91	14,710	Single-family residential
Kaufman County	Dallas, TX	2000-2005	2,633	13,001	Single-family residential
Waco Multi-Tracts	Waco, TX	2005-2006	545	5,469	Single-family residential
Meloy Portage	Kent, OH	2004	53	5,119	Multi-family residential
Jackson Convention Center	Jackson, MS	2007	2	3,848	Mixed use
Beltline-Geller Road	Dallas, TX	2007	379	2,888	Commercial
<b>Subtotal</b>			<b>5,747</b>	<b>285,397</b>	
Other land holdings	Various	1990-2007	331	48,714	Various
<b>Total land holdings</b>			<b>6,078</b>	<b>\$ 334,111</b>	

In addition, we have a 24.0% interest in Income Opportunity Realty Investors, Inc. ( IORI ), a publicly held real estate company, a 5% interest in Garden Centura, L.P., and various other interests in real estate entities including joint ventures. We use the equity method to account for these investments unless we consider them to qualify as variable interest entities (VIE's) in which case they are fully consolidated.



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Land and income producing properties acquired during 2007 consisted of:

Property	Acres/ SF/Units	Location	Property Type/ Intended Use	Date Acquired	Purchase Price	Debt Incurred	Annual Interest Rate	Fixed/ Variable	Maturity Date
<b>Income-Producing Properties:</b>									
<b>Buildings:</b>									
Parkwest I	383,000	SF Dallas, TX	Office	Jan-07	\$ 39,350	\$ 35,000	6.06%	Fixed	Jan-09
Parkwest II	708,000	SF Dallas, TX	Office	Jan-07	67,750	62,000	9.32%		Jan-13
Subtotal					107,100	97,000			
<b>Apartment(s):</b>									
Thornwood	109	Units Midland, TX	Multi-family residential		1,896	1,638		Prime +1	May-08
Subtotal					1,896	1,638			
<b>Land:</b>									
Keller Springs	6 Acres	Dallas, TX	Multi-family residential	Jan-07	2,526	2,021	8.25%	Prime + 100 bps	Feb-08
Audubon Terrace	29 Acres	Natchez, MS	Multi-family residential	Mar-07	200				
Audubon Terrace	19 Acres	Addams County, MS	Multi-family residential	Mar-07	85				
Waco 151	151 Acres	Waco, TX	Single-family residential	Apr-07	2,000	2,106	8.25%	Prime + 100 bps	Apr-10
Ocean Estates	0 Acres	Dallas, TX	Multi-family residential	Oct-07	1,350		NA	NA	NA
Hines Meridian	40 Acres	Dallas, TX	Commercial	May-07	7,900	5,000	9.25%	Fixed	Jun-10
Rochelle I	10 Acres	Irving, TX	Commercial		6,970	5,663		Prime + 100 bps	May-08
William Sprowles	2.4 Acres	Dallas, TX	Commercial	Jun-07	1,210		NA	NA	NA
Jackson Convention Center									