

CATELLUS DEVELOPMENT CORP  
Form 10-K  
March 27, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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

For the fiscal year ended December 31, 2002

Commission file number 1-10622

**CATELLUS DEVELOPMENT  
CORPORATION**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-2953477**  
(I.R.S. Employer  
Identification No.)

**201 Mission Street**

**San Francisco, California 94105**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code:

**(415) 974-4500**

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

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<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value per share	New York and Chicago Stock Exchanges, and Pacific Exchange
Preferred Share Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act: None

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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$1.746 million on March 10, 2003.

As of March 10, 2003, there were 87,275,712 issued and outstanding shares of the Registrant's Common Stock.

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## PART I

### Item 1. Business

Catellus Development Corporation ( Catellus or the Company ) is a publicly traded real estate operating company with a significant portfolio of rental properties and developable land. Operations consist primarily of the management, acquisition, development, and sale of real estate. At December 31, 2002, we owned a significant portfolio of income producing properties, including approximately 37 million square feet of rental property, 32 million square feet of which is industrial space. Our rental properties provide us with a relatively consistent source of earnings. Additionally, Catellus owns a portfolio of developable land intended for future development activities. Our development activities provide cash flow through sales of land or the conversion of our developable land to property that is either added to our rental portfolio or sold to tenants, developers, or other users. We invest in new land to ensure our potential for growth.

We have four primary groups: (1) Asset Management, which provides management and leasing services for our rental portfolio; (2) Suburban Commercial, which acquires and develops suburban commercial business parks for our own rental portfolio or for sale to third parties; (3) Suburban Residential, which develops suburban residential communities and sells finished lots to homebuilders; and (4) Urban, which focuses on developing three large, urban mixed-use projects for our own rental portfolio or for sale to third parties.

Catellus was formed to conduct the non-railroad real estate activities of the Santa Fe Pacific Corporation and was spun off to stockholders effective in 1990. Our railroad heritage gave us a diverse base of developable properties located near transportation corridors in major western United States markets. This land has proven suitable for the development of a variety of product types, including industrial, retail, office, and residential. Over time, we have expanded our business by acquiring land suitable for primarily industrial development in many of the same suburban locations where we have an established presence.

Our principal office is located at 201 Mission Street, San Francisco, California 94105; our telephone number at that location is (415) 974-4500; and our website address is [www.catellus.com](http://www.catellus.com). This annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports are available free of charge through our website as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

### Recent Developments

On March 3, 2003, we announced that our Board of Directors ( Board ) has authorized us to restructure our business operations to qualify as a real estate investment trust ( REIT ), effective January 1, 2004, subject to stockholder and Board approvals. The Company has spent the past several years profitably transforming what was one of the country's largest land portfolios into predominantly industrial rental property and capital that has been reinvested back into our business. We are now embarking upon a transition period to restructure our operations and change our business strategy to focus increasingly on industrial development and reducing focus on other product types.

In anticipation of the REIT conversion, the Company will take steps during 2003 to better position its businesses for operation as a REIT. This will include looking for ways to operate more efficiently, consistent with a focus of new development on industrial product. We plan to continue our Urban mixed use projects that are underway, but do not plan to seek new ones. Since the Urban Group (*see* Urban Group below) will no longer be pursuing new activities, and given the considerable progress made on existing projects, it is anticipated that the scope of activities will be reduced, resulting in a reduction in work force over 2003 and 2004. The Urban Group projects will be operated in a taxable REIT subsidiary ( TRS ), and the Company expects to recycle surplus capital from the Urban Group projects through continuing development with greater

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emphasis on third party parcel sales, land leases, and joint ventures. During 2003, the Suburban Residential Group (*see* Suburban Residential Group below) projects will be positioned for sale and any remaining assets will be operated in a TRS.

We plan to present the REIT conversion to our shareholders for approval at our annual meeting, which is expected to be held in the third quarter of 2003. If the REIT conversion is consummated, Catellus will operate as an umbrella partnership real estate investment trust, with wholly owned taxable REIT subsidiaries. As part of the REIT conversion, we will provide to shareholders a one-time distribution of pre-REIT earnings and profits, in compliance with the requirements to elect REIT status. Furthermore, subject to final Board approval, we anticipate that we will begin paying a quarterly dividend commencing with a payment of \$0.30 per common share for the third quarter of 2003. A copy of the press release announcing the REIT conversion and other relevant documents are available free of charge at the SEC's website (www.sec.gov) or can be obtained by directing a request to us at 201 Mission Street, Second Floor, San Francisco, California 94105, Attn.: Director of Investor Relations, or by telephone at (415) 974-4649, or email at InvestorRelations@catellus.com. We will soon file a preliminary proxy statement/prospectus with the Securities and Exchange Commission that will provide important information, including detailed risk factors, regarding the proposed transaction. There is no assurance that the proposed REIT conversion will be consummated or that the terms of the REIT conversion or the timing or effects thereof will not differ materially from those described in the press release and other relevant documents.

