UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2019

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	**94-6565852**
(State or other jurisdiction of Incorporation or organization)	**(IRS Employer Identification Number)**
1603 LBJ Freeway, Suite 800 Dallas, Texas	
(Address of principal executive offices)	**75234 (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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	TCI	NYSE

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 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 ☒ 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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Non-accelerated filer ☐
Accelerated filer ☐
Smaller reporting company ☒
Emerging growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Based on the last sale at the close of business on June 30, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $24,391,302. 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 25, 2020, there were 8,717,767 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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ANNUAL REPORT ON FORM 10-K

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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 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 which was formed in 1984. The Company is headquartered in Dallas, Texas and its common stock is listed and 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 American Realty Investors, Inc. ("ARL"), whose common stock is traded on the NYSE under the symbol "ARL". Subsidiaries and affiliates of ARL own in excess of 80% of the Company's common stock. ARL and one of its subsidiaries own 78.38% and the parent of ARL owns 7.11% of the Company. Accordingly, TCI's financial results are consolidated with those of ARL's on Form 10-K and related Consolidated Financial Statements. ARL's common stock is listed and trades on the New York Stock Exchange under the symbol "ARL".

On July 17, 2009, the Company acquired an additional 2,518,934 shares of common stock of Income Opportunity Realty Investors, Inc. ("IOR"), and in doing so, increased its ownership from approximately 25% to over 80% of the shares of common stock of IOR outstanding. Upon acquisition of the additional shares in 2009, IOR's results of operations began to be consolidated with those of the Company for tax and financial reporting purposes. As of December 31, 2019, TCI owned 81.23% of the outstanding IOR common shares. Shares of IOR common stock are listed and traded on the NYSE American under the symbol "IOR".

TCI's Board of Directors are 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. ("Pillar"), a Nevada corporation, 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 four are also directors of IOR. The Chairman of the Board of Directors of TCI also serves as the Chairman of the Board of Directors of ARL and IOR. The officers of TCI also serve as officers of ARL, IOR and Pillar.

Since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc. ("RAI"), a Nevada corporation, the sole shareholder of which is May Realty Holdings, Inc. ("MRHI", formerly known as Realty Advisors Management, Inc.), effective August 7, 2014), a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external contractual 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 the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as the contractual Advisor and Cash Manager to ARL and IOR. 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.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), manages our commercial properties and provides brokerage services. Regis receives property management fees, 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. Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". TCI engages third-party companies to lease and manage its apartment properties.

Southern Properties Capital Ltd. ("Southern" or "SPC") is a wholly owned subsidiary of TCI that was incorporated on August 16, 2016 for the purpose of raising funds by issuing debentures (that cannot be converted into any other security) are listed and traded on the Tel-Aviv Stock Exchange ("TASE"). Southern operates in the United States and is primarily involved in investing in, developing, constructing and operating income-producing properties of multi-family residential real estate assets. Southern is included in the consolidated financial statements of TCI.

On January 1, 2012, the Company entered into a development agreement with Unified Housing Foundation, Inc. "UHF" a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

On November 19, 2018, we executed an agreement between the Macquarie Group ("Macquarie") and SPC and TCI to create a joint venture, Victory Abode Apartments, LLC ("VAA") to address existing and future demand for quality multifamily residential housing through acquisition and development of sustainable Class A multifamily housing in focused secondary and tertiary markets. In connection with the formation of the joint venture, SPC and TCI contributed a portfolio of 49 income producing apartment complexes, and 3 development projects in various stages of construction and received cash consideration of $236.8 million. At the time of the transfer of the properties, the joint venture assumed all liabilities of those properties, including mortgage debt to the Department of Housing and Urban Development ("HUD").

VAA is equally owned and controlled by Abode JVP, LLC, a wholly-owned subsidiary of SPC and Summerset Intermediate Holdings 2 LLC ("Summerset"), a wholly-owned indirect subsidiary of Macquarie. Pursuant to the Agreement, Abode JVP, LLC and Summerset each own voting and profit participation rights of 50% and 49%, respectively ("Class A Members"). The remaining 2% of the profit participation interest is held by Daniel J. Moos TCI's President and Chief Executive Officer ("Class B Member") who serves also as the Manager of the joint venture.

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, 2019, our portfolio of income-producing properties consisted of:

- Seven commercial properties consisting of five office buildings and two retail properties comprising in aggregate of approximately 1.7 million square feet;
- Ten residential apartment communities owned directly by us comprising in 1,657 units, excluding apartments being developed;
- Approximately 1,951 acres of developed and undeveloped land; and
- Fifty-one residential apartment communities totaling 9,888 units owned by our 50% owned investee VAA.

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, 2019:

	Apartments (Company owned)		Apartments (VAA owned)		Commercial (Company owned)	
Location	**No.**	**Units**	**No.**	**Units**	**No.**	**SF**
Alabama	1	200	1	168	—	—
Arkansas	—	—	5	1,122	—	—
Colorado	—	—	2	260	—	—
Florida	1	33	2	388	1	6,722
Georgia	—	—	1	222	—	—
Louisiana	2	384	3	464	—	—
Mississippi	2	400	1	196	—	—
North Carolina	—	—	1	201	—	—
Nevada	—	—	1	308	—	—
Tennessee	1	144	4	708	—	—
Texas-Greater Dallas-Ft Worth	—	—	19	3,709	4	1,473,634
Texas-Greater Houston	—	—	2	416	1	95,329
Texas-Other	3	496	9	1,726	—	—
Wisconsin	—	—	—	—	1	122,205
Total	**10**	**1,657**	**51**	**9,888**	**7**	**1,697,890**

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 some of our properties.

We join with third-party development companies to construct residential apartment communities. At December 31, 2019, TCI and VAA had five and one 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, initial lease-up 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, 2019, our apartment projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date [1]	Total Projected Costs [1]
Sugar Mill III	Addis, LA	72	$ 7,417,244	$ 10,014,582
Parc at Denham Springs Phase II	Denham Springs, LA	144	17,791,765	18,767,871
Forest Pines II (Forest Grove)	Bryan, TX	84	4,843,342	11,258,990
LD Athens	Athens, Al	232	81,372	30,519,021
McKinney Heritage	McKinney, TX	176	88,931	24,767,176
Total		**708**	**$ 30,222,654**	**$ 95,327,640**

[1] Costs include construction hard costs, construction soft costs and loan borrowing costs.

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

At December 31, 2019, our investments in undeveloped and partially developed land consisted of the following (dollars in thousands):

Location	Acquired	Acres	Cost	Intended Use
Dallas, TX	1996-2013	11.57	3,057	Mixed use
Farmers Branch, TX	2008	60.62	10,966	Mixed use
Kaufman County, TX	2011	1,781.83	49,238	Mixed use
Various	1990-2008	96.97	6,742	Various
Total Land Holdings		**1,950.99**	$ **70,003**	

Significant Real Estate Acquisitions/Dispositions and Financings

The following is a description of the Company's significant real estate and financing transactions during the year ended December 31 2019:

- Sold 35.9 acres of land located in Farmers Branch, Texas for an aggregate sales price of $18.9 million and recognized a gain on the sale of $9.0 million.
- Sold 29.4 acres of land located in Forney, Texas for a total sales price of $5.0 million and recognized a gain on the sale of approximately $4.1 million.
- Sold 10.33 acres of land located in Dallas, Texas for a total sales price of $2.1 million and recognized a gain on the sale of approximately $0.4 million.
- Sold 6.25 acres of land located in Nashville, Tennessee for a total sales price of $2.3 million and recognized a gain on the sale of approximately $0.9 million.
- Sold 23.24 acres of land located in Fort Worth, Texas for a total sales price of $1.8 million and recognized a gain on the sale of approximately $0.5 million.
- Sold a multifamily residential property, located in Mary Ester, Florida for a total sales price of $3.1 million out of which $1.8 million represents land received with a total acreage of 1.27 acres located in Riverside, California in exchange for a note receivable of the same value. The Company recognized a loss from this sale of approximately $0.08 million.
- Purchased 33.05 acres of land in Athens, Alabama for a total purchase price of $2.1 million, out of which $0.9 million was paid in cash and the remaining balance of $1.2 million was issued as a note payable. The note payable matures in eighteen months and bears an annual interest rate of 5.91%.
- Purchased from a third party 8.94 acres of land located in Collin County, Texas for a total purchase price of $2.5 million.
- Purchased an option to buy 37.8 acres of land (6.3 acres located in Collin County, Texas and 31.5 acres located in Clark County, Nevada) for $2.0 million from a third party land developer.
- Sold fresh water district receivables related to infrastructure development work, located in Kaufman County, Texas for $12.0 million. No gain or loss was recognized from the sale of these receivables.
- Purchased notes receivables from related parties for an aggregate purchase price of $29.0 million. No gain or loss was recognized from the purchase of the notes receivables (refer to Note 5).
- Issued Series C bonds on the TASE in the amount of NIS 275 million (or approximately $78.1 million), bearing an annual interest of 4.65%. The interest will be paid on January 31 and July 31 of each of the years 2020 through 2023, with the bond principal payment due in 2023. From the proceeds from the sale of the Series C bonds the Company paid off the mortgage debt of $41.5 million related to one of its commercial buildings used as collateral for this issuance.

The Company continues to invest in the development of apartment projects. During the year ended December 31, 2019, TCI has invested $28.5 million related to the construction or predevelopment of various apartment complexes and capitalized $0.8 million of interest costs.

Business Plan and Investment Policy

Our business objective is to maximize long-term value for our stockholders by investing in residential and 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. Refer to Part I, Item1A. “Risk Factors”.

To the extent that TCI seeks to sell any 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 IOR. Both ARL and IOR have business objectives similar to those of TCI. TCI’s officers and directors owe fiduciary duties to both IOR and ARL as well as to TCI under applicable law. In determining whether a particular investment opportunity will be allocated to TCI, IOR, 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 related parties 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 the 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, applicable to TCI and its subsidiaries in conjunction with the other information in this report before trading our securities.

Risk Factors Related to our Business

Our business may be impacted as a result of the pandemic impact the coronavirus ("COVID 19") may have in the U.S. and global economy.

During 2020, a strain of coronavirus ("COVID – 19") was reported worldwide, resulting in decreased economic activity and concerns about the pandemic, which would adversely affect the broader global economy. The Company is taking all necessary steps to keep our business premises, tenants, vendors and employees in a safe environment and are constantly monitoring the impact of COVID – 19. At this point, the extent to which COVID – 19 may impact the global economy and our business is uncertain, but pandemics or other significant public health events could have a material adverse effect on our business and results of operations.

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.

Our investments in joint ventures may decrease our ability to manage risk.

We conduct some of our operations through a joint venture in which we share control over certain economic and business interests with our joint venture partner. Our joint venture partner may have economic, business or legal interests or goals that are inconsistent with our goals and interests or may be unable to meet their obligations. Failure by us, or an entity in which we have a joint-venture interest, to adequately manage the risks associated with any acquisitions or joint ventures could have a material adverse effect on the financial condition or results of operations of our joint ventures and adversely affect our business, financial condition, results of operations and cash flows.

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

We had total indebtedness, including bonds and notes payable, at December 31, 2019 of approximately $493.3 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. 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 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, our ability to respond to changing circumstances may be limited and generally real estate investments 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, 2019, our portfolio consisted of seventeen income-producing properties consisting of ten apartment communities totaling 1,657 units, seven commercial properties consisting of five office buildings and two retail centers. In addition, we own or control 1,951 acres of improved and unimproved land held for future development or sale.

The average annual rental and other property revenue per square foot is $13.36 for the Company's residential apartment portfolio and $25.61 for the commercial portfolio. Through our joint venture VAA we have a 50 percent ownership interest to a portfolio of fifty-one income-producing properties with a total of 9,888 units, which generated an average annual rental revenue of $14.74 per square foot.

The table below shows information relating to those properties in which we own or have an ownership interest through subsidiaries, all of which are suitable and adequate for the purpose for which each is utilized:

Residential Apartments	**Location**	**Units**	**Occupancy**
Chelsea	Beaumont, TX	144	90.97%
Farnham Park	Port Arthur, TX	144	95.83%
Landing Bayou	Houma, LA	240	89.58%
Legacy at Pleasant Grove	Texarkana, TX	208	88.94%
Toulon	Gautier, MS	240	98.33%
Villager	Fort Walton, FL	33	90.91%
Villas at Bon Secour Apts	Gulf Shores, AL	200	92.00%
Vista Ridge	Tupelo, MS	160	93.13%
Overlook at Allensville Phase II	Sevierville, TN	144	89.58%
Parc at Denham Springs Phase II	Denham Springs, LA	144	5.56%
10	***Total Apartment Units***	**1,657**	

Office Buildings	**Location**	**SqFt**	**Occupancy**
600 Las Colinas	Irving, TX	512,173	79.43%
770 South Post Oak	Houston, TX	95,438	83.85%
Browning Place (Park West I)	Farmers Branch, TX	625,297	87.03%
Senlac (VHP)	Farmers Branch, TX	2,821	100.00%
Stanford Center	Dallas, TX	333,234	90.91%
5	***Total Office Buildings***	**1,568,963**	

Retail Centers	**Location**	**SqFt**	**Occupancy**
Bridgeview Plaza	LaCrosse, WI	122,205	37.25%
Fruitland Park	Fruitland Park, FL	6,722	100.00%
2	***Total Retail Centers***	**128,927**	
	Total Commercial	**1,697,890**	

Our joint venture investee VAA, owns the following residential properties:

Residential Apartments	Location	Units	Occupancy
Abode Red Rock Apartments	Las Vegas, NV	308	83.04%
Apalachee Point Villas Apartments	Tallahassee, FL	200	91.88%
Blue Lake Villas Apartments	Waxahachie, TX	186	90.78%
Blue Lake Villas Apartments Phase II	Waxahachie, TX	70	89.02%
Breakwater Bay Apartments.	Beaumont, TX	176	97.53%
Bridgewood Ranch Apartments	Kaufman, TX	106	94.39%
Capitol Hill Apartments	Little Rock, AR	156	91.17%
Centennial Village Apartments	Oak Ridge,TN	252	94.83%
Crossings at Opelika Apartments	Opelika, AL	168	97.29%
Dakota Arms Apartments	Lubbock, TX	208	96.17%
Desoto Ranch Apartments	DeSoto, TX	248	92.61%
Eagle Crossing Apartments	Dallas, TX	150	97.63%
Falcon Lake Apartments	Arlington, TX	248	95.30%
Heather Creek Apartments	Mesquite, TX	200	96.64%
Lake Forest Apartments	Humble, TX	240	90.67%
Lakeside Lofts	Farmers Branch, TX	245	0.00%
Lodge at Pecan Creek Apartments	Denton, TX	192	95.04%
Lofts at Reynolds Apartments	Asheville, NC	201	93.87%
Mansions Of Mansfield Apartments	Mansfield, TX	208	96.38%
McKinney Point Apartments	McKinney, TX	198	91.96%
Metropolitan Apartments	Little Rock, AR	260	92.40%
Mission Oaks Apartments	San Antonio, TX	228	92.17%
Northside on Travis Apartments	Sherman, TX	200	90.03%
Oak Hollow Phase I Apartments	Seguin, TX	160	88.08%
Oak Hollow Phase II Apartments	Seguin, TX	96	86.61%
Oceanaire Apartments	Biloxi, MS	196	94.76%
Overlook At Allensville Square Apartments Phase I	Sevierville, TN	144	92.66%
Parc at Wylie Apartments	Wylie, TX	198	92.09%
Parc at Bentonville Apartments	Bentonville, AR	216	92.60%
Parc at Clarksville Apartments	Clarksville, TN	168	91.45%
Parc at Denham Springs Apartments Phase I	Denham Spring, LA	224	95.86%
Parc at Garland Apartments	Garland, TX	198	94.68%
Parc at Mansfield Apartments	Mansfield, TX	99	94.87%
Parc at Maumelle Apartments	Little Rock, AR	240	94.51%
Parc at Metro Center Apartments	Nashville, TN	144	97.48%
Parc at Rogers Apartments	Rogers, AR	250	92.99%
Preserve at Pecan Creek Apartments	Denton, TX	192	89.65%
Preserve at Prairie Pointe Apartments	Lubbock, TX	184	95.94%
Residences at Holland Lake Apartments	Weatherford, TX	208	94.45%
Sawgrass Creek Apartments	New Port Richey, FL	188	92.73%
Sonoma Court Apartments	Rockwall, TX	124	89.98%
Sugar Mill Apartments, Phase I	Baton Rouge, LA	160	76.24%
Sugar Mill Apartments, Phase II	Addis, LA	80	76.59%
Tattersall Village Apartments	Hinesville, GA	222	93.76%
Terra Lago Apartments	Rowlett, TX	451	69.45%
Tradewinds Apartments	Midland, TX	214	94.36%
Villas of Park West Apartments Phase I	Pueblo, CO	148	95.27%
Villas of Park West Apartments Phase II	Pueblo, CO	112	93.77%
Vistas Of Vance Jackson Apartments	San Antonio, TX	240	94.50%
Waterford at Summer Park Apartments	Rosenberg, TX	196	93.49%
Windsong Apartments	Fort Worth, TX	188	93.15%
51	**Total Apartment Units**	**9,888**	

Development Project		
Lakeside Lofts Apartments	Farmers Branch, TX	249
Grand total		10,137

Commercial Lease Expirations

The following table summarizes our commercial lease expirations as of December 31, 2019:

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
2020	139,905	$ 3,082,003	$ 22.03	8.2%	10.9%
2021	123,629	2,344,184	18.96	7.3%	8.3%
2022	267,882	5,981,809	22.33	15.8%	21.1%
2023	362,224	6,035,138	16.66	21.3%	21.3%
2024	271,071	6,010,250	22.17	16.0%	21.2%
2025	125,667	2,909,360	23.15	7.4%	10.3%
2026	30,505	793,130	26.00	1.8%	2.8%
Thereafter	56,926	1,152,892	20.25	3.4%	4.1%
Total	1,377,809	$ 28,308,766		81.2%	100%

(1) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2019, multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

The table below shows information related to the land parcels we own as of December 31, 2019:

Land	Location	Acres
Dedeaux	Gulfport, MS	9.90
Dominion Mercer Phase II	Farmers Branch, TX	5.29
Gautier	Gautier, MS	3.46
Lacy Longhorn	Farmers Branch, TX	4.86
Lake Shore Villas	Humble, TX	1.35
Lubbock	Lubbock, TX	2.87
McKinney 36	Collin County, TX	17.89
Minivest	Dallas, TX	0.23
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35
Ocean Estates	Gulfport, MS	11.79
T Palm Desert	Riverside, California	1.27
Travis Ranch	Kaufman County, TX	8.66
Union Pacific Railroad	Dallas, TX	0.04
Willowick	Pensacola, FL	39.78
Mercer Crossing	Farmers Branch, TX	19.00
Windmills Farm	Kaufman County, TX	1,701.05
	Total Land/Development	1,828.59

Land Subject to Sales Contract	Location	Acres
Mercer Crossing	Farmers Branch, TX	41.62
Windmill Farms	Kaufman County, TX	80.78
	Total Land Subject to Sales Contract	122.40
	Total Land	**1,950.99**

ITEM 3. ***LEGAL PROCEEDINGS***

ART and ART Midwest, Inc.

While the Company and all entities in which the Company has a direct or indirect equity interest are not parties to or obligated in any way for the outcome, a formerly owned entity (American Realty Trust, Inc.) and its former subsidiary (ART Midwest, Inc.) have been engaged since 1999 in litigation with Mr. David Clapper and entities related to Mr. Clapper (collectively, the "Clapper Parties"). The matter originally involved a transaction in 1998 in which ART Midwest, Inc. was to acquire eight residential apartment complexes from the Clapper Parties. Through the years, a number of rulings, both for and against American Realty Trust, Inc. "ART" and ART Midwest, Inc., were issued. In October 2011, a ruling was issued under which the Clapper Parties received a judgment for approximately $74 million, including $26 million in actual damages and $48 million interest. The ruling was against ART and ART Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties, but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. Subsequently, the trial court recalculated the damage award, reducing it to approximately $59 million, inclusive of actual damages and then current interest. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in this matter.

The Clapper Parties subsequently filed a new lawsuit against ARI, its subsidiary EQK Holdings, Inc. "EQK", and ART. The Clapper Parties seek damages from ARL for payment by ART to ARL of ART's stock in EQK in exchange for a release of the Antecedent Debt owed by ART to ARI. In February 2018 the court determined that this legal matter should not have been filed in federal court and therefore granted motions to dismiss on jurisdictional grounds. In June 2018, the court overruled its own grant of motions to dismiss and reinstated the case. We continue to vigorously defend the case and management believes it has defenses to the claims. The case has not been set for trial.

In 2005, ART filed suit against a major national law firm over the initial transaction. That action was initially abated while the principal case with the Clapper Parties was pending, but the abatement was recently lifted. The trial court subsequently dismissed the case on procedural grounds, but ART has filed a notice of appeal. The appeal was heard in February 2018 and the case was subsequently appealed to the Texas Supreme Court. The application for Review is still pending with the Texas Supreme Court. In January 2012, the Company sold all of the issued and outstanding stock of ART to an unrelated party for a promissory note in the amount of $10 million. At December 31, 2012, the Company fully reserved and valued such note at zero.

Dynex Capital, Inc.

On July 20, 2015, the 68th Judicial District Court in Dallas County, Texas issued its Final Judgment in Cause No. DC-03-00675, styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. The case, which was litigated for more than a decade, had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust ("CMET"), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, $160 million in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. ("Basic").

An original trial in 2004, which also included Dynex Capital, Inc. as a defendant, resulted in a jury awarding damages in favor of Basic for "lost opportunity," as well as damages in favor of ART and in favor of TCI and its subsidiaries for "increased costs" and "lost opportunity." The original Trial Court judge ignored the jury's findings, however, and entered a "Judgment Notwithstanding the Verdict" ("JNOV") in favor of the Dynex entities (the judge held the Plaintiffs were not entitled to any damages from the Dynex entities). After numerous appeals by all parties, Dynex Capital, Inc. was ultimately dismissed from the case and the remaining claims against Dynex Commercial were remanded to the Trial Court for a new judgment consistent with the jury's findings. The Court entered the new Final Judgment against Dynex Commercial, Inc. on July 20, 2015.

The Final Judgment entered against Dynex Commercial, Inc. on July 20, 2015 awarded Basic was $0.256 million in damages, plus pre-judgment interest of $0.192 million for a total amount of $0.448 million. The Judgment awarded ART was $14.2 million in damages, plus pre-judgment interest of $10.6 million for a total amount of $24.8 million. The Judgment awarded TCI was $11.1 million, plus pre-judgment interest of $8.4 million for a total amount of $19.5 million. The Judgment also awarded Basic, ART, and TCI post-judgment interest at the rate of 5% per annum from April 25, 2014 until the date their respective damages were paid. Lastly, the Judgement awarded Basic, ART, and TCI was $1.6 million collectively in attorneys' fees from Dynex Commercial, Inc.

TCI is working with counsel to identify assets and collect on the Final Judgment against Dynex Commercial, Inc., as well as pursue additional claims, if any, against Dynex Capital, Inc. Post judgment interest continues to accrue.

Berger Litigation

On February 4, 2019, an individual claiming to be a stockholder holding 7,900 shares of Common Stock of Income Opportunity Realty Investors, Inc. ("IOR") filed a Complaint in the United States District Court for the Northern District of Texas, Dallas Division, individually and allegedly derivatively on behalf of IOR, against Transcontinental Realty Investors, Inc. ("TCI"), American Realty Investors, Inc. ("ARL"), (TCI is a shareholder of IOR, ARL is a shareholder of TCI) Pillar Income Asset Management, Inc. ("Pillar"), (collectively the "Companies"), certain officers and directors of the Companies ("Additional Parties") and two other individuals. The Complaint filed alleges that the sale and/or exchange of certain tangible and intangible property between the Companies and IOR during the last ten years of business operations constitutes a breach of fiduciary duty by the one or more of Companies, the Additional Defendants and/or the directors of IOR. The case alleges other related claims. The Plaintiff seeks certification as a representative of IOR and all of its shareholders, unspecified damages, a return to IOR of various funds and an award of costs, expenses, disbursements (including Plaintiff's attorneys' fees) and prejudgment and post-judgment interest. The named Defendants intend to vigorously defend the action, deny all of the allegations of the Complaint, and believe the allegations to be wholly without any merit. The Defendants have filed motions to dismiss the case in its entirety in June 2019. On February 26, 2020, the Court denied IOR's demand futility motion. The remainder of the motions to dismiss are pending.

Litigation. 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.

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 NYSE American 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 American for the quarters ended:

	2019		2018	
	High	Low	High	Low
First Quarter	$ 38.34	$ 27.60	$ 46.00	$ 25.14
Second Quarter	$ 34.01	$ 22.85	$ 52.00	$ 23.90
Third Quarter	$ 33.15	$ 23.00	$ 38.25	$ 28.36
Fourth Quarter	$ 41.50	$ 27.00	$ 37.42	$ 26.73

On March 25, 2020, the closing price of TCI's common stock as reported on the NYSE American was $22.00 per share, and was held by approximately 2,290 holders of record.

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. In accordance with that policy, the board determined not to pay any dividends on common stock in 2019, 2018 or 2017. 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 resulted 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. There were no shares repurchased for the year ended December 31, 2019.

In November 2006, TCI issued 100,000 shares of Series D Preferred Stock with a liquidation preference of $100 per share. The preferred stock is not convertible into any other security, requires dividends payable at the initial rate of 7% annually. The dividend rate increases ratably from 7% to 9% in future periods and can be redeemed at any point after September 30, 2011.

During the fourth quarter of 2018, all 100,000 shares of Series D Preferred Stock were redeemed for $17.2 million, of which $7.2 million was accrued unpaid dividends. At December 31, 2019 and 2018, there were no preferred shares outstanding.

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

The following table sets forth selected consolidated financial data derived from our audited financial statements for each of the five years in the period ended December 31, 2019. The data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in Part II, Item 7 of this Annual Report and the consolidated financial statements and the accompanying notes set forth in Part II, Item 8 of this Annual Report.

	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Rental and other property revenues	$ 47,970	$ 120,955	$ 125,233	$ 118,471	$ 102,220
Total operating expenses	55,706	104,834	105,128	100,824	92,919
Operating (loss) income	(7,736)	16,121	20,105	17,647	9,301
Other expenses	(35,210)	(1,401)	(49,967)	(36,628)	(36,095)
(Loss) income before gain on formation of joint venture, gain on land sales, non-controlling interest, and taxes	(42,946)	14,720	(29,862)	(18,981)	(26,794)
Gain on disposition of 50% interest in VAA	—	154,126	—	—	—
(Loss) gain on income producing properties	(80)	—	9,842	16,207	18,911
Gain on land sales	14,889	17,404	4,884	3,121	—
Income tax benefit (expense)	2,000	(3,210)	(180)	(24)	(517)
Net (loss) income from continuing operations	(26,137)	183,040	(15,316)	323	(8,400)
Net (loss) income from discontinuing operations	—	—	—	(1)	896
Net (loss) income	(26,137)	183,040	(15,316)	322	(7,504)
Net income attributable to non-controlling interest	(783)	(1,590)	(499)	(285)	(132)
Net (loss) income attributable to Transcontinental Realty Investors, Inc.	(26,920)	181,450	(15,815)	37	(7,636)
Preferred dividend requirement	—	(900)	(900)	(900)	(900)
Net (loss) income applicable to common shares	$ (26,920)	$ 180,550	$ (16,715)	$ (863)	$ (8,536)
PER SHARE DATA					
Earnings per share - basic					
(Loss) income from continuing operations	$ (3.00)	$ 20.89	$ (1.86)	$ (0.07)	$ (1.08)
Income (loss) from discontinued operations	—	—	—	—	0.10
Net (loss) income applicable to common shares	$ (3.09)	$ 20.71	$ (1.92)	$ (0.10)	$ (0.98)
Weighted average common shares used in computing earnings per share	8,717,767	8,717,767	8,717,767	8,717,767	8,717,767
Earnings per share - diluted					
(Loss) income from continuing operations	$ (3.00)	$ 20.89	$ (1.86)	$ (0.07)	$ (1.08)
Income (loss) from discontinued operations	—	—	—	—	0.10
Net (loss) income applicable to common shares	$ (3.09)	$ 20.71	$ (1.92)	$ (0.10)	$ (0.98)
Weighted average common shares used in computing diluted earnings per share	8,717,767	8,717,767	8,717,767	8,717,767	8,717,767
BALANCE SHEET DATA					
Real estate, net	$ 387,790	$ 384,504	$ 979,870	$ 891,173	$ 844,019
Notes and interest receivable, net	120,986	83,541	70,166	79,308	69,551
Investment in VAA	59,148	68,399	—	—	—
Total assets	865,918	862,380	1,313,422	1,185,914	1,110,204
Notes and interest payable	246,546	277,237	894,482	841,516	779,434
Bonds and interest payable	229,722	158,574	113,047	—	—
Shareholders' equity	354,067	380,401	208,261	224,477	225,055
Book value per share	40.61	43.64	23.89	25.75	25.82

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 which do not relate solely to 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 urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate.

During the year ended December 31, 2019, the Company sold 105.1 acres of land for an aggregate sales price of $30.0 million and purchased 41.9 acres for an aggregate purchase price of approximately $4.6 million. In addition, the Company acquired 1.27 acres of land in exchange for a note receivable with a face value of $1.8 million.

We sold a multifamily residential property, located in Mary Ester, Florida for a total sales price of $3.1 million, and recognized a loss on the sale of $0.08 million.

The Company purchased an option to buy 37.8 acres of land (6.3 acres located in Collin County, Texas and 31.5 acres located in Clark County, Nevada) for $2.0 million from a third party land developer.

We advanced $21.4 million to several developers with the option to purchase the residential properties under construction at a future date, and sold fresh water district receivables related to infrastructure development work at Windmill Farms, located in Kaufman County, Texas for $12.0 million.

As of December 31, 2019, we owned 1,657 units in ten residential apartment communities, and seven commercial properties comprising of approximately 1.7 million rentable square feet. In addition, we own approximately 1,951 acres of land held for development. The Company currently owns income-producing properties and land in eight states.

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 some 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 and leasing office, retail and industrial space to commercial tenants.

The Company has 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.

Since April 30, 2011, Pillar is the Company's external Advisor and Cash Manager under a contractual arrangement that is reviewed annually by our Board of Directors. 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 IOR. 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.

Effective since January 1, 2011, Regis manages our commercial properties and provides brokerage services. Regis is entitled to receive a fee for its property management and brokerage services. Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage." The Company contracts 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").

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.

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 investment in ARL is accounted for under the equity method.

In accordance with the VIE guidance in ASC 810 "Consolidations," the Company consolidated ten multifamily residential properties at December 31, 2019 and nine at December 31, 2018, located throughout the United States ranging from 1,657 units to 1,489 units. Assets totaling approximately $478 million and approximately $464 million at December 31, 2019 and 2018, respectively, are consolidated and included in "Real estate, at cost" on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

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.

Transfers to or from our parent, ARL, or other related parties reflect a basis equal to the cost basis in the asset at the time of the sale.

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 direct project costs incurred during the period of development.

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.

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. Fair value is determined by a recent appraisal, comparable based upon prices for similar assets, executed sales contract, a present value and/or a valuation technique based upon a multiple of earnings or revenue. 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 fair value. We did not record any impairment charges for the years ended December 31, 2019 and 2018.

Real Estate Assets Held for Sale

We classify properties as held for sale when certain criteria are met in accordance with GAAP. At that time, we present the assets and obligations of the property held for sale separately in our consolidated balance sheet and we cease recording depreciation and amortization expense related to that property. Properties held for sale are reported at the lower of their carrying amount or their estimated fair value, less estimated costs to sell. We did not have any real estate assets classified as held for sale at December 31, 2019 or 2018.

Any properties that 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" are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in Item 1 "Significant Real Estate Acquisitions/Dispositions and Financing." Any sale transaction where the guidance reflects that a sale had not occurred, the asset involved in the transaction, including the debt, if appropriate, and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 "Impairment or Disposal of Long-Lived Assets."

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 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 revenue for multi-family real estate 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 normally 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.

Other revenue primarily consists of garage, parking, and utility-related fees; termination and late charge fees; non-refundable fees; and various other revenue amounts related to rental activities. Those revenue amounts are recognized when the service is provided.

Leases

The Company is party to leases as a lessor of residential apartment communities and commercial buildings. The Company adopted ASU 2016-02, Leases, as of January 1, 2019 using the prospective adoption approach, applying the provisions of the new standard to existing leases as of the date of adoption.

Lessor Considerations

The Company evaluated leases in which it is the lessor, which are comprised of residential apartment community leases. The accounting model for lessors did not significantly change as a result of ASU 2016-02, with the impacts primarily related to the accounting for sales-type and direct financing leases. The Company evaluated its residential leases determining that they continue to be operating leases. For lease agreements that provide for rent concessions and/or scheduled fixed and determinable rent increases, rental income is recognized on a straight-line basis over the non - cancelable term of the lease. The Company's residential lease term is generally one year.

Additionally, for the Company's residential leases, which are comprised of the lease component and common area maintenance as a non-lease component, the Company determined that (1) the leases are operating leases, (2) the lease component is the predominant component, and (3) that all components of its operating leases share the same timing and pattern of transfer.

Implementation Considerations and Impact

As discussed above, the Company elected to apply certain lessor practical expedients allowed under the standard including:

- by class of underlying asset for residential leases, to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component;
- to exclude costs paid by lessees directly to third parties on behalf of the Company; and
- to exclude sales taxes and other similar taxes assessed by a government authority and collected by the Company from the lessee.

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

We record interest income as earned in accordance with the terms of the related loan agreements.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, 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. Refer to Note 5 "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:

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.

Related parties

We apply ASC Topic 805, "Business Combination", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties, and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each phase of the project, we lease-up that phase and include those revenues in our continued operations. Once a developed property becomes leased-up (80% or more) and is held the entire period for both years under comparison, it is considered to be included in the same property portfolio. Income-producing properties that we have sold during the year are reclassified to discontinued operations for all periods presented. The other segment consists of revenue and operating expenses related to the notes receivable and corporate entities.

The following discussion is based on our Consolidated Statements of Operations for the years ended December 31, 2019, 2018, and 2017 as included in Item 8. "Consolidated Financial Statements and Supplementary Data". Continuing operations relates to income-producing properties that were held during those years as adjusted for sales in the subsequent years.

The following table shows the total number of income-producing properties, and other key financial measures as of December 31, 2019, 2018 and 2017:

	2019	2018	2017
Residential properties (Company owned)	10	9	51
Residential properties (total apartment units)	1,657	1,489	8,606
Residential - average annual rental revenue per sqf	$ 13.36	$ 6.53	$ 11.83
VAA joint venture - residential properties	51	49	—
VAA residential properties (total apartment units)	9,888	9,192	—
VAA residential - average annual rental revenue per sqf	$ 14.74	$ 12.83	$ —
Commercial properties (Company owned)	7	7	7
Commercial properties - total sqf	1,697,890	1,697,890	1,697,890
Commercial - average annual rental revenue per sqf	$ 25.61	$ 19.80	$ 18.55

Comparison of the year ended December 31, 2019 to the year ended December 31, 2018:

For the year ended December 31, 2019, we reported net loss applicable to common shares of $26.9 million or $3.09 per share compared to a net income applicable to common shares of $180.6 million or $20.71 per share for the year ended December 31, 2018.

Revenues

Rental and other property revenues were $47.9 million for the year ended December 31, 2019, compared to $121.0 million for the same period in 2018. The $73.1 million decrease is primarily due to a decrease in the amount of multifamily residential apartment buildings currently in our portfolio of ten as compared to forty-eight multifamily residential apartment buildings for the period January 1 through November 19, 2018 as a result of the deconsolidation of forty-nine residential apartment properties that were sold into the VAA Joint Venture on November 19, 2018. As the assets are now treated as unconsolidated investments, our share of rental revenues is part of income from unconsolidated investments in the current period and are no longer treated as rental income (Refer to Note 2).

Expenses

Property operating expenses decreased by $34.2 million to $25.2 million for the year ended December 31, 2019 as compared to $59.4 million for the same period in 2018. The decrease in property operating expenses is primarily due to the deconsolidation of forty-nine residential apartment properties that were sold into the VAA Joint Venture during the fourth quarter of 2018 which resulted in a decrease in salary and related payroll expenses of $6.7 million, real estate taxes of $11.6 million, management fees paid to third parties of $2.6 million and other general property operating and maintenance expenses of $13.3 million.