### Property Portfolio

#### Rental Portfolio

Our income-producing portfolio is comprised of commercial rental property, ground leases and other properties, and interests in several joint ventures. We own 37 million square feet of commercial rental property of which 89.1% is industrial, 8.6% is office, and 2.3% is retail. Since the end of 1995, our portfolio has expanded by more than 22.9 million square feet (163%), primarily through our development activities. Approximately 35% of the rental property, by square footage, is located in Southern California, 19% in Northern California, 18% in Illinois, 11% in Texas, 7% in Colorado, 3% in Arizona, and 3% in Oregon, with the remaining 4% located in six other states. We also own approximately 8,000 acres of land subject to ground leases, approximately 755,000 square feet of other rent generating properties that are located at our urban development projects, the majority of which is projected to be converted to future redevelopment opportunities, and joint ventures interests in two hotels and two office buildings.

The following table provides information on our income-producing portfolio:

	Number of			Square Feet Owned			Net Book Value		
	Buildings			December 31,			December 31,		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(In thousands)						(In thousands)		
<b>Rental Portfolio</b>									
Industrial	196	187	198	32,944	27,594	26,251	\$ 1,134,890	\$ 943,340	\$ 874,168
Office	32	27	24	3,164	2,442	1,625	409,339	297,707	205,179
Retail	22	19	21	868	864	880	100,882	96,263	94,085
Ground leases and other properties							139,886	138,708	79,950
Operating joint ventures							(10,920)	(13,026)	(16,092)
<b>Subtotal</b>	<b>250</b>	<b>233</b>	<b>243</b>	<b>36,976</b>	<b>30,900</b>	<b>28,756</b>	<b>1,774,077</b>	<b>1,462,992</b>	<b>1,237,290</b>
Accumulated depreciation							(366,772)	(325,130)	(287,039)

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Total	<u>\$ 1,407,305</u>	<u>\$ 1,137,862</u>	<u>\$ 950,251</u>
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**Developable Land Inventory**

We have developable land capable of supporting up to an estimated 38.1 million square feet of commercial development and approximately 9,300 units of residential development as of December 31, 2002. Substantially all of our commercial and residential developable land is entitled. Approximately 67% of the total commercial development potential by square footage is located in California: San Francisco, Silicon Valley, San Francisco's East Bay area, Los Angeles County, Orange County, the Inland Empire (San Bernadino and Riverside counties), and the City of San Diego; approximately 14% in Texas; approximately 11% in Illinois; with the remaining 8% located in four other states. In terms of residential lots, approximately 59% of the residential land for potential development is located in Northern California, 18% is in Southern California, and 23% is in Colorado.

The following table summarizes the estimated development potential of our land inventory as of December 31, 2002:

	<u>Commercial</u>	<u>Residential</u>	<u>Hotel</u>
	(Square feet)	(Lots or units)	(Rooms)
Commercial	25,907,000		
Residential		5,789	
Urban	12,226,000	3,548	500
<b>Total</b>	<b>38,133,000</b>	<b>9,337</b>	<b>500</b>
Entitled	36,806,000	9,223	500
Entitlements/approvals in progress	1,327,000	114	

The following table shows the net book value of our developable land inventory for the years presented:

	<u>Net Book Value</u>		
	<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(In thousands)		
Commercial	\$ 171,924	\$ 188,527	\$ 174,329
Residential	52,850	52,108	64,479
Residential joint ventures	37,918	74,721	46,245
Urban	279,495	258,504	366,136
<b>Subtotal</b>	<b>542,187</b>	<b>573,860</b>	<b>651,189</b>
Accumulated depreciation	(10,699)	(9,888)	(15,819)
<b>Total</b>	<b>\$ 531,488</b>	<b>\$ 563,972</b>	<b>\$ 635,370</b>

The Asset Management Group manages our rental portfolio of industrial, office, retail, ground lease properties, and operating of properties for joint ventures. The group provides the following services: (1) leasing and management services; (2) acquisition of properties for, and sale of certain rental properties from, our portfolio; and (3) management and disposition services for our other land holdings. The Asset Management Group provided ground lease management services for a third party before the contract expired in 2000.



The following table summarizes our rental portfolio property operating income by property type:

	<b>Property Operating Income<sup>(1)</sup></b>		
	<b>Year Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(In thousands)		
<b>Rental Portfolio</b>			
Industrial	\$ 125,744	\$ 111,409	\$ 98,831
Office	31,650	24,362	20,228
Retail	10,725	9,778	10,511
Ground leases	21,271	20,237	14,724
Other properties	6,488	6,432	7,196
Equity in earnings of operating joint ventures	8,277	8,833	9,809
Subtotal	204,155	181,051	161,299
Less: Discontinued operations	(486)	(1,816)	(2,267)
<b>Total property operating income</b>	<b>\$ 203,669</b>	<b>\$ 179,235</b>	<b>\$ 159,032</b>

<sup>(1)</sup> Property operating income is rental revenue less property operating costs plus equity in earnings of operating joint ventures.

### Building Portfolio

The following table summarizes our building portfolio, by year built, as of December 31, 2002:

City	State	Rentable		Major Tenant	RSF Occupied	YR End Vacancy	Year-End Building Occupancy %
		Square Feet	Year Built				
<b>Industrial Property:</b>							
1	Minooka	IL	1,034,200	2002	Kellogg's USA, Inc.	1,034,200	100%
2	Ontario	CA	830,000	2002	Exel, Inc.	830,000	100%
3	Manteca	CA	608,860	2002	Ford Motor Company	608,860	100%
4	Ontario	CA	607,320	2002	Specialty Merchandise Corporation	607,320	