Depreciation and amortization decreased by $9.4 million to $13.4 million during the year ended December 31, 2019 as compared to $22.8 million for the same period in 2018. This decrease is primarily due to the deconsolidation of the residential apartments in connection with our previous sale and contribution of our interests to the VAA Joint Venture.

General and administrative expense was $10.9 million for the year ended December 31, 2019, compared to $11.4 million for the same period in 2018. The decrease of $0.5 million in general and administrative expenses is the result of a decrease in fees paid to our Advisors of $0.4 million and other general and administrative expenses of $0.1 million.

Net income fee was $0.4 million for the year ended December 31, 2019. This represents a decrease of $0.2 million compared to the prior year net income fee of $0.6 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were $5.8 million for the year ended December 31, 2019. This represents a decrease of $4.9 million compared to the prior year advisory fees of $10.7 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was $19.6 million for the year ending December 31, 2019, compared to $15.8 million for the same period in 2018. The increase of $3.8 was primarily due to an increase of $2.4 million in interest on receivable owed from our Advisors, and $1.4 in interest on notes receivable from other related parties.

Other income was $0.084 million for the year ending December 31, 2019, compared to $28.2 million for the same period in 2018. For the year ending December 31, 2019, we recognized a gain of approximately $8.1 million as a result of deferred income associated with the sale of property in previous years, received cash proceeds of $0.2 million from the collection of tax increment incentives from the city of Farmers Branch, Texas related to infrastructure development work at Mercer Crossing, and recognized miscellaneous income of approximately $1.1 million, offset by general expenses of approximately $9.3 million. For the same period a year ago, we received insurance proceeds of $7.6 million on Mahogany Run Golf Course, recognized a gain of $17.6 million as a result of deferred income related to the sale of land, and recognized miscellaneous income of approximately $2.2 million.

Mortgage and loan interest expense was $31.8 million for the year ending December 31, 2019, compared to $58.9 million for the same period in 2018. The decrease of $27.1 million is due to the deconsolidation of residential apartment properties into the VAA Joint Venture which were encumbered by mortgage debt.

Foreign currency transaction was a loss of $15.1 million for the year ending December 31, 2019, as compared to a gain of $12.4 million for the same period in 2018. The loss is due to the unfavorable exchange rate between the Israel Shekels and the U.S. Dollar related to our Israel Shekels denominated bonds and the increase in our bonds obligations during the year ended December 31, 2019 as compared to the same period a year ago.

Loss on debt extinguishment was $5.2 million in 2019 with no comparable amount in 2018. The loss is the result of debt borrowing costs write-off of $1.4 million and prepayment penalty of approximately $3.9 million associated with the payment of $41.5 million of mortgage debt related to one of our commercial building.

Loss from unconsolidated investments was a net of $2.8 million for the year ending December 31, 2019 as compared to net earnings of $1.1 million for the year ended December 31, 2018. The loss from unconsolidated investments in 2019, was driven primarily from our share in the losses reported by our joint venture VAA of $2.8 million (Refer to Note 2).

Loss from the sale of income-producing property increased for the year ending December 31, 2019 as compared to the same period a year ago. During the year ended December 31, 2019, we sold a multifamily residential property for a sales price of $3.1 million and recorded a loss of $0.08 million. During year ended December 31, 2018, we sold six multifamily residential properties at an aggregate sales price of $8.5 million and recorded no gain or loss from the sale.

Gain on land sales decreased by $2.5 million for the year ending December 31, 2019, to $14.9 million as compared to $17.4 million for the same period a year ago. During the year ending December 31, 2019, we sold 105.1 acres of land for an aggregate sales price of $30.0 million and recorded a gain of $14.9 million. For the same period a year ago, we sold approximately 112.2 acres of land for an aggregate sales price of $43.3 million and recorded a gain of $17.4 million.

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017:

For the year ended December 31, 2018, we reported net income applicable to common shares of $180.6 million or $20.71 per share compared to a net loss applicable to common shares of $16.7 million or ($1.92) per share for the year ended December 31, 2017. The current year net income applicable to common shares includes a gain on the formation of the joint venture VAA of $154.1 million. Current year net income also includes gain on sales of land of $17.4 million and no gain on sales of income-producing properties, compared to the prior year net loss which included gain on sales of income producing properties of $9.8 million and gain on land sales of $4.9 million.

Revenues

Rental and other property revenues were $121.0 million for the year ended December 31, 2018. This represents a decrease of $4.2 million, as compared to the prior year revenues of $125.2 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

Expenses

Property operating expenses were $59.4 million for the year ended December 31, 2018. This represents a decrease of $3.7 million, compared to the prior year operating expenses of $63.1 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

Depreciation and amortization expenses were $22.8 million for the year ended December 31, 2018. This represents a decrease of $2.8 million compared to prior year depreciation of $25.6 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

General and administrative expenses were $11.4 million for the year ended December 31, 2018. This represents an increase of $5.1 million compared to the prior year expenses of $6.3 million. The increase in general and administrative expenses was due primarily to an increase in fees paid to our Advisors of approximately $1.5 million, general fees of approximately $1.5 million associated with finalizing the formation of the joint venture, legal and regulatory fees of $0.8 million and general and professional fees of approximately $1.0 million.

Net income fee was $0.6 million for the year ended December 31, 2018. This represents an increase of $0.3 million compared to the prior year net income fee of $0.3 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were $10.7 million for the year ended December 31, 2018. This represents an increase of $0.7 million compared to the prior year advisory fees of $10.0 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was $15.8 million for the year ending December 31, 2018 compared to $13.9 million for the year ended December 31, 2017 for an increase of $1.9 million. This increase was primarily due to an increase of $2.7 million in interest on receivable owed from our Advisors, offset by a decrease of $0.8 in interest on notes receivable from other related parties.

Other income was $28.2 million and $0.6 million for the years ended December 31, 2018 and 2017, respectively. The increase of $27.6 million was primarily due to a $17.6 million gain recognized in September 2018 for deferred income associated with the sale of assets, as well as income of approximately $7.6 million from insurance proceeds on Mahogany Run Golf Course.

Mortgage and loan interest expense was $58.9 million for the year ended December 31, 2018. This represents a decrease of $1.0 million compared to the prior year expense of $59.9 million. The decrease is primarily due to the contribution of fifty-two properties to the joint venture VAA on November 19, 2018.

No gain on sales of income producing properties was recognized during the year ended December 31, 2018. Gain on sale of income-producing properties was $9.8 million for the year ended December 31, 2017, attributable to the recognition of deferred gain.

Gain on land sales was $17.4 million and $4.9 million for the years ended December 31, 2018 and 2017, respectively. The increase of approximately $12.5 million was primarily due to sales of land at Mercer Crossing recognized in 2018.

Gain on disposition of 50% interest in VAA was $154.1 million for the year ended December 31, 2018. There was no such gain in prior years, the gain was the result of the contribution of fifty-two properties to the joint venture VAA.

Liquidity and Capital Resources

General

Our principal liquidity needs are:

- fund normal recurring expenses;
- meet debt service and principal repayment obligations including balloon payments on maturing debt;
- fund capital expenditures, including tenant improvements and leasing costs;

- fund development costs not covered under construction loans; and
- fund possible property acquisitions.

Our principal sources of cash have been and will continue to be:

- property operations;
- proceeds from land and income-producing property sales;
- collection of mortgage notes receivable;
- collections of receivables from related companies;
- refinancing of existing mortgage notes payable; and
- additional borrowings, including mortgage notes payable, and lines of credit.

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks' willingness and/or ability to originate loans affects our ability to buy and sell property, and refinance existing debt. We are unable to foresee the extent and length of this down-turn. A continued and extended decline could materially impact our cash flows. We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans, which are converted to traditional mortgages upon completion of the project.

We may also issue additional equity securities, including common stock. Management anticipates that our cash and cash equivalents as of December 31, 2019, along with cash that will be generated in 2020 from notes and interest receivables, will be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet its liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of the Company's current maturity obligations.

Management reviews the carrying values of TCI's properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. The property review generally includes: (1) selective property inspections; (2) a review of the property's current rents compared to market rents; (3) a review of the property's expenses; (4) a review of maintenance requirements; (5) a review of the property's cash flow; (6) discussions with the manager of the property; and (7) a review of properties in the surrounding area. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings. The note receivable review includes an evaluation of the collateral property securing such note.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows in Part II, Item 8. "Consolidated Financial Statements and Supplementary Data" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below (dollars in thousands):

	Year Ended December 31,		
	2019	2018	Incr /(Decr)
Net cash (used in) operating activities	$ (35,747)	$ (181,187)	$ 145,440
Net cash (used in) provided by investing activities	$ (9,598)	$ 147,625	$ (157,223)
Net cash provided by financing activities	$ 22,041	$ 51,785	$ (29,744)

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash from operating activities is from rental income on properties.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income-producing properties, and capital improvements to existing properties. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income-producing properties.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income-producing properties, and capital improvements to existing properties. During the year ended December 31, 2019, we advanced $21.4 million toward various notes receivable, purchased land for development for $3.4 million, and invested approximately $33.7 million for the construction and development of new properties and improvement of income producing properties. For the year ended December 31, 2018, we advanced $16.8 million toward various notes receivable and invested $85.1 million for development of new properties and improvement of income producing properties.

Our primary sources of cash from investing activities are from the proceeds on the sale of land and income-producing properties. During the year ended December 31, 2019, we received aggregate sales proceeds of $27.3 million from the sale of 105.1 acres of land and recorded a gain of $15.1 million, received $13.9 in payments from related party note receivables, and sold a residential property for which we received cash proceeds of $1.3 million and a plot of land valued at $1.8 million. For the year ended December 31, 2018, we received aggregate sales proceeds of $11.9 million from the sale of approximately 112 acres of land and recorded a gain on the sale of $17.4 million. In addition, we received aggregate sale proceeds of $4.9 million from the sale of seven income producing properties and a golf course, $236.8 million from the formation of the joint venture with Macquarie, and collected $6.5 million from a related party note receivable.

Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable.

For the year ended December 31, 2019, the increase in cash flow from financing activities was due to proceeds from borrowings of $25.7 million, and $78.1 million from the sale of nonconvertible Series C Bonds by Southern, offset by payments to our notes payable of $51.9 million and bond payments of $21.7 million.

For the year ended December 31, 2018, the increase in cash flow from financing activities was due primarily to proceeds from borrowings of $123.3 million, and proceeds received from the sale of nonconvertible Series B Bonds by Southern of $59.2 million, offset by payments to our notes payable of $124.6 million.

Equity Investments

TCI has from time to time purchased shares of IOR and ARL. The Company may purchase additional equity securities of IOR and ARL through open market and negotiated transactions to the extent TCI's liquidity permits. Equity securities of ARL and IOR held by TCI may be deemed "restricted securities" under Rule 144 of the Securities Act of 1933 ("Securities Act"). Accordingly, TCI may be unable to sell such equity securities other than in a registered public offering or pursuant to an exemption under the Securities Act for a one-year period after they are acquired. Such restrictions may reduce TCI's ability to realize the full fair value of such investments if TCI attempted to dispose of such securities in a short period of time.

TCI also holds a voting and profit participation right of 50% and 49%, respectively in VAA. VAA actively participates in the development and/or acquisitions of Class A multi-family assets.

Contractual Obligations

The following table represents our contractual obligations at December 31, 2019 (in thousands):

	Total	2020	2021	2022	2023	2024	Thereafter
Notes and interest payable [1]	$ 334,132	$ 36,592	$ 63,775	$ 18,920	$ 41,951	$ 5,401	$ 167,493
Bonds and interest payable [1]	276,642	37,317	47,573	45,057	120,324	13,599	12,772
Total	$ 610,774	$ 73,909	$ 111,348	$ 63,977	$ 162,275	$ 19,000	$ 180,265

(1) TCI's long-term debt may contain financial covenants that, if certain thresholds are not met, could allow the lender to accelerate principal payments or cause the note to become due immediately.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, TCI may be potentially liable for removal or remediation costs, as well as certain other potential costs, relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on TCI's business, assets or results of operations.

Inflation

The effects of inflation on TCI's operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, TCI's earnings from short-term investments, the cost of new financings and the cost of variable interest rate debt will be affected.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

TCI's primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments that bear interest at variable rates that fluctuate with market interest rates and maturing debt that has to be refinanced. TCI's future operations, cash flow and fair values of financial instruments are also partially dependent on the then existing market interest rates and market equity prices.

As of December 31, 2019, our outstanding notes payable consisted of approximately $253.1 million, out of which $249.2 million were notes with fixed interest rates and $3.9 million represented a note with a variable interest rate of 9.75%. Our overall weighted average interest rate at December 31, 2019 and 2018 was 4.9% and 7.1%, respectively.

TCI's interest rate sensitivity position is managed by the capital markets department. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. TCI's earnings are affected as changes in short-term interest rates affect its cost of variable-rate debt and maturing fixed-rate debt.

If market interest rates for our variable-rate debt average 100 basis points more in 2020 than they did during 2019, TCI's interest expense would increase and net income would decrease by $0.036 million. This amount is determined by considering the impact of hypothetical interest rates on TCI's borrowing cost. The analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in TCI's financial structure.

The following table contains exposures at December 31, 2019. Anticipation of exposures or risk on positions that could possibly arise was not considered. TCI's ultimate interest rate risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars in thousands):

	2020	2021	2022	2023	2024	Thereafter	Total
Note Receivable							
Fixed interest rate - fair value							$ 114,182
Instrument's maturities	$ 54,807	$ 33,328	$ 5,096	$ —	$ —	$ 20,951	$ 114,182
Interest	10,442	6,833	3,126	2,514	2,514	2,514	$ 27,943
Weighted Average Rate	6.59%	11.12%	12.00%	12.00%	12.00%	12.00%	
Notes Payable:							
Variable Rate - fair value							$ 3,908
Instrument's maturities	$ 3,908	$ —	$ —	$ —	$ —	$ —	$ 347
Interest	347	—	—	—	—	—	2,467
Average interest rate [1]	9.75%	—	—	—	—	—	
Fixed interest rate - fair value							$ 249,207
Instrument's maturities	$ 22,074	$ 55,393	$ 13,437	$ 36,770	$ 1,995	$ 119,538	$ 249,207
Interest	10,263	8,382	5,483	5,181	3,406	47,954	$ 80,669
Average interest rate	8.73%	5.90%	3.99%	5.22%	3.63%	3.74%	

(1) Interest rates on variable rate notes payable are equal to the variable rates in effect on December 31, 2019.

ITEM 8. ***CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

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All other schedules are omitted because they are not required, are not applicable or the information required is included in the Financial Statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of and
Stockholders of Transcontinental Realty Investors, Inc.
Dallas, Texas

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Transcontinental Realty Investors, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and schedules collectively referred to as the "consolidated financial statements." In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Transcontinental Realty Investors, Inc. as of December 31, 2019 and 2018 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with U.S. generally accepted accounting principles.

Basis of Opinion
These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Liquidity
As described in the Note 17, Transcontinental Realty Investors, Inc.'s management intends to sell land and income-producing properties and refinance or extend debt secured by real estate to meet the Company's liquidity needs.

Supplemental Information

The supplemental information contained in Schedules III and IV has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Security and Exchange Commission's rules. In our opinion, the supplemental information is fairly stated, in all material respects, the financial date required to be set forth therein in relation to the financial statements as a whole.

FARMER, FUQUA & HUFF, PC
Richardson, Texas
March 30, 2020
We have served as the Company's auditor since 2004.

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	$ 469,997	$ 461,718
Real estate subject to sales contracts at cost	7,966	2,014
Less accumulated depreciation	(90,173)	(79,228)
Total real estate	387,790	384,504
Notes and interest receivable (including $57,260 in 2019 and $51,945 in 2018 from related parties)	120,986	83,541
Cash and cash equivalents	51,179	36,358
Restricted cash	32,082	70,207
Investment in VAA	59,148	68,399
Investment in other unconsolidated investees	22,632	22,172
Receivable from related parties	141,541	133,642
Other assets	50,560	63,557
Total assets	$ 865,918	$ 862,380
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	$ 246,546	$ 277,237
Bonds and bond interest payable	229,722	158,574
Deferred revenue (including $9,468 in 2019 and $17,522 in 2018 to related parties)	9,468	17,522
Deferred tax liability	—	2,000
Accounts payable and other liabilities (including $935 in 2019 and $3 in 2018 to related parties)	26,115	26,646
Total liabilities	511,851	481,979
Shareholders' equity:		
Common stock, $0.01 par value, authorized 10,000,000 shares; issued 8,717,967 shares in 2019 and 2018; outstanding 8,717,767 shares in 2019 and 2018	87	87
Treasury stock at cost, 200 shares in 2019 and 2018	(2)	(2)
Paid-in capital	257,853	258,050
Retained earnings	74,665	101,585
Total Transcontinental Realty Investors, Inc. shareholders' equity	332,603	359,720
Non-controlling interest	21,464	20,681
Total shareholders' equity	354,067	380,401
Total liabilities and shareholders' equity	$ 865,918	$ 862,380

The accompanying notes are an integral part of these consolidated financial statements.

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2019	2018	2017
	(dollars in thousands, except per share amounts)		
Revenues:			
Rental and other property revenues (including $841, $767 and $839 for the years ended 2019, 2018 and 2017, respectively, from related parties)	$ 47,970	$ 120,955	$ 125,233
Expenses:			
Property operating expenses (including $991, $943 and $929 for the years ended 2019, 2018 and 2017, respectively, from related parties)	25,213	59,420	63,056
Depreciation and amortization	13,379	22,761	25,558
General and administrative (including $4,144, $4,578 and $3,120 for the years ended 2019, 2018 and 2017, respectively, from related parties)	10,951	11,359	6,269
Net income fee to related party	357	631	250
Advisory fee to related party	5,806	10,663	9,995
Total operating expenses	55,706	104,834	105,128
Net operating (loss) income	(7,736)	16,121	20,105
Other income (expenses):			
Interest income (including $17,413, $13,132 and $11,485 for the years ended 2019, 2018 and 2017, respectively, from related parties)	19,607	15,793	13,862
Other income	84	28,150	625
Mortgage and loan interest (including $1,999, $423 and $1,174 for the year ended 2019, 2018 and 2017, respectively, from related parties)	(31,816)	(58,872)	(59,944)
Foreign currency transaction (loss) gain	(15,108)	12,399	(4,536)
Loss on debt extinguishment	(5,219)	—	—
Equity (loss) earnings from VAA	(2,774)	44	—
Earnings from other unconsolidated investees	16	1,085	26
Total other expenses	(35,210)	(1,401)	(49,967)
(Loss) income before gain on disposition of 50% interest in VAA, gain on land sales, non-controlling interest, and taxes	(42,946)	14,720	(29,862)
Gain on disposition of 50% interest in VAA	—	154,126	—
(Loss) gain on sale of income producing properties	(80)	—	9,842
Gain on land sales	14,889	17,404	4,884
Net (loss) income from continuing operations before taxes	(28,137)	186,250	(15,136)
Income tax expense - current	—	(1,210)	(180)
Income tax benefit (expense) - deferred	2,000	(2,000)	—
Net (loss) income from continuing operations	(26,137)	183,040	(15,316)
Net (loss) income	(26,137)	183,040	(15,316)
Net (income) attributable to non-controlling interest	(783)	(1,590)	(499)
Net (loss) income attributable to Transcontinental Realty Investors, Inc.	(26,920)	181,450	(15,815)
Preferred dividend requirement	—	(900)	(900)
Net (loss) income applicable to common shares	$ (26,920)	$ 180,550	$ (16,715)
Earnings per share - basic			
Net (loss) income from continuing operations	$ (3.00)	$ 20.89	$ (1.86)
Net (loss) income applicable to common shares	$ (3.09)	$ 20.71	$ (1.92)
Earnings per share - diluted			
Net (loss) income from continuing operations	$ (3.00)	$ 20.89	$ (1.86)
Net (loss) income applicable to common shares	$ (3.09)	$ 20.71	$ (1.92)
Weighted average common shares used in computing earnings per share	8,717,767	8,717,767	8,717,767
Weighted average common shares used in computing diluted earnings per share	8,717,767	8,717,767	8,717,767
Amounts attributable to Transcontinental Realty Investors, Inc.			
Net (loss) income from continuing operations	$ (26,137)	$ 183,040	$ (15,316)
Net (loss) income applicable to common shares	$ (26,920)	$ 180,550	$ (16,715)

The accompanying notes are an integral part of these consolidated financial statements.

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Three Years Ended December 31, 2019
(audited, dollars in thousands, except share amounts)

	Total Equity	Comprehensive Income (Loss)	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Non-controlling Interest
Balance, December 31, 2016	$ 224,477	$ (64,852)	8,717,967	$ 87	$ (2)	$ 269,849	$ (64,050)	$ 18,592
Net loss	(15,316)	(15,316)	—	—	—	—	(15,815)	499
Series D preferred stock dividends (9.0% per year)	(900)	—	—	—	—	(900)	—	—
Balance, December 31, 2017	$ 208,261	$ (80,168)	8,717,967	$ 87	$ (2)	$ 268,949	$ (79,865)	$ 19,091
Net income	183,040	181,450	—	—	—	—	181,450	1,590
Series D preferred stock dividends (9.0% per year)	(900)	—	—	—	—	(900)	—	—
Redemption of Series D preferred stock	(10,000)	—	—	—	—	(9,999)	—	—
Balance, December 31, 2018	$ 380,401	$ 101,282	8,717,967	$ 87	$ (2)	$ 258,050	$ 101,585	$ 20,681
Distribution to equity partner	(197)	—	—	—	—	(197)	—	—
Net loss	(26,137)	(26,920)	—	—	—	—	(26,920)	783
Balance, December 31, 2019	$ 354,067	$ 74,362	8,717,967	$ 87	$ (2)	$ 257,853	$ 74,665	$ 21,464

The accompanying notes are an integral part of these consolidated financial statements.

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net (loss) income	$ (26,137)	$ 183,040	$ (15,316)
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:			
Gain on disposition of 50% inerest in VAA	—	(154,126)	—
Loss (gain) on sale of income-producing properties	80	—	(9,842)
Foreign currency transaction loss (gain)	15,108	(12,399)	4,536
Loss on debt extinguishment	5,219	—	—
Gain on sale of land	(14,889)	(17,404)	(4,884)
Depreciation and amortization	13,379	22,761	25,558
Amortization of deferred borrowing costs	662	4,994	3,574
Amortization of bond issuance costs	1,544	2,994	971
Loss (earnings) from joint venture	2,774	(44)	—
Earnings from other unconsolidated investees	(16)	(1,085)	(26)
(Increase) decrease in assets:			
Accrued interest receivable	(8,916)	(22,601)	(668)
Other assets	(1,149)	(105,531)	(1,433)
Prepaid expense	10,237	19,124	(5,661)
Rent receivables	626	(3,213)	543
Related party receivables	(35,257)	(14,995)	(9,972)
Increase (decrease) in liabilities:			
Accrued interest payable	2,349	(2,307)	4,573
Other liabilities	(1,361)	(80,395)	(17,027)
Net cash (used in) operating activities	(35,747)	(181,187)	(25,074)
Cash Flow From Investing Activities:			
Proceeds from disposition of 50% interest in VAA	—	236,752	—
Proceeds from notes receivable	13,862	6,541	26,230
Originations or advances on notes receivable	(21,434)	(16,801)	(16,420)
Acquisition of land held for development	(3,422)	—	—
Acquisition of income-producing properties	—	(10,558)	(37,044)
Distribution from equity investee	6,701	—	—
Distributions to equity partner	(197)	—	—
Proceeds from sale of income-producing properties	1,296	4,889	—
Proceeds from sale of land	27,326	11,857	6,301
Improvement of income-producing properties	(5,257)	(3,688)	(64,443)
Construction and development of new properties	(28,473)	(81,367)	(12,936)
Net cash (used in) provided by investing activities	(9,598)	147,625	(98,312)
Cash Flow From Financing Activities:			
Proceeds from notes payable	25,675	123,345	135,116
Recurring payment of principal on notes payable	(10,446)	(124,616)	(83,070)
Payment on commercial note payable	(41,531)	—	—
Debt extinguishment costs	(3,799)	—	—
Proceeds from bonds	78,125	59,213	115,335
Bond payments	(21,742)	—	—
Bond issuance costs	(4,241)	(5,257)	(6,887)
Deferred financing costs	—	—	(3,599)
Preferred stock dividends - Series D	—	(900)	(900)
Net cash provided by financing activities	22,041	51,785	155,995
Net (decrease) increase in cash, cash equivalents and restricted cash	(23,304)	18,223	32,609
Cash, cash equivalents and restricted cash, beginning of period	106,565	88,342	55,733
Cash, cash equivalents and restricted cash, end of period	$ 83,261	$ 106,565	$ 88,342
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 29,430	$ 61,587	$ 49,791
Schedule of noncash investing and financing activities:			
Land received in exchange for note receivable	$ 1,800	$ —	$ —
Notes receivable received from sale of income-producing properties	$ —	$ 1,735	$ —
Seller financing note - acquisition of income-producing properties	$ —	$ 1,895	$ —
Notes payable issued on acquisition of income-producing properties	$ —	$ 31,175	$ —
Notes payable issued on acquisition of land	$ 1,155	$ —	$ —

The accompanying notes are an integral part of these consolidated financial statements.

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Net (loss) income	$ (26,137)	$ 183,040	$ (15,316)
Total comprehensive (loss) income	(26,137)	183,040	(15,316)
Comprehensive (income) attributable to non-controlling interest	(783)	(1,590)	(499)
Comprehensive (loss) income attributable to Transcontinental Realty Investors, Inc.	$ (26,920)	$ 181,450	$ (15,815)

The accompanying notes are an integral part of these consolidated financial statements.

TRANSCONTINENTAL REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Transcontinental Realty Investors, Inc. "TCI" and consolidated entities have been prepared in conformity with accounting principles generally accepted in the United States of America, the most significant of which are described in Note 1. "Summary of Significant Accounting Policies." The Notes to Consolidated Financial Statements are an integral part of the Consolidated Financial Statements. The data presented in the Notes to Consolidated Financial Statements are as of December 31 of each year and for the year then ended, unless otherwise indicated. Dollar amounts in tables are in thousands, except per share amounts.

Certain prior year amounts have been reclassified to conform to the current year presentation on the consolidated statements of operations, consolidated balance sheets and the consolidated statements of cash flows.

NOTE 1. ***ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

Organization and business. TCI, a Nevada corporation, is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange ("NYSE American") 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 American Realty Investors, Inc. "ARL", whose common stock is traded on the NYSE American under the symbol "ARL". Subsidiaries of ARL own approximately 78.38% of the Company's common stock.

In 2009, the Company acquired an additional 2,518,934 shares of common stock of Income Opportunity Realty Investors, Inc. "IOR", and in doing so, increased its ownership from approximately 25% to over 80% of the shares of common stock of IOR outstanding. Upon acquisition of the additional shares in 2009, IOR's results of operations began consolidating with those of the Company for tax and financial reporting purposes. As of December 31, 2019, TCI owned 81.23% of the outstanding IOR common shares. Shares of IOR are traded on the New York Exchange ("NYSE American") under the symbol "IOR".

TCI's Board of Directors are 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. ("Pillar"), a Nevada corporation, 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 IOR. The Chairman of the Board of Directors of TCI also serves as the Chairman of the Board of Directors of ARL and IOR. The officers of TCI also serve as officers of ARL, IOR and Pillar.

Since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc. "RAI", a Nevada corporation, the sole shareholder of which is May Realty Holdings, Inc. ("MRHI", formerly known as Realty Advisors Management, Inc. "RAMI", effective August 7, 2014), a Nevada corporation, the sole shareholder of which is 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 the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to ARL and IOR. 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.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), manages our commercial properties and provides brokerage services. Regis receives property 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. Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". TCI engages third-party companies to lease and manage its apartment properties.

Southern Properties Capital Ltd. ("Southern") is a wholly owned subsidiary of TCI that was incorporated on August 16, 2016 for the purpose of raising funds by issuing debentures that cannot be converted into shares on the Tel-Aviv Stock Exchange. Southern operates in the United States and is primarily involved in investing in, developing, constructing and operating income-producing properties of multi-family residential real estate assets. Southern is included in the consolidated financial statements of TCI.

On January 1, 2012, the Company entered into a development agreement with Unified Housing Foundation, Inc. "UHF" a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

On November 19, 2018, we executed an agreement between the Macquarie Group ("Macquarie") and Southern and TCI to create a joint venture, Victory Abode Apartments, LLC ("VAA") to address existing and future demand for quality multifamily residential housing through acquisition and development of sustainable Class A multifamily housing in focused secondary and tertiary markets. In connection with the formation of the joint venture, Southern and TCI contributed a portfolio of 47 income producing apartment complexes, and 5 development projects in various stages of construction and received cash consideration of $236.8 million. At the time of the transfer of the properties, the joint venture assumed all liabilities of those properties, including mortgage debt to the Department of Housing and Urban Development ("HUD").

VAA is equally owned and controlled by Abode JVP, LLC, a wholly-owned subsidiary of Southern and Summerset Intermediate Holdings 2 LLC ("Summerset"), a wholly-owned indirect subsidiary of Macquarie. Pursuant to the Agreement, Abode JVP, LLC and Summerset each own voting and profit participation rights of 50% and 49%, respectively ("Class A Members"). The remaining 2% of the profits interest is held by Daniel J. Moos, who serves as the President and Chief Executive officer of the Company ("Class B Member") and Manager of the joint venture.

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 and retail space to various for-profit businesses as well as certain local, state and federal agencies. We also generate income from gains on sales of income-producing properties and land. At December 31, 2019, we owned ten residential apartment communities comprising of 1,657 units, seven commercial properties comprising an aggregate of approximately 1.7 million rentable square feet, an investment in 1,951 acres of undeveloped and partially developed land. In addition, our joint venture VAA owns fifty-one residential apartment communities comprised of 9,888 units.

Basis of presentation. The Company presents its financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). 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 it is 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 VAA are accounted for under the equity method.

The Company in accordance with the VIE guidance in ASC 810 "Consolidations" consolidates ten and nine multifamily residential properties located throughout the United States at December 31, 2019 and December 31, 2018, respectively, with total units of 1,657 and 1,489, respectively. Assets totaling $477.9 million and $463.7 million at December 31, 2019 and 2018, respectively, are consolidated and included in "Real estate, at cost" on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

Real estate, depreciation, and impairment. Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated remaining useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements—10-40 years; furniture, fixtures and equipment—5-10 years). We continually evaluate the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360, "Property, Plant and Equipment," Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset's net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Properties that 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" are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors. For sales transactions where the guidance reflects a sale did not occur, the asset involved in the transaction, including the debt, if applicable, and property operations, remain on the books of the Company. We continue to charge depreciation to expense as a period cost for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 "Impairment or Disposal of Long-Lived Assets."

Real estate held for sale. We classify properties as held for sale when certain criteria are met in accordance with GAAP. At that time, we present the assets and obligations of the property held for sale separately in our consolidated balance sheet and we cease recording depreciation and amortization expense related to that property. Properties held for sale are reported at the lower of their carrying amount or their estimated fair value, less estimated costs to sell. We did not have any real estate assets classified as held for sale at December 31, 2019 or 2018.

Effective as of January 1, 2015, we adopted the revised guidance in Accounting Standards Update No. 2014-08 regarding discontinued operations. For sales of real estate or assets classified as held for sale after January 1, 2015, we will evaluate whether a disposal transaction meets the criteria of a strategic shift and will have a major effect on our operations and financial results to determine if the results of operations and gains on sale of real estate will be presented as part of our continuing operations or as discontinued operations in our consolidated statements of operations. If the disposal represents a strategic shift, it will be classified as discontinued operations for all periods presented; if not, it will be presented in continuing operations.

Any properties that 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" are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in Item 1 "Significant Real Estate Acquisitions/Dispositions and Financing." Any sale transaction where the guidance reflects that a sale had not occurred, the asset involved in the transaction, including the debt, if appropriate, and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 "Impairment or Disposal of Long-Lived Assets."

***Cost capitalization*.** The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to planning, developing, initial leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

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.

We capitalize leasing costs which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual tenant leases and amortize them over the related lease term.

***Fair value measurement*.** 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:

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.

***Related parties*.** We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Recognition of revenue. Our revenues, which are composed largely of rental income, include rents reported on a straight-line basis over the lease term. In accordance with ASC 805 "Business Combinations", we recognize rental revenue of acquired in-place "above-" and "below-market" leases at their fair values over the terms of the respective leases.

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 revenue 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.

Sales and the associated gains or losses related to 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, the Company defers some or all of the gain recognition and accounts 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. We record interest income as earned in accordance with the terms of the related loan agreements.

Allowance for estimated losses. We assess the collectability of notes receivable on a periodic basis, 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. Refer to Note 5 "Notes and Interest Receivable" for details on our notes receivable.

Cash equivalents. For purposes of the Consolidated Statements of Cash Flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Restricted cash. Restricted cash is comprised primarily of cash balances held in escrow by financial institutions under the terms of certain secured notes payable and certain unsecured bonds payable.

Concentration of credit risk. The Company maintains its cash balances at commercial banks and through investment companies, the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2019 and 2018, the Company maintained balances in excess of the insured amount.

Earnings per share. Income (loss) per share is presented in accordance with ASC 620 "Earnings per Share" and is computed based upon the weighted average number of shares of common stock outstanding during each year.

Use of estimates. In the preparation of Consolidated Financial Statements in conformity with GAAP, it is necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expense for the year ended. Actual results could differ from those estimates.

Income taxes. The Company is a "C" corporation" for U.S. federal income tax purposes. The Company and the rest of the ARL group are included in the MRHI, consolidated group for tax purposes. TCI is a member of a tax sharing agreement that specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

Recent accounting pronouncements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* The amendments in this Update simplify the accounting for income taxes by removing certain exceptions from ASC 740. Also, the amendments in this Update simplify the accounting for income taxes by requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax, requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination, and other targeted changes. The effective date of the amendments is for fiscal years, and interim periods within those years, beginning after December 15, 2020. The Company is currently evaluating the impact that the adoption of ASU 2019-12 may have on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This standard is intended to improve the accounting when considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. The effective date of the amendments is for fiscal years, and interim periods within those years, beginning after December 15, 2019. The new standard must be adopted retrospectively with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value*
Measurement that eliminates, adds and modifies certain disclosure requirements for fair value measurements. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. ASU 2016-02 was effective for reporting periods beginning after December 15, 2018. The adoption of ASU 2016-02 did not have a material impact on the Company's financial position and results of operations.

In May 2014, Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), "Revenue from Contracts with Customers," was issued. This new guidance established a new single comprehensive revenue recognition model and provides for enhanced disclosures. Under the new policy, the nature, timing and amount of revenue recognized for certain transactions could differ from those recognized under existing accounting guidance. This new standard does not affect revenue recognized under lease contracts. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017. As the majority of the Company's revenue is from rental revenue related to leases, the Company has determined that the adoption of this Standard was immaterial to the consolidated financial statements and related disclosures.

NOTE 2. ***INVESTMENT IN VAA***

On November 19, 2018, we executed an agreement between the Macquarie Group ("Macquarie") and Southern and TCI to create a joint venture, Victory Abode Apartments, LLC ("VAA") to address existing and future demand for quality multifamily residential housing through acquisition and development of sustainable Class A multifamily housing in focused secondary and tertiary markets. In connection with the formation of the joint venture, Southern and TCI contributed a portfolio of 47 income producing apartment complexes, and 5 development projects in various stages of construction. TCI received cash consideration of $236.8 million and recognized a gain of approximately $154.1 million. At the time of the transfer of the properties, the joint venture assumed all liabilities of those properties, including mortgage debt to the Department of Housing and Urban Development ("HUD").

VAA is equally owned and controlled by Abode JVP, LLC, a wholly-owned subsidiary of Southern and Summerset Intermediate Holdings 2 LLC ("Summerset"), a wholly-owned indirect subsidiary of Macquarie. Pursuant to the Agreement, Abode JVP, LLC and Summerset each own voting and profit participation rights of 50% and 49%, respectively ("Class A Members"). The remaining 2% of the profit participation interest is held by Daniel J. Moos TCI's President and Chief Executive Officer ("Class B Member") who serves also as the Manager of the joint venture. In addition, upon the closing of the agreement the Class B Member received a payment of $1.9 million.

The Company accounts for VAA as an equity method investment. 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.

The following is a summary of the financial position and results of operations of VAA (dollars in thousands):

	As of December 31,	
Balance Sheet	**2019**	**2018**
Net real estate assets	$ 1,242,957	$ 1,257,557
Other assets	62,222	67,020
Debt, net	(832,779)	(791,225)
Other liabilities	(271,291)	(280,288)
Total equity	(201,109)	(253,064)

Results of Operations	**For the Year Ended December 31, 2019**	**For the period November 19 to December 31, 2018**
Total revenue	$ 115,377	$ 12,887
Total property, operating, and maintenance expenses	(56,967)	(4,507)
Interest expense	(61,487)	(5,818)
Depreciation and Amortization	(43,942)	(6,987)
Total other expense	(3,377)	(5,297)
Net loss	$ (50,396)	$ (9,722)

The following is a reconciliation from VAA's net loss to TCI's equity in earnings of VAA (dollars in thousands):

	For the Year Ended December 31, 2019	For the period November 19 to December 31, 2018
VAA net loss	$ (50,396)	$ (9,722)
Adjustments to reconcile to income (loss) from VAA		
Interest expense on mezzanine loan	25,014	2,815
In-place lease intangibles - amortization expense	14,703	3,983
Depreciation basis differences	5,132	3,012
Net loss	$ (5,547)	$ 88
Percentage ownership in VAA	50%	50%
Loss from VAA	$ (2,774)	$ 44

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, 2019:

	Apartments	
Location	**No.**	**Units**
Alabama	1	168
Arkansas	5	1,122
Colorado	2	260
Florida	2	388
Georgia	1	222
Louisiana	3	464
Mississippi	1	196
North Carolina	1	201
Nevada	1	308
Tennessee	4	708
Texas-Greater Dallas-Ft Worth	19	3,709
Texas-Greater Houston	2	416
Texas-Other	9	1,726
Total	**51**	**9,888**

At December 31, 2019, our apartment projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date [1]	Total Projected Costs [1]
Lakeside Lofts apartments	Farmers Branch, TX	249	$ 50,357	$ 80,622
Total		**249**	**$ 50,357**	**$ 80,622**

(1) Costs include construction hard costs, construction soft costs and loan borrowing costs.

During 2019, the Company received $19.4 million cash distribution from VAA as a result of the annual surplus cash computation from its HUD collaterized residential properties and other amounts owed to the Company as agreed to in the joint venture operating agreement.

NOTE 3. ***REAL ESTATE***

At December 31, 2019 and 2018, TCI's real estate investment is comprised of the following (dollars in thousands):

	December 31,	
	2019	**2018**
Apartments	$ 156,173	$ 126,274
Apartments under construction	22,363	27,261
Commercial properties	229,424	224,167
Land held for development	62,037	84,016
Real estate subject to sales contract	7,966	2,014
Total real estate, at cost, less impairment	$ 477,963	$ 463,732
Less accumulated deprecation	(90,173)	(79,228)
Total real estate, net of depreciation	$ 387,790	$ 384,504

Expenditures for repairs and maintenance are charged to operations as incurred. Significant betterments are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

Depreciation is computed on a straight line basis over the estimated useful lives of the assets as follows:

Land improvements	25 to 40 years
Buildings and improvements	10 to 40 years
Tenant improvements	Shorter of useful life or terms of related lease
Furniture, fixtures and equipment	3 to 7 years

Fair Value Measurement

The Company applies the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures," to the valuation of real estate assets. The Company is required to assess the fair value of its consolidated real estate assets with indicators of impairment. The value of impaired real estate assets is determined using widely accepted valuation techniques, including discounted cash flow analyses on the expected cash flow of each asset, as well as the income capitalization approach, which considers prevailing market capitalization rates, analyses of recent comparable sales transactions, information from actual sales negotiations and bona fide purchase offers received from third parties. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurements used in these evaluations are considered to be Level 2 and 3 valuations within the fair value hierarchy in the accounting rules, as there are significant observable (Level 2) and unobservable inputs (Level 3). Examples of Level 2 inputs the Company utilizes in its fair value calculations are appraisals and bona fide purchase offers from third parties. Examples of Level 3 inputs the Company utilizes in its fair value calculations are discount rates, market capitalization rates, expected lease rental rates, timing of new leases, an estimate of future sales prices and comparable sales prices of similar assets, if available. There was no provision for impairment during the years ended December 31, 2019, 2018 and 2017.

The following is a description of the Company's significant real estate transactions for the year ended December 31, 2019:

- Sold 35.9 acres of land located in Farmers Branch, Texas for an aggregate sales price of $18.9 million and recognized a gain on the sale of $9.0 million.
- Sold 29.4 acres of land located in Forney, Texas for a total sales price of $5.0 million and recognized a gain on the sale of approximately $4.1 million.
- Sold 10.33 acres of land located in Dallas, Texas for a total sales price of $2.1 million and recognized a gain on the sale of approximately $0.4 million.
- Sold 6.25 acres of land located in Nashville, Tennessee for a total sales price of $2.3 million and recognized a gain on the sale of approximately $0.9 million.
- Sold 23.24 acres of land located in Fort Worth, Texas for a total sales price of $1.8 million and recognized a gain on the sale of approximately $0.5 million.
- Sold a multifamily residential property, located in Mary Ester, Florida for a total sales price of $3.1 million out of which $1.8 million represents land received with a total acreage of 1.27 acres located in Riverside, California in exchange for a note receivable of the same value. The Company recognized a loss from this sale of approximately $0.08 million.
- Purchased 33.05 acres of land in Athens, Alabama for a total purchase price of $2.1 million, out of which $0.9 million was paid in cash and the remaining balance of $1.2 million was issued as a note payable. The note payable matures in eighteen months and bears an annual interest rate of 5.91%.
- Purchased from a third party 8.94 acres of land located in Collin County, Texas for a total purchase price of $2.5 million.
- Purchased an option to buy 37.8 acres of land (6.3 acres located in Collin County, Texas and 31.5 acres located in Clark County, Nevada) for $2.0 million from a third party land developer.

The Company continues to invest in the development of apartment projects. During the year ended December 31, 2019, TCI has invested $28.5 million related to the construction and development of various apartment complexes and capitalized $0.8 million of interest costs.

NOTE 4. ***SUPPLEMENTAL CASH FLOW INFORMATION***

For the years ended December 31, 2019 and 2018, the Company paid interest of $29.4 million and $61.6 million, respectively.

Cash and cash equivalents, and restricted cash for fiscal year ended 2019 and 2018 was $83.3 million and $106.6 million, respectively. The following is a reconciliation of the Company's cash and cash equivalents, and restricted cash to the total presented in the consolidated statement of cash flows:

	December 31,	
	2019	2018
Cash and cash equivalents	$ 51,179	$ 36,358
Restricted cash (cash held in escrow)	15,540	37,946
Restricted cash (certificate of deposits)	3,759	9,688
Restricted cash (held with Trustee)	12,783	22,573
Total cash, cash equivalents and restricted cash	$ 83,261	$ 106,565

Amounts included in restricted cash represent funds required to meet contractual obligations with certain financial institutions for the payment of reserve replacement and tax and insurance escrow. In addition, restricted cash includes funds to the Bond's Trustee for payment of principal and interests.

NOTE 5. ***NOTES AND INTEREST RECEIVABLE***

A portion of our assets are invested in mortgage notes receivable, principally secured by real estate. We may originate mortgage loans in conjunction with providing purchase money financing of property sales. Notes receivable are generally collateralized by real estate or interests in real estate and personal guarantees of the borrower and, unless noted otherwise, are so secured. Management intends to service and hold for investment the mortgage notes in our portfolio. A majority of the notes receivable provide for principal to be paid at maturity (dollars in thousands).

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
Prospectus Endeavors 4, LLC	01/23	12.00%	5,907	Secured
Prospectus Endeavors 6, LLC	10/22	12.00%	496	Secured
Oulan-Chikh Family Trust	03/21	8.00%	174	Secured
H198, LLC (McKinney Ranch Land)	09/20	6.00%	4,554	Secured
Forest Pines	11/20	5.00%	2,868	Secured
Spyglass Apartments of Ennis, LP	11/20	5.00%	5,288	Secured
Bellwether Ridge	05/20	5.00%	3,765	Secured
Parc at Windmill Farms	05/20	5.00%	7,602	Secured
Autumn Breeze	10/21	5.00%	1,302	Secured
Plum Tree	10/21	5.00%	413	Secured
Ingleside	12/21	5.00%	1,531	Secured
RNC	09/24	5.00%	8,802	Secured
Revolving Line of Credit Steeple Crest	10/20	5.00%	6,665	Secured
RAI PFBL 2018 Purch Fee Note Weatherford	12/21	12.00%	525	Secured
Unified Housing Foundation, Inc. (Echo Station) (1)	12/32	12.00%	1,481	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/32	12.00%	2,000	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/32	12.00%	6,369	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/32	12.00%	1,953	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/32	12.00%	2,000	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/32	12.00%	4,000	Secured
Unified Housing Foundation, Inc. (Timbers of Terrell) (1)	12/32	12.00%	1,323	Secured
Unified Housing Foundation, Inc. (1)	12/21	12.00%	10,401	Unsecured
Unified Housing Foundation, Inc. (1)	06/20	12.00%	5,314	Unsecured
Unified Housing Foundation, Inc. (1)	03/22	12.00%	4,782	Unsecured
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	07/21	12.00%	838	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	07/21	12.00%	773	Secured
Unified Housing Foundation, Inc. (Marquis at Vista Ridge) (1)	07/21	12.00%	839	Secured
Unified Housing Foundation, Inc. (Timbers at the Park) (1)	07/21	12.00%	432	Secured
Unified Housing Foundation, Inc. (Trails at White Rock) (1)	07/21	12.00%	913	Secured
Unified Housing Foundation, Inc. (Bella Vista) (1)	08/21	12.00%	212	Secured
Unified Housing Foundation, Inc. (1)	10/21	12.00%	6,831	Unsecured
Other related party notes	Various	Various	3,553	Various secured interests
Other non-related party notes	Various	Various	10,276	Various secured interests
Accrued interest			8,629	
Total Performing			$ 122,811	
Allowance for estimated losses			(1,825)	
Total			$ 120,986	

(1) Related party notes

As of December 31, 2019, the obligors on $54.0 million of the mortgage notes receivable portfolio were due from related entities. The Company recognized $6.9 million of interest income from these related party notes receivables. In addition, during the quarter ended June 30, 2019, TCI purchased notes receivables with a face value of $29.0 million (out of which $1.0 million represented accrued interest receivables) from related parties.

As of December 31, 2019, none of the mortgage notes receivable portfolio were non-performing.

The Company has various notes receivable from Unified Housing foundation, Inc. “UHF”. UHF is determined to be a related party due to our significant investment in the performance of the collateral secured under the notes receivable. Payments are due from surplus cash flow from operations, sale or refinancing of the underlying properties. These notes are cross collateralized to the extent that any surplus cash available from any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. Furthermore, any surplus cash available from any of the properties UHF owns, besides the properties underlying these notes, can be used to repay outstanding interest and principal for these notes. The allowance on the notes was a purchase allowance that was netted against the notes when acquired.

NOTE 6. ***INVESTMENT IN UNCONSOLIDATED JOINT VENTURES AND INVESTEES***

Investments in unconsolidated subsidiaries, jointly owned companies and other investees in which we have a 20% to 50% ownership interest or otherwise exercise significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses, via the equity method of accounting. ARL is our parent company and is an unconsolidated joint venture.

Our interest in the common stock of ARL in the amount of 0.90% is accounted for under the equity method.

The summary data presented below includes our investments accounted for under the equity method, except for our investment in VAA which is discussed in detail in Note 2 'Investment in VAA'.

The following is a summary of the financial position and results of operations from our unconsolidated parent (dollars in thousands):

	December 31,		
	2019	2018	2017
ARL			
Real estate, net of accumulated depreciation	$ —	$ 549	$ 12,349
Notes receivable	35,213	42,517	41,928
Other assets	67,441	66,712	126,238
Notes payable	(8,327)	(9,637)	(6,507)
Other liabilities	(26,947)	(21,123)	(102,014)
Shareholders' equity/partners capital	(67,380)	(79,018)	(71,994)

	For the Year Ended December 31,		
	2019	2018	2017
Rents, interest and other income	$ 12,569	$ 7,132	$ 9,193
Depreciation	—	—	(157)
Operating expenses	(3,765)	(2,420)	(3,149)
Gain on land sales	1,016	—	4,765
Interest expense	(8,043)	(7,191)	(6,228)
Income (loss) from continuing operations	$ 1,777	$ (2,479)	$ 4,424
Net income (loss)	$ 1,777	$ (2,479)	$ 4,424
Company's proportionate share of income (loss)	$ 16	$ (22)	$ 40

During the fourth quarter of 2018, TCI purchased from RAI 900,000 shares of ARL Series A convertible Preferred Stock for $9.0 million. The Series A Preferred Stock may be converted into common stock at 90.0% of the average daily closing price of ARL's common stock for the prior 20 trading days.

The investment in ARL convertible Preferred Stock is being carried at the Company's cost of $9 million and is included in investment in other unconsolidated investees. Additionally, TCI purchased from RAI $9.9 million accrued unpaid dividends related to the ARL Series A convertible Preferred Stock which is carried at the cost and included in investment in unconsolidated investees on the balance sheet.

NOTE 7. ***NOTES AND INTEREST PAYABLE***

Below is a summary of our notes and interest payable as of December 31, 2019 and 2018 (dollars in thousands):

	December 31,	
	2019	**2018**
Apartments	$ 120,024	$ 94,759
Apartments under Construction	9,017	14,402
Commercial	92,838	135,951
Land	14,806	22,200
Real estate held for sale	—	376
Corporate and other notes	16,430	18,130
Total notes payable	$ 253,115	$ 285,818
Less: unamortized deferred borrowing costs	(7,342)	(9,425)
Total outstanding notes payable, net	$ 245,773	$ 276,393
Accrued Interest	773	844
Total notes payable, net and accrued interest	$ 246,546	$ 277,237

Future principal payments due (including scheduled amortization payments and payments due upon maturity) on the Company's notes payable at December 31, 2019 are as follows (in thousands):

Year	Amount
2020	$ 25,982
2021	55,393
2022	13,437
2023	36,770
2024	1,995
Thereafter	119,538
Total	$ 253,115

Interest payable at December 31, 2019 and 2018, was $.08 million and $.09 million, respectively. Our debt has interest rates ranging from 2.5% to 9.75% per annum with maturity dates between 2021 and 2059. The mortgages were collateralized by deeds of trust on real estate having a net carrying value of $311.5 million.

There are various land mortgages, secured by the property, that are in the process of a modification or extension to the original note due to expiration of the loan. We are in constant contact with these lenders, working together in order to modify the terms of these loans and we anticipate a timely resolution that is similar to the existing agreement or subsequent modification.

In conjunction with the development of various apartment projects and other developments, we drew down $28.5 million and $81.0 million in construction loans during the year ended December 31, 2019, and 2018, respectively.

NOTE 8. ***BONDS AND BONDS INTEREST PAYABLE***

In August 2016, Southern Properties Capital LTD ("Southern"), a British Virgin Islands corporation was incorporated for the purpose of raising funds by issuing Bonds to be traded on the Tel Aviv Stock Exchange ("TASE"). The Company transferred certain residential and commercial properties located in the United States to Southern, its wholly owned subsidiary.

On February 13, 2017, Southern filed a final prospectus with the TASE for an offering and sale of nonconvertible Series A Bonds to be issued by Southern. The bonds are obligations of Southern. During the year ended December 31, 2017 on three separate occasions Southern issued nonconvertible Series A Bonds with a total value of approximately NIS400 million New Israeli Shekels ("NIS") or approximately $115 million dollars. The Series A Bonds have a stated interest rate of 7.3%. At March 31, 2018 the effective interest rate is 9.17%. The bonds require semi-annual equal installments on January 31 and July 31 of each year from 2019 to 2023 (inclusive). The interest will be repaid on January 31 and July 31 of each of the years 2018 to 2023 (inclusive), with the first payment commencing on July 31, 2017.

On January 25, 2018, interest payment of approximately NIS 14.6 million (or approximately $4.3 million) was paid to the Series A bondholders.

On February 15, 2018, Southern issued Series B bonds in the amount of NIS 137.7 million par value (approximately $39.2 million as of February 15, 2018). The Series B bonds are registered on the TASE. The bonds are reported in NIS and bear annual interest rate of 6.8%. Interest shall be repaid January 31 and July 31 of each of the years 2019 to 2023 (inclusive), first payment commencing on July 31, 2018. The principal shall be repaid in ten equal installments on January 31 and July 31 of each of the years from 2021 to 2025 (inclusive). A total bond issuance cost of $1.4 million was incurred. The effective interest rate is 7.99%.

On July 19, 2018, Southern closed a private placement of its Series B bonds in the amount of NIS 72.3 million (or approximately $19.8 million). The bonds are reported in NIS, are registered on the TASE, bear an annual interest rate of 6.8% and have an effective interest rate of 9.60%. Interest will be paid on January 31 and July 31 of each of the years 2019 and 2013 (inclusive). The principal will be repaid in ten equal installment on January 31 and July 31 of each of the years from 2021 to 2012 (inclusive). The Company incurred bonds issuance costs of approximately $1.9 million.

On July 26, 2018, interest payment of approximately NIS 18.9 million (or approximately $5.2 million) was paid to the Series A and B bondholders.

On July 28, 2019, SPC issued Series C bonds in the amount of NIS 275 million (or approximately $78.1 million). The bonds are reported in NIS, and registered on the TASE, and bear an annual interest of 4.65%. The interest will be paid on January 31 and July 31 of each of the years 2020 through 2023, with the principal payment due in 2023. The Company incurred bond issuance costs of approximately $4.2 million.

On September 23, 2019, Southern entered into a foreign exchange risk hedging transaction agreement with Bank Leumi with the aim of hedging the risk that the NIS exchange rate against the dollar will fall below 3, thereby reducing the exposure of the bonds (Series A, B and C) to exchange rate volatility. The term of the agreement is six months and the face value of the transaction is NIS 664 million ($ 221 million). The hedge transaction costs as well as the fair value as of December 31, 2019 were immaterial.

During the year ended December 31, 2019, the Company made payments of $21.8 million and $11.6 million on bond principal and interests, respectively.

On January 27, 2020, the Company made payments of NIS 60.6 million in bond principal on the Series A and interests on the Series A, B, C (or approximately $17.6 million).

On February 2, 2020, S&Global Ratings announced the increase of the Company's issuer rating to 'ilA-' from 'ilBBB+' for Bonds (Series A and B). In addition, Series C bond rating (secured by one of SPC's commercial properties) increase to 'ilA' from 'ilA-' rating due to the expectation of continued improvement in coverage ratios and the expansion of Company's portfolio.

The outstanding balance of these Bonds at December 31, 2019 and 2018 is as follows:

	December 31,	
	2019	2018
Bonds (Series A)	$ 92,653	$ 106,686
Bonds (Series B)	39,844	36,740
Bonds (Series B expansion)	20,920	19,290
Bonds (Series C)	79,572	—
Total outstanding bonds	$ 232,989	$ 162,716
Less: deferred bond issuance costs	(9,724)	(8,179)
Total outstanding bonds, net	223,265	154,537
Accrued Interest	6,457	4,037
Total oustanding bonds, net and accrued interest	$ 229,722	$ 158,574

The aggregate maturities of the bonds are as follows:

Year	Agrregage Maturities
2020	$ 23,148
2021	35,301
2022	35,301
2023	114,873
2024	12,153
Thereafter	12,213
	$ 232,989

The recorded unrealized gain or loss is reflected as a separate line item to highlight the fact that it is a non-cash transaction until such time as actual payment of principal and interest on the bonds is made. For the year ended December 31, 2019 and 2018, the Company recorded a loss on foreign currency transaction of approximately $15.1 million, and a gain of $12.4 million, respectively.

NOTE 9. ***RELATED PARTY TRANSACTIONS AND FEES***

We apply ASC Topic 805, “Business Combinations”, to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

The Company has 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.

Since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, the sole shareholder of which is MRHI, a Nevada corporation, the sole shareholder of which is 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 the Company’s benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. 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.

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. Regis receives property management fees, 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. Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". TCI engages third-party companies to lease and manage its apartment properties.

Below is a description of the related party transactions and fees between Pillar and Regis:

Fees, expenses and revenue paid to and/or received from our advisor:

	For the year ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Fees:			
Advisory	$ 5,806	$ 10,663	$ 9,995
Mortgage brokerage and equity refinancing	—	852	1,551
Net income fee	357	631	250
	$ 6,163	$ 12,146	$ 11,796
Other Expense:			
Cost reimbursements	$ 6,687	$ 4,398	$ 2,895
Interest paid (received)	(8,475)	(7,404)	(4,859)
	$ (1,788)	$ (3,006)	$ (1,964)
Revenue:			
Rental	$ 1,311	$ 1,178	$ 783

Fees paid to Regis and related parties:

	For the year ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Fees:			
Property Sales/Acquisition	$ 318	$ 43,856	$ 9,819
Property management, construction management and leasing commissions	165	540	963
Real estate brokerage	71	2,068	1,369
	$ 554	$ 46,464	$ 12,151

The Company received rental revenue of $1.3 million, $1.2 million, and $0.8 million in the years ended December 31, 2019, 2018, and 2017, respectively, from Pillar and its related parties for properties owned by the Company.

As of December 31, 2019, the Company had notes and interest receivable, net of allowances of $54.0 million and $3.2 million, respectively, due from UHF, a related party. During 2019, the Company recognized interest income of $6.9 million, originated $21.4 million, received $12.4 million in principal payments, and received interest payments of $7.6 million from these related party notes receivables.

On January 1, 2012, the Company entered into a development agreement with UHF, a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

The Company is the primary guarantor, on a $25.0 million mezzanine loan between UHF and a lender. In addition, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2019 UHF was in compliance with the covenants to the loan agreement.

The Company is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOR and their subsidiaries that was entered into in July of 2009. That agreement continued until August 31, 2012, at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOR and MRHI for the remainder of 2012 and subsequent years. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%.

In addition, SPC is part of a management service agreement with the controlling shareholder owned company in which SPC for an annual payment of 0.5% on the value of the investment properties receives from the Advisor office space, administrative and management services. During 2019, SPC paid management fees to Pillar in the amount of $2.2 million.

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to related parties as of December 31, 2019 (dollars in thousands):

	Pillar	ARL	Total
Related party receivable, beginning balance, December 31, 2018	$ —	$ 133,642	$ 133,642
Cash transfers	29,395	—	29,395
Advisory fees	(5,806)	—	(5,806)
Net income fee	(357)	—	(357)
Fees and commissions	(71)	—	(71)
Cost reimbursements	(6,687)	—	(6,687)
Interest income	—	8,475	8,475
Notes receivable purchased	(28,669)	—	(28,669)
Expenses (paid)/received by advisor	9,073	—	9,073
Financing (mortgage payments)	—	—	—
Sales/Purchases Commissions	(318)	—	(318)
Intercompany property transfers	2,864	—	2,864
Income tax expense	—	—	—
Deferred tax asset	—	—	—
Purchase of obligations	—		—
Related party receivable, ending balance, December 31, 2019	$ (576)	$ 142,117	$ 141,541

NOTE 10. DEFERRED INCOME

In previous years, the Company has sold properties to related parties where we have had continuing involvement in the form of management or financial assistance associated with the sale of the properties. Because of the continuing involvement associated with the sale, the sales criteria for the full accrual method is not met, and as such the Company has deferred some or all of the gain recognition and accounted for the sale by applying the finance, deposit, installment or cost recovery methods, as appropriate, until the sales criteria is met. The gains on these transactions have been deferred until the properties are sold to a non-related third party. As of December 31, 2019, we had a deferred gain of $9.5 million.

NOTE 11. *DIVIDENDS*

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. In accordance with that policy, no dividends on TCI's common stock were declared for 2019, 2018, or 2017. 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.

NOTE 12. *PREFERRED STOCK*

In November 2006, TCI issued 100,000 shares of Series D Preferred Stock with a liquidation preference of $100 per share. The preferred stock is not convertible into any other security, requires dividends payable at the initial rate of 7% annually. The dividend rate increases ratably from 7% to 9% in future periods and can be redeemed at any point after September 30, 2011.

During the fourth quarter of 2018, all 100,000 shares of Series D Preferred Stock were redeemed for $17.2 million, of which $7.2 million was accrued unpaid dividends. At December 31, 2019 and 2018, there were no preferred shares outstanding.

NOTE 13. *INCOME TAXES*

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

(Loss) income from continuing operations before income taxes

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
	$ (28,137)	$ 186,250	$ (15,136)

The (benefit) expense for income taxes consists of:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Current:			
Federal	$ —	$ 42,805	$ (5,603)
State	—	1,210	10
Deferred and Other:			
Federal	(2,000)	(40,805)	5,603
State	—	—	170
Total tax (benefit) expense	$ (2,000)	$ 3,210	$ 180

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory rate is as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Income tax (benefit) expense at federal statutory rate	$ (5,909)	$ 39,113	$ (5,603)
State and local income taxes net of federal tax benefit		1,210	10
Permanent differences	(2,406)	(143)	—
Timing differences			
Installment note on land sale	—	(2,876)	(1,917)
Allowance for losses on note	—	(383)	(256)
Deferred gains	(588)	(9,417)	(7,723)
Basis difference on fixed assets	—	23,675	10,082
Other basis/timing differences	3,173	(7,164)	(16)
Generation (use) of net operating loss carryforwards	5,730	(42,805)	5,603
Calculated income tax expense	**$ —**	**$ 1,210**	**$ 180**
Effective tax rate	**0.0%**	**0.6%**	**N/A**

The company is subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 2019, the Company's tax years for 2018, 2017, and 2016 are subject to examination by the tax authorities. With few exceptions, as of December 31, 2019, the Company is no longer subject to U.S federal, state, local, or foreign examinations by tax authorities for the years before 2016.

The 2019 and 2018 effective tax rate is driven primarily by the passing of the Tax Cuts and Jobs Act by congress on December 22, 2017. This act reduced the statutory tax rate for corporations from 35% to 21% starting in 2018. As a result, the tax assets of TCI had to be re-priced to reflect the new tax rate for future years with the impact on the 2017 provision for income taxes.

Components of the Net Deferred Tax Asset or Liability

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Deferred Tax Assets:		
Cumulative foreign currency translation loss	$ 1,522	$ —
Deferred gain	1,988	—
Net operating loss carryforward	9,633	3,904
Total Deferred Tax Assets	13,143	3,904
Less: valuation allowance	(6,480)	—
Total net deferred tax assets	$ 6,663	$ 3,904
Deferred Tax Liabilities:		
Deferred gain	$ —	$ 2,603
Basis differences for fixed assets	6,663	3,301
Total Deferred Tax Liability	$ 6,663	$ 5,904
Net deferred tax asset (liability)	$ —	$ (2,000)
Current net deferred tax asset	6,663	3,904
Long-term net deferred tax liability	6,663	5,904
Net deferred tax liability	$ —	$ (2,000)

Operating Loss and Tax Credit Carryforwards

We have state NOLs in many of the various states in which we operate.

Valuation Allowance

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. At December 31, 2019 TCI had a net deferred tax asset due to tax deductions available to it in future years. However, as management could not determine that it was more likely than not that TCI would realize the benefit of the deferred tax asset, a 100% valuation allowance was established.

NOTE 14. ***FUTURE MINIMUM RENTAL INCOME UNDER OPERATING LEASES***

TCI'S real estate operations include the leasing of commercial properties (office buildings, industrial warehouses and retail centers). These leases expire at various dates through 2029. The following is a schedule of minimum future rents on non-cancelable operating leases at December 31, 2019 (dollars in thousands):

Year	Amount
2020	26,208
2021	23,558
2022	20,382
2023	14,882
2024	8,861
Thereafter	7,109
Total	**$ 101,000**

NOTE 15. ***OPERATING SEGMENTS***

Our segments are based on management's method of internal reporting which classifies its operations by property type. The segments are commercial, apartments, land and other. Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

Items of income that are not reflected in the segments are interest, other income, equity in partnerships and gains on sale of real estate. Expenses that are not reflected in the segments are provision for losses, advisory, net income and incentive fees, general and administrative, non-controlling interests and net loss from discontinued operations before gains on sale of real estate.

The segment labeled as "Other" consists of revenue and operating expenses related to the notes receivable and corporate debt.

Presented below is the Company's reportable segments' operating income including segment assets and expenditures for the years 2019, 2018 and 2017 (dollars in thousands):

For the Year Ended December 31, 2019	Commercial Properties	Apartments	Land	Other	Total
Rental and other property revenues	$ 32,707	$ 15,257	$ —	$ 6	$ 47,970
Property operating expenses	(15,805)	(8,375)	(255)	(778)	(25,213)
Depreciation	(10,229)	(3,150)	—	—	(13,379)
Mortgage and loan interest	(7,018)	(4,069)	(1,000)	(19,729)	(31,816)
Loss on debt extinguishment	(5,219)	—	—	—	(5,219)
Interest income	—	—	—	19,607	19,607
Loss on sale of income producing property	—	(80)	—	—	(80)
Gain on land sales	—	—	14,889	—	14,889
Segment operating (loss) income	$ (5,564)	$ (417)	$ 13,634	$ (894)	$ 6,759
Capital expenditures	$ 5,257	$ 25,001	$ 3,489	$ —	$ 33,747
Assets	$ 229,424	$ 178,536	$ 70,003	$ —	$ 477,963
Property Sales					
Sales price	$ —	$ 3,096	$ 30,012	$ —	$ 33,108
Cost of sale	—	(3,176)	(15,123)	—	(18,299)
(Loss) gain on sales	$ —	$ (80)	$ 14,889	$ —	$ 14,809

For the Year Ended December 31, 2018	Commercial Properties	Apartments	Land	Other	Total
Rental and other property revenues	$ 33,113	$ 87,832	$ —	$ 10	$ 120,955
Property operating expenses	(16,558)	(42,134)	(275)	(453)	(59,420)
Depreciation	(9,530)	(13,217)	—	(14)	(22,761)
Mortgage and loan interest	(7,662)	(20,671)	(318)	(30,221)	(58,872)
Interest income	—	—	—	15,793	15,793
Gain on land sales	—	—	17,404	—	17,404
Segment operating income (loss)	$ (637)	$ 11,810	$ 16,811	$ (14,885)	$ 13,099
Capital expenditures	$ 8,246	$ 16,954	$ —	$ —	$ 25,200
Assets	$ 153,018	$ 143,500	$ 84,016	$ 3,970	$ 384,504
Property Sales					
Sales price	$ 2,313	$ 8,512	$ 43,311	$ —	$ 54,136
Cost of sale	(2,313)	(8,512)	(25,907)	—	(36,732)
Gain on land sales	$ —	$ —	$ 17,404	$ —	$ 17,404

For the Twelve Months Ended December 31, 2017	Commercial Properties	Apartments	Land	Other	Total
Rental and other property revenues	$ 32,323	$ 92,807	$ 87	$ 16	$ 125,233
Property operating expenses	(17,724)	(43,677)	(667)	(988)	(63,056)
Depreciation	(9,200)	(16,354)	—	(4)	(25,558)
Mortgage and loan interest	(7,528)	(22,346)	(1,588)	(28,482)	(59,944)
Interest income	—	—	—	13,862	13,862
Recognition of deferred gain on sale of income producing properties	—	9,842	—	—	9,842
Gain on land sales	—	—	4,884	—	4,884
Segment operating income (loss)	$ (2,129)	$ 20,272	$ 2,716	$ (15,596)	$ 5,263
Capital expenditures	$ 3,157	$ 1,402	$ 609	$ —	$ 5,168
Assets	$ 137,157	$ 726,852	$ 115,205	$ 656	$ 979,870
Property Sales					
Sales price	$ —	$ —	$ 11,177	$ —	$ 11,177
Cost of sale	—	—	(6,293)	—	(6,293)
Recognized prior deferred gain	—	9,842	—	—	9,842
Gain on sale	$ —	$ 9,842	$ 4,884	$ —	$ 14,726

The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	For the Years Ended December 31,		
	2019	**2018**	2017
Segment operating income	$ 6,759	$ 13,099	$ 5,263
Other non-segment items of income (expense)			
General and administrative	(10,951)	(11,359)	(6,269)
Net income fee to related party	(357)	(631)	(250)
Advisory fee to related party	(5,806)	(10,663)	(9,995)
Other income	84	28,150	625
Gain on formation of joint venture	—	154,126	—
Foreign currency translation (loss) gain	(15,108)	12,399	(4,536)
(Loss) earnings from joint venture	(2,774)	44	—
Earnings from other unconsolidated investees	16	1,085	26
Income tax benefit (expense)	2,000	(3,210)	(180)
Net (loss) income from continuing operations	$ (26,137)	$ 183,040	$ (15,316)

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets:

	As of December 31,		
	2019	**2018**	**2017**
Segment assets	$ 387,790	$ 384,504	$ 979,870
Investments in unconsolidated subsidiaries and investees	81,780	90,571	2,472
Notes and interest receivable	120,986	83,541	70,166
Other assets and receivables	275,362	303,764	260,914
Total assets	$ 865,918	$ 862,380	$ 1,313,422

NOTE 16. ***QUARTERLY RESULTS OF OPERATIONS***

The following is a tabulation of TCI's quarterly results of operations for the years 2019, 2018 and 2017. Quarterly results presented may differ from those previously reported in TCI's Form 10-Q due to the reclassification of the operations of properties sold or held for sale to discontinued operations in accordance with ASC topic 360:

	Three Months Ended 2019			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
Total operating revenues	$ 11,929	$ 11,840	$ 11,883	$ 12,318
Total operating expenses	13,182	15,220	12,948	14,356
Operating loss	(1,253)	(3,380)	(1,065)	(2,038)
Other expense	(6,389)	(4,639)	(11,841)	(12,341)
(Loss) income before gain on formation of joint venture, gain on sales, non-controlling interest, and taxes	(7,642)	(8,019)	(12,906)	(14,379)
(Loss) on sale of income producing properties	—	(80)	—	—
Gain on land sales	2,216	2,133	5,140	5,400
Income tax benefit - deferred	—	—	—	2,000
Net (loss) income from continued operations	(5,426)	(5,966)	(7,766)	(6,979)
Net loss	(5,426)	(5,966)	(7,766)	(6,979)
Less: net (loss) attributable to non-controlling interest	(183)	(379)	(21)	(200)
Net loss applicable to common shares	$ (5,609)	$ (6,345)	$ (7,787)	$ (7,179)
PER SHARE DATA				
Earnings per share - basic				
(Loss) income from continued operations	$ (0.62)	$ (0.68)	$ (0.89)	$ (0.81)
Net (loss) income applicable to common shares	$ (0.64)	$ (0.73)	$ (0.89)	$ (0.83)
Weighted average common shares used in computing earnings per share	8,717,767	8,717,767	8,717,767	8,717,767
Earnings per share - diluted				
(Loss) income from continued operations	$ (0.62)	$ (0.68)	$ (0.89)	$ (0.81)
Net (loss) income applicable to common shares	$ (0.64)	$ (0.73)	$ (0.89)	$ (0.83)
Weighted average common shares used in computing diluted earnings per share	8,717,767	8,717,767	8,717,767	8,717,767

	Three Months Ended 2018			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
Total operating revenues	$ 31,082	$ 31,607	$ 33,505	$ 24,761
Total operating expenses	25,894	26,966	27,734	24,240
Operating income	5,188	4,641	5,771	521
Other (expense) income	(6,624)	2,731	5,896	(3,404)
(Loss) income before gain on formation of joint venture, gain on sales, non-contolling interest, and taxes	(1,436)	7,372	11,667	(2,883)
Gain on formation of joint venture	—	—	—	154,126
Gain on land sales	1,335	—	12,243	3,826
Income tax expense	—	—	(792)	(2,418)
Net (loss) income from continued operations	(101)	7,372	23,118	152,651
Net (loss) income	(101)	7,372	23,118	152,651
Less: net (loss) attributable to non-controlling interest	(132)	(126)	(915)	(417)
Preferred dividend requirement	(222)	(224)	(227)	(227)
Net (loss) income applicable to common shares	$ (455)	$ 7,022	$ 21,976	$ 152,007
PER SHARE DATA				
Earnings per share - basic				
(Loss) income from continued operations	$ (0.05)	$ 0.81	$ 2.52	$ 17.44
Net (loss) income applicable to common shares	$ (0.05)	$ 0.81	$ 2.52	$ 17.44
Weighted average common shares used in computing earnings per share	8,717,767	8,717,767	8,717,767	8,717,767
Earnings per share - diluted				
(Loss) income from continued operations	$ (0.05)	$ 0.81	$ 2.52	$ 17.44
Net (loss) income applicable to common shares	$ (0.05)	$ 0.81	$ 2.52	$ 17.44
Weighted average common shares used in computing diluted earnings per share	8,717,767	8,717,767	8,717,767	8,717,767

	Three Months Ended 2017			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
Total operating revenues	$ 31,535	$ 31,302	$ 31,491	$ 30,905
Total operating expenses	26,337	25,460	25,725	27,606
Operating income (loss)	5,198	5,842	5,766	3,299
Other expense	(10,658)	(15,613)	(8,967)	(14,729)
Loss before gain on sales, non-contolling interest, and taxes	(5,460)	(9,771)	(3,201)	(11,430)
Gain (loss) on sale of income producing properties	—	—	9,841	1
Gain (loss) on land sales	445	(476)	530	4,385
Income tax benefit (expense)	—	—	—	(180)
Net income (loss) from continued operations	(5,015)	(10,247)	7,170	(7,224)
Net income (loss)	(5,015)	(10,247)	7,170	(7,224)
Less: net (income) loss attributable to non-controlling interest	(119)	(163)	(96)	(121)
Preferred dividend requirement	(222)	(224)	(224)	(230)
Net (loss) income applicable to common shares	$ (5,356)	$ (10,634)	$ 6,850	$ (7,575)
PER SHARE DATA				
Earnings per share - basic				
Loss from continued operations	$ (0.61)	$ (1.22)	$ 0.79	$ (0.88)
Net income (loss) applicable to common shares	$ (0.61)	$ (1.22)	$ 0.79	$ (0.88)
Weighted average common shares used in computing earnings per share	8,717,767	8,717,767	8,717,767	8,717,767
Earnings per share - diluted				
Loss from continued operations	$ (0.61)	$ (1.22)	$ 0.79	$ (0.88)
Net income (loss) applicable to common shares	$ (0.61)	$ (1.22)	$ 0.79	$ (0.88)
Weighted average common shares used in computing diluted earnings per share	8,717,767	8,717,767	8,717,767	8,717,767

NOTE 17. *COMMITMENTS AND CONTINGENCIES AND LIQUIDITY*

Liquidity. Management believes that TCI will generate excess cash from property operations in 2020; such excess, however, might not be sufficient to discharge all of TCI's obligations as they become due. Management intends to sell income-producing assets, refinance real estate and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

Guarantees. The Company is the primary guarantor, on a $25.0 million mezzanine loan between UHF and a lender. In addition, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2019 UHF was in compliance with the covenants to the loan agreement.

***Partnership Buyouts*.** TCI is the limited partner in various partnerships related the construction of residential properties. As permitted in the respective partnership agreements, TCI intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buy out the nonaffiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

ART and ART Midwest, Inc.

While the Company and all entities in which the Company has a direct or indirect equity interest are not parties to or obligated in any way for the outcome, a formerly owned entity (American Realty Trust, Inc.) and its former subsidiary (ART Midwest, Inc.) have been engaged since 1999 in litigation with Mr. David Clapper and entities related to Mr. Clapper (collectively, the "Clapper Parties"). The matter originally involved a transaction in 1998 in which ART Midwest, Inc. was to acquire eight residential apartment complexes from the Clapper Parties. Through the years, a number of rulings, both for and against American Realty Trust, Inc. "ART" and ART Midwest, Inc., were issued. In October 2011, a ruling was issued under which the Clapper Parties received a judgment for approximately $74 million, including $26 million in actual damages and $48 million interest. The ruling was against ART and ART Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties, but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. Subsequently, the trial court recalculated the damage award, reducing it to approximately $59 million, inclusive of actual damages and then current interest. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in this matter.

The Clapper Parties subsequently filed a new lawsuit against ARI, its subsidiary EQK Holdings, Inc. "EQK", and ART. The Clapper Parties seek damages from ARL for payment by ART to ARL of ART's stock in EQK in exchange for a release of the Antecedent Debt owed by ART to ARI. In February 2018 the court determined that this legal matter should not have been filed in federal court and therefore granted motions to dismiss on jurisdictional grounds. In June 2018, the court overruled its own grant of motions to dismiss and reinstated the case. We continue to vigorously defend the case and management believes it has defenses to the claims. The case has not been set for trial.

In 2005, ART filed suit against a major national law firm over the initial transaction. That action was initially abated while the principal case with the Clapper Parties was pending, but the abatement was recently lifted. The trial court subsequently dismissed the case on procedural grounds, but ART has filed a notice of appeal. The appeal was heard in February 2018 and the case was subsequently appealed to the Texas Supreme Court. The application for Review is still pending with the Texas Supreme Court. In January 2012, the Company sold all of the issued and outstanding stock of ART to an unrelated party for a promissory note in the amount of $10 million. At December 31, 2012, the Company fully reserved and valued such note at zero.

Dynex Capital, Inc.

On July 20, 2015, the 68th Judicial District Court in Dallas County, Texas issued its Final Judgment in Cause No. DC-03-00675, styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. The case, which was litigated for more than a decade, had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust ("CMET"), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, $160 million in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. ("Basic").

An original trial in 2004, which also included Dynex Capital, Inc. as a defendant, resulted in a jury awarding damages in favor of Basic for "lost opportunity," as well as damages in favor of ART and in favor of TCI and its subsidiaries for "increased costs" and "lost opportunity." The original Trial Court judge ignored the jury's findings, however, and entered a "Judgment Notwithstanding the Verdict" ("JNOV") in favor of the Dynex entities (the judge held the Plaintiffs were not entitled to any damages from the Dynex entities). After numerous appeals by all parties, Dynex Capital, Inc. was ultimately dismissed from the case and the remaining claims against Dynex Commercial were remanded to the Trial Court for a new judgment consistent with the jury's findings. The Court entered the new Final Judgment against Dynex Commercial, Inc. on July 20, 2015.

The Final Judgment entered against Dynex Commercial, Inc. on July 20, 2015 awarded Basic was $0.256 million in damages, plus pre-judgment interest of $0.192 million for a total amount of $0.448 million. The Judgment awarded ART was $14.2 million in damages, plus pre-judgment interest of $10.6 million for a total amount of $24.8 million. The Judgment awarded TCI was $11.1 million, plus pre-judgment interest of $8.4 million for a total amount of $19.5 million. The Judgment also awarded Basic, ART, and TCI post-judgment interest at the rate of 5% per annum from April 25, 2014 until the date their respective damages were paid. Lastly, the Judgement awarded Basic, ART, and TCI was $1.6 million collectively in attorneys' fees from Dynex Commercial, Inc.

TCI is working with counsel to identify assets and collect on the Final Judgment against Dynex Commercial, Inc., as well as pursue additional claims, if any, against Dynex Capital, Inc. Post judgment interest continues to accrue.

Berger Litigation

On February 4, 2019, an individual claiming to be a stockholder holding 7,900 shares of Common Stock of Income Opportunity Realty Investors, Inc. ("IOR") filed a Complaint in the United States District Court for the Northern District of Texas, Dallas Division, individually and allegedly derivatively on behalf of IOR, against Transcontinental Realty Investors, Inc. ("TCI"), American Realty Investors, Inc. ("ARL"), (TCI is a shareholder of IOR, ARL is a shareholder of TCI) Pillar Income Asset Management, Inc. ("Pillar"), (collectively the "Companies"), certain officers and directors of the Companies ("Additional Parties") and two other individuals. The Complaint filed alleges that the sale and/or exchange of certain tangible and intangible property between the Companies and IOR during the last ten years of business operations constitutes a breach of fiduciary duty by the one or more of Companies, the Additional Defendants and/or the directors of IOR. The case alleges other related claims. The Plaintiff seeks certification as a representative of IOR and all of its shareholders, unspecified damages, a return to IOR of various funds and an award of costs, expenses, disbursements (including Plaintiff's attorneys' fees) and prejudgment and post-judgment interest. The named Defendants intend to vigorously defend the action, deny all of the allegations of the Complaint, and believe the allegations to be wholly without any merit. The Defendants have filed motions to dismiss the case in its entirety in June 2019. On February 26, 2020, the Court denied IOR's demand futility motion. The remainder of the motions to dismiss are pending.

Litigation. 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.

NOTE 18. ***EARNINGS PER SHARE***

Earnings per share. Earnings per share ("EPS") have been computed pursuant to the provisions of ASC 260 "Earnings per Share." Basic EPS is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding.

Prior to July 9, 2014, TCI had 30,000 shares of Series C cumulative convertible preferred stock issued and outstanding. These 30,000 shares were owned by RAI, a related party, and had accrued dividends unpaid of $0.9 million. The stock had a liquidation preference of $100.00 per share and could be converted into common stock at 90% of the daily average closing price of the common stock for the prior five trading days. On July 9, 2014, RAI converted all 30,000 shares into the requisite number of shares of common stock. The conversion resulted in the issuance of 304,298 new shares of common stock. The effects of the Series C Cumulative Convertible Preferred Stock are no longer included in the dilutive earnings per share calculation for the current period, but are considered in the calculation for the prior periods if applying the if-converted method is dilutive.

As of December 31, 2019 and 2018, there are no preferred stock or stock options that are required to be included in the calculation of EPS.

NOTE 19. ***SUBSEQUENT EVENTS***

On February 2, 2020, S&P Global Ratings announced the increase of the Company's issuer rating to 'ilA-' from 'ilBBB+' for Bonds (Series A and B). In addition, Series C bond rating (secured by one of SPC's commercial properties) increase to 'ilA' from 'ilA-' rating due to the expectation of continued improvement in coverage ratios and the expansion of Company's portfolio.

During 2020, a strain of coronavirus ("COVID – 19") was reported worldwide, resulting in decreased economic activity and concerns about the pandemic, which would adversely affect the broader global economy. The Company is taking all necessary steps to keep our business premises, tenants, vendors and employees in a safe environment and are constantly monitoring the impact of COVID – 19. At this point, the extent to which COVID – 19 may impact the global economy and our business is uncertain, but pandemics or other significant public health events could have a material adverse effect on our business and results of operations.

The date to which events occurring after December 31, 2019, the date of the most recent balance sheet, have been evaluated for possible adjustments to the financial statements or disclosure is March 30, 2020, which is the date of which the financial statements were available to be issued. There are no subsequent events that would require an adjustment to the financial statements.

Schedule III

TRANSCONTINENTAL REALTY INVESTORS, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2019

		Initial Cost			Cost Capitalized Subsequent to Acquisition	Asset Impairment	Gross Amount of Which Carried at End of Year						
Property/Location	**Encumbrances**	**Land**	**Buildings**	**Improvements**	**Asset Impairment**	**Land**	**Building & Improvements**	**Total**	**Accumulated Depreciation**	**Date of Construction**	**Date Acquired**	**Life on Which Depreciation In Latest Statement of Operation is Computed**
Properties Held for Investment Apartments												
Legacy at Pleasant Grove, Texarkana, TX	$ 13,944	$ 2,005	$ 17,892	$ 217	$ —	$ 2,005	$ 18,109	$ 20,114	$ 2,289	2006	12/14	40 years
Toulon, Gautier, MS	19,575	1,621	20,107	372	—	1,621	20,479	22,100	4,273	2011	9/09	40 years
Villager, Ft. Walton, FL	672	141	1,267	—	—	141	1,267	1,408	148	1972	6/15	40 years
Villas at Bon Secour, Gulf Shores, AL	11,212	2,715	15,385	—	—	2,715	15,385	18,100	545	2007	7/18	40 years
Vista Ridge, Tupelo, MS	10,252	1,339	13,398	—	—	1,339	13,398	14,737	1,893	2009	10/15	40 years
Chelsea, Beaumont, TX	8,794	1,225	11,025	160	—	1,225	11,185	12,410	303	1999	11/18	40 years
Overlook at Allensville Phase II, Sevierville, TN	15,829	2,411	17,005	—	—	2,411	17,005	19,416	319	2012	11/15	40 years
Landing, Houma, LA	15,484	2,012	18,115	25	—	2,012	18,140	20,152	491	2005	12/18	40 years
Farnham Park, Port Aurther, TX	9,183	1,010	9,086	144	—	1,010	9,230	10,240	251	1999	11/18	40 years
Parc at Denham Springs Phase II, Denham Springs, LA	15,079	1,502	12,486	3,508	—	1,502	15,994	17,496	50	2010	11/9	40 years
Total Apartments Held for Investment	**$ 120,024**	**$ 15,981**	**$ 135,766**	**$ 4,426**	**$ —**	**$ 15,981**	**$ 140,192**	**$156,173**	**$ 10,562**			
Apartments Under Construction												
Forest Pines, Bryan, TX	—	5,040	—	301	—	5,040	301	5,341	—	—	—	—
Sugar Mill III, Addis, LA	6,302	576	—	7,023	—	576	7,023	7,599	—	—	11/15	—
McKinney Apts at Heritage, McKinney, TX	—	2,481	—	89	—	2,481	89	2,570	—	—	6/17	—
Forest Pines Phase II (Forest Grove), Bryan, TX	1,560	—	—	4,674	—	—	4,674	4,674	—	—	4/19	—
LD Athens Lindsay Ln, Athens, LA	1,155	2,098	—	81	—	2,098	81	2,179	—	—	9/19	—
Total Apartments Under Construction	**$ 9,017**	**$ 10,195**	**$ —**	**$ 12,168**	**$ —**	**$ 10,195**	**$ 12,168**	**$ 22,363**	**$ —**			
Commercial												
600 Las Colinas, Las Colinas, TX	37,215	5,751	51,759	20,143	—	5,751	71,902	77,653	32,858	1984	8/05	40 years
770 South Post Oak, Houston, TX	12,178	1,763	15,834	697	—	1,763	16,531	18,294	2,117	1970	7/15	40 years
Bridgeview Plaza, LaCrosse, WI	3,908	—	—	1,207	—	—	1,207	1,207	804	1979	3/03	40 years
Browning Place (Park West I), Farmers Branch, TX		5,096	45,868	26,645	—	5,096	72,513	77,609	29,867	1984	4/05	40 years
Fruitland Plaza, Fruitland Park, FL		23	—	83	—	23	83	106	71	—	5/92	40 years
Senlac VHP, Farmers Branch, TX		622	—	142	—	622	142	764	142	—	8/05	40 years
Stanford Center, Dallas, TX	39,537	20,278	34,862	8,251	(9,600)	20,278	33,513	53,791	13,752	—	6/08	40 years
Total Commercial Held for Investment	**$ 92,838**	**$ 33,533**	**$ 148,323**	**$ 57,168**	**$ (9,600)**	**$ 33,533**	**$ 195,891**	**$229,424**	**$ 79,611**			
Land												
Dedeaux, Gulfport, MS	—	1,612	—	46	(38)	1,612	8	1,620	—	—	10/06	—
Gautier, Gautier, MS	—	202	—	—	—	202	—	202	—	—	7/98	—
Lake Shore Villas, Humble, TX	—	81	—	3	—	81	3	84	—	—	3/02	—
Lubbock, Lubbock, TX	—	234	—	—	—	234	—	234	—	—	1/04	—

Ocean Estates, Gulfport, MS	—	1,418	—	390	—	1,418	390	1,808	—	—	10/07	—
Union Pacific Railroad, Dallas, TX	—	130	—	—	—	130	—	130	—	—	3/04	—
Willowick, Pensacola, FL	—	137	—	—	—	137	—	137	—	—	1/95	—
Windmill Farms, Kaufman County, TX	13,861	55,668	—	13,913	(20,343)	55,668	(6,430)	49,238	—	—	11/11	—
T Palm Desert, Riverside, CA	—	1,800	—	—	—	1,800	—	1,800	—	—	9/19	—
Lacy Longhorn, Farmers Branch, TX	—	1,169	—	—	(760)	1,169	(760)	409	—	—	6/04	—
Minivest, Dallas, TX	—	7	—	—		7	—	7	—	—	4/13	—
Nicholson Croslin, Dallas, TX	—	184	—	—	(118)	184	(118)	66	—	—	10/98	—
Nicholson Mendoza, Dallas, TX	—	80	—	—	(51)	80	(51)	29	—	—	10/98	—
Mercer Crossing, Farmers Branch, TX	—	10,966	—	—		10,966	—	10,966	—	—	1/08	—
McKinney 36, Collin County, TX	945	635	—	161	(19)	635	142	777	—	—	1/98	—
Travis Ranch, Kaufman County, TX	—	80	—	—	—	80	—	80	—	—	8/08	—
Dominion Mercer Phase II, Farmers Branch, TX	—	2,440	—	111	(135)	2,440	(24)	2,416	—	—	3/99	—
Total Land Held for Investment	**$ 14,806**	**$ 76,843**	**$ —**	**$ 14,624**	**$ (21,464)**	**$ 76,843**	**$ (6,840)**	**$ 70,003**	**$ —**			
Total Properties Held for Investment	**$ 236,685**	**$136,552**	**$ 284,089**	**$ 88,386**	**$ (31,064)**	**$136,552**	**$ 341,411**	**$477,963**	**$ 90,173**			

TRANSCONTINENTAL REALTY INVESTORS, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2019

	2019	2018	2017
Reconciliation of Real Estate			
Balance at January 1,	$ 463,732	$ 1,165,662	1,066,603
Additions			
Acquisitions, improvements and construction	92,964	175,996	129,483
Deductions			
Sale of real estate	(78,733)	(877,926)	(30,424)
Balance at December 31,	$ 477,963	$ 463,732	$ 1,165,662
Reconciliation of Accumulated Depreciation			
Balance at January 1,	79,228	177,546	165,597
Additions			
Depreciation	13,379	22,761	25,558
Deductions			
Sale of real estate	(2,434)	(121,079)	(13,609)
Balance at December 31,	$ 90,173	$ 79,228	177,546

SCHEDULE IV

TRANSCONTINENTAL REALTY INVESTORS, INC.
MORTGAGE LOANS
December 31, 2019

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgage	Carrying Amount of Mortgage	Principal or Loans Subject to Delinquent Principal or Interest
					(dollars in thousands)		
Prospectus Endeavors 4, LLC	12.00%	Jan-23	Excess cash flow	—	5,907	5,907	—
Prospectus Endeavors 6, LLC	12.00%	Oct-22	Excess cash flow	—	496	496	—
Oulan-Chikh Family Trust	8.00%	Mar-21	Excess cash flow	—	174	174	—
H198, LLC	6.00%	Sep-20	Excess cash flow	—	4,554	4,554	—
McKinney Ranch Land							
Forest Pines	5.00%	Nov-20	Excess cash flow	—	—	2,868	—
Spyglass Apartments of Ennis, LP	5.00%	Nov-20	Excess cash flow	—	5,083	5,288	—
Bellwether Ridge	5.00%	May-20	Excess cash flow	—	3,429	3,765	—
Parc at Windmill Farms	5.00%	May-20	Excess cash flow	—	6,066	7,602	—
RAI PFBL 2018 Purch Fee Note Weatherford	12.00%	Dec-21	Excess cash flow			525	—
Unified Housing Foundation, Inc. (Echo Station)	12.00%	Dec-32	Excess cash flow	9,719	2,794	1,481	—
100% Interest in UH of Temple, LLC							—
Unified Housing Foundation, Inc. (Lakeshore Villas/HFS of Humble, LLC)	12.00%	Dec-32	Excess cash flow	15,965	2,959	2,000	—
100% Interest in HFS of Humble, LLC							—
Unified Housing Foundation, Inc. (Lakeshore Villas/HFS of Humble, LLC) (31.5% of cash flow)	12.00%	Dec-32	Excess cash flow	15,756	8,836	6,369	—
Interest in Unified Housing Foundation Inc.							—
Unified Housing Foundation, Inc. (Limestone Ranch/UH of Vista Ridge,LLC)	12.00%	Dec-32	Excess cash flow	—	—	1,953	—
Unified Housing Foundation, Inc. (Limestone Ranch/UH of Vista Ridge,LLC)	12.00%	Dec-32	Excess cash flow	—	—	2,000	—
Unified Housing Foundation, Inc. (Limestone Ranch/UH of Vista Ridge,LLC)	12.00%	Dec-32	Excess cash flow	—	—	4,000	—
Unified Housing Foundation, Inc. (Timbers of Terrell)	12.00%	Dec-32	Excess cash flow	7,294	1,702	1,323	—
100% Interest in UH of Terrell, LLC							
Unified Housing Foundation, Inc (2015 Advisory Fee)	12.00%	Dec-21	Excess cash flow	—	—	3,994	—
Unified Housing Foundation, Inc (2008-2014 Advisory Fee)	12.00%	Dec-21	Excess cash flow	—	—	6,407	—
Unified Housing Foundation, Inc (2018 Advisory Fee)	12.00%	Jun-20	Excess cash flow	—	—	5,314	—
Unified Housing Foundation, Inc	12.00%	Mar-22	Excess cash flow	—	—	4,782	—

RAI UHF 2019 Advisory Fee Note			Excess cash flow				
Unified Housing Foundation, Inc	12.00%	Jul-21	Excess cash flow	—	—	838	—
2018 Refin Fee (Lakeshore Villas)			Excess cash flow				
Unified Housing Foundation, Inc	12.00%	Jul-21	Excess cash flow	—	—	773	—
2018 Refin Fee (Limestone Ranch)			Excess cash flow				
Unified Housing Foundation, Inc	12.00%	Jul-21	Excess cash flow	—	—	839	—
2018 Refin Fee (Marquis @ Vista Ridge)			Excess cash flow				
Unified Housing Foundation, Inc	12.00%	Jul-21	Excess cash flow	—	—	432	—
2018 Refin Fee (Timbers at the Park)			Excess cash flow				
Unified Housing Foundation, Inc	12.00%	Jul-21	Excess cash flow	—	—	913	—
2018 Refin Fee (Trails @ White Rock)							
Unified Housing Foundation, Inc	12.00%	Aug-21	Excess cash flow	—	—	212	—
2018 Refin Fee (Bella Vista)							
Unified Housing Foundation, Inc	12.00%	Oct-21	Excess cash flow	—	—	1,980	—
2017 Fees on Sale LSC/SR/PKCR							
Unified Housing Foundation, Inc	12.00%	Oct-21	Excess cash flow	—	—	4,851	—
2017 Fees on Profit LSC/SR/PKCR							
Various related party notes	Various	Various	Excess cash flow	—	—	3,553	—
Various non-related party notes	Various	Various	Excess cash flow	—	—	28,989	—
						$ 114,182	
					Accrued interest	8,629	
					Allowance for estimated losses	(1,825)	
						$ 120,986	

(1) Fully reserved

SCHEDULE IV
(Continued)

TRANSCONTINENTAL REALTY INVESTORS, INC.
MORTGAGE LOANS
As of December 31,

	2019	2018	2017
	(dollars in thousands)		
Balance at January 1,	$ 83,541	$ 70,166	$ 81,133
Additions			
New mortgage loans	49,671	13,123	16,422
Increase (decrease) of interest receivable on mortgage loans	9,576	6,329	668
Deductions			
Amounts received	(21,589)	(6,077)	(26,230)
Non-cash reductions	(213)	—	(1,827)
Balance at December 31,	$ 120,986	$ 83,541	$ 70,166

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Principal Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention of overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on management's assessments and those criteria, management has concluded that Company's internal control over financial reporting was effective as of December 31, 2019.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial report. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

In preparation for management's report on internal control over financial reporting, we documented and tested the design and operating effectiveness of our internal control over financial reporting. There were no changes in our internal controls over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***OTHER INFORMATION***

Not applicable.

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

Directors

The affairs of TCI are managed by a Board of Directors. The Directors are elected at the annual meeting of stockholders or appointed by the incumbent Board and serve until the next annual meeting of stockholders or until a successor has been elected or approved.

It is the Board's objective that a majority of the Board consists of independent directors. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with TCI. The Board has established guidelines to assist it in determining director independence which conform to, or are more exacting than, the independence requirements in the New York Stock Exchange listing rules. The independence guidelines are set forth in TCI's "Corporate Governance Guidelines". The text of this document has been posted on TCI's internet website at (www.transconrealty-invest.com) and is available in print to any shareholder who requests it. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination.

TCI has adopted a code of conduct that applies to all Directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. Stockholders may find our code of conduct on our website by going to our website address at (www.transconrealty-invest.com). We will post any amendments to the code of conduct, as well as any waivers that are required to be disclosed by the rules of the SEC or the New York Stock Exchange on our website.

Our Board of Directors has adopted charters for our Audit, Compensation and Governance and Nominating Committees of the Board of Directors. Stockholders may find these documents on our website by going to the website address at (www.transconrealty-invest.com). You may also obtain a printed copy of the materials referred to by contacting us at the following address:

Transcontinental Realty Investors, Inc.
Attn: Investor Relations
1603 LBJ Freeway, Suite 800
Dallas, Texas 75234
Telephone: 469-522-4200

All members of the Audit Committee and Nominating and Corporate Governance Committees must be independent directors. Members of the Audit Committee must also satisfy additional independence requirements, which provide (i) that they may not accept, directly or indirectly, any consulting, advisory, or compensatory fee from TCI or any of its subsidiaries other than their director's compensation (other than in their capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board), and (ii) no member of the Audit Committee may be an "affiliated person" of TCI or any of its subsidiaries, as defined by the Securities and Exchange Commission.

The current directors of TCI are listed below, together with their ages, terms of service, all positions and offices with TCI and its current advisor, Pillar, their principal occupations, business experience and directorships with other companies during the last five years or more. The designation "affiliated", when used below with respect to a director, means that the director is an officer, director or employee of Pillar, an officer of the Company, or an officer or director of a related party of the Company. The designation "independent", when used below with respect to a Director, means that the Director is neither an officer of the Company nor a director, officer or employee of Pillar (but may be a director of the Company, although the Company may have certain business or professional relationships with such Director as discussed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

HENRY A. BUTLER, age 69, Director, Affiliated, since November 2005 and Chairman of the Board since May 2009 Retired (since April 30, 2019); Mr. Butler served as Vice President for Pillar Income Asset Management, LLC from April 2011 to April 30, 2019. Mr. Butler has been a Director of the Company since November 2005 and Chairman of the Board since May 2009. He also served as Chairman of the Board since May 2009 and as a Director since July 2003 of ARL and Chairman of the Board since May 2011 and a Director since February 2011 of IOR.

WILLIAM J. HOGAN, age 62, Director, Independent, since February 2020

Registered Representative and Investment Advisor Representative, employed (since January 2013) by Cetera Advisor Networks LLC, a general securities and investment advisory firm, with an office in San Antonio, Texas. From November 2009 through December 2012, Mr. Hogan was a registered representative, employed by Financial Network Investment Corp. in San Antonio, Texas. He holds Series 7 (General Securities Representative), Series 63 (Uniform Securities Agent State Law) and Series 65 (Investment Advisor) licenses issued by Financial Industry Regulatory Authority ("FINRA"). Mr. Hogan was elected as a director of the Company and TCI on January 28, 2020 effective February 1, 2020.

ROBERT A. JAKUSZEWSKI, age 57, Director, Independent, since November 2005

Mr. Jakuszewski is currently has served as a Territory Manager for Artesa Labs since April 2015. He was a Medical Specialist from January 2014 to April 2015 for VAYA Pharma, Inc., Senior Medical Liaison from January 2013 to July 2013 for Vein Clinics of America, and the Vice President of Sales and Marketing from September 1998 to December 2012 for New Horizons Communications, Inc. Mr. Jakuszewski has been a Director of the Company since November 2005. He has also been a Director of ARL since November 2005 and a Director of IOR since March 2004.

TED R. MUNSELLE, age 64, Director, Independent, since February 2004

Mr. Munselle has been Vice President and Chief Financial Officer of Landmark Nurseries, Inc. since October 1998. On February 17, 2012, he was appointed as a member of the Board of Directors for Spindletop Oil & Gas Company and as Chairman of their Audit Committee. Spindletop's stock is traded on the Over-the-Counter (OTC) market. Mr. Munselle has been a Director of the Company since February 2004. He has also served as Director of ARL since February 2004 and Director of IOR since March 2009. Mr. Munselle is qualified as an Audit Committee financial expert within the meaning of SEC regulations and the Board of Directors of TCI has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE. Mr. Munselle is a Certified Public Accountant.

RAYMOND D. ROBERTS, SR., age 88, Director, Independent, since June 2016

Mr. Roberts is currently retired. Mr. Roberts has served as Director of the Company since June 2, 2016. He has also served as Director of ARL and IOR since June 2, 2016. For more than five years prior to December 31, 2014, he was Director of Aviation of Steller Aviation, Inc., a privately held corporation engaged in the business of aircraft (Boeing 737) and logistical management.

Board Meetings and Committees

The Board of Directors held five meetings during 2019. For such year, no incumbent director attended fewer than 75% of the aggregate of (1) the total number of meetings held by the Board during the period for which he or she had been a director and (2) the total number of meetings held by all committees of the Board on which he or she served during the period that he served. Under TCI's Corporate Governance Guidelines, each Director is expected to dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties, including by attending meetings of the stockholders of the Company, the Board and Committees of which he is a member. The Board of Directors has standing Audit, Compensation and Governance and Nominating Committees.

Audit Committee. The current Audit Committee was formed on February 19, 2004, and its function is to review TCI's operating and accounting procedures. A charter of the Audit Committee has also been adopted by the Board. The charter of the Audit Committee was adopted on February 19, 2004, and is available on the Company's Investor Relations website *(www.transconrealty-invest.com*). The Audit Committee is an "audit committee" for purposes of Section 3(a)(58) of the Securities Exchange Act of 1934. The current members of the Audit Committee, all of whom are independent within the meaning of the SEC Regulations, the listing standards of the New York Stock Exchange, Inc. and TCI's Corporate Governance Guidelines, are Messrs. Jakuszewski, Munselle (Chairman) and Roberts. Mr. Ted R. Munselle, a member of the Committee, is qualified as an Audit Committee financial expert within the meaning of SEC Regulations, and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the New York Stock Exchange, Inc. All of the members of the Audit Committee meet the experience requirements of the listing standards of the New York Stock Exchange. The Audit Committee met five times during 2019.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of TCI's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. The Charter of the Governance and Nominating Committee was adopted on March 17, 2004 and is available on the Company's Investor Relations website (*www.transconrealty-invest.com*). The current members of the Committee are Messrs. Munselle and Jakuszewski (Chairman) and Roberts. The Governance and Nominating Committee met twice during 2019.

Compensation Committee. The Compensation Committee is responsible for overseeing the policies of the Company relating to compensation to be paid by the Company to the Company's principal executive officer and any other officers designated by the Board and make recommendations to the Board with respect to such policies, produce necessary reports and executive compensation for inclusion in the Company's Proxy Statement in accordance with applicable rules and regulations and to monitor the development and implementation of succession plans for the principal executive officers and other key executives and make recommendations to the Board with respect to such plans. The charter of the Compensation Committee was adopted on March 17, 2004, and is available on the Company's Investor Relations website (*www.transconrealty-invest.com*). The current members of the Compensation Committee are Messrs. Roberts (Chairman) and Jakuszewski and Munselle. All of the members of the Compensation Committee are independent within the meaning of the listing standards of the NYSE American and the Company's Corporate Governance Guidelines. The Compensation Committee is to be comprised of at least two directors who are independent of Management and the Company. The Compensation Committee met twice during 2019.

The members of the Board of Directors on the date of this Report and the Committees of the Board on which they serve are identified below:

Director	Audit Committee	Governance and Nominating Committee	Compensation Committee
Robert A. Jakuszewski	X	Chair	X
Ted R. Munselle	Chair	X	X
Raymond D. Roberts. Sr	X	X	Chair
Henry A. Butler			
William J. Hogan			

Presiding Director

In March 2004, the Board created a new position of presiding director, whose primary responsibility is to preside over periodic executive sessions of the Board in which Management directors and other members of Management do not participate. The presiding director also advises the Chairman of the Board and, as appropriate, Committee Chairs with respect to agendas and information needs relating to Board and Committee meetings, provides advice with respect to the selection of Committee Chairs and performs other duties that the Board may from time to time delegate to assist the Board in fulfillment of its responsibilities.

The day following the annual meeting of stockholders held December 11, 2019 representing all stockholders of record dated November 1, 2019, the full Board met and re-appointed Ted R. Munselle as Presiding Director, to serve in such position until the Company's next annual meeting of stockholders to be held subsequently in 2020.

Determination of Director's Independence

In February 2004, the Board adopted its Corporate Governance Guidelines. The Guidelines adopted by the Board meet or exceed the new listing standards adopted during that year by the New York Stock Exchange. The full text of the Guidelines can be found on the Company's Investor Relations website (*www.transcontrealty-invest.com*).

Pursuant to the Guidelines, the Board undertook its annual review of director independence in March, 2019 and during this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and TCI and its subsidiaries and related parties, including those reported under Certain Relationships and Related Transactions below. The Board also examined transactions and relationship between directors or their related parties and members of TCI's senior management or their related parties. As provided in the Guidelines, the purpose of such review was to determine whether such relationships or transactions were inconsistent with the determination that the director is independent. Prior to this election as director, on January 28, 2020, the Board undertook a similar review with respect to Mr. Hogan.

As a result of these reviews, the Board affirmatively determined of the then directors, Messrs. Munselle, Hogan, Jakuszewski and Roberts are each independent of the Company and its Management under the standards set forth in the Corporate Governance Guidelines.

Executive Officers

Executive officers of the Company are listed below, all of whom are employed by Pillar. None of the executive officers receive any direct remuneration from the Company nor do any hold any options granted by the Company. Their positions with the Company are not subject to a vote of stockholders. In addition to the following executive officers, the Company has several vice presidents and assistant secretaries who are not listed herein. The ages, terms of service and all positions and offices with the Company, Pillar, other related entities, other principal occupations, business experience and directorships with other publicly-held companies during the last five years or more are set forth below. No family relationships exist among any of the executive officers or directors of the Company.

DANIEL J. MOOS, 69

Mr. Moos has served as President since April 2007 and Chief Executive Officer since March 2010 of IOR, ARL and TCI. Mr. Moos has also served as Prime's President since April 2007, Secretary since June 2011 and Treasurer since October 2013. He has also served as a Director since December 2016, President since December 2010, Chief Executive Officer since March 2011 and Treasurer since October 2013 of Pillar.

LOUIS J. CORNA, 72

Mr. Corna has served as Executive Vice President, General Counsel/Tax Counsel and Secretary since February 2004 of IOR, ARL and TCI. He has also been Executive Vice President since March 2011 and Secretary since December 2010 of Pillar. Mr. Corna was also a Director and Vice President from June 2004 to December 2010 and Secretary from January 2005 to December 2010 of First Equity Properties, Inc., a Nevada corporation with securities registered under Section 12(g) of the Exchange Act.

ALLA DZYUBA, 43

Mrs. Dzyuba has served as Vice President and Chief Accounting Officer of ARL, TCI and Southern Properties Capital, Ltd (TCI wholly owned BVI subsidiary) ("SPC") since July 2019 as well as Director for SPC since April 2018. Mrs. Dzyuba has been employed by Pillar since June 2004, she has over fifteen years of real estate accounting and financial reporting experience, including six years of broker-dealer regulatory reporting experience.

Code of Ethics

TCI has adopted a code of ethics entitled "Code of Business Conduct and Ethics" that applies to all directors, officers, and employees (including those of the contractual Advisor to TCI). In addition, TCI has adopted a code of ethics entitled "Code of Ethics for Senior Financial Officers" that applies to the principal executive officer, president, principal financial officer, chief financial officer, principal accounting officer, and controller. The text of these documents has been posted on TCI's internet website at *(www.transconrealty-invest.com)* and are available in print to any stockholder who requests them.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Under the securities laws of the United States, the directors, executive officers, and any persons holding more than 10% of TCI's shares of Common stock are required to report their share ownership and any changes in that ownership to the Securities and Exchange Commission (the "Commission"). Specific due dates for these reports have been established and TCI is required to report any failure to file by these dates. All of these filing requirements were satisfied by TCI's directors, executive officers, and 10% holders during the fiscal year ending December 31, 2019. In making these statements, TCI has relied on the written representations of its incumbent directors and executive officers and its 10% holders and copies of the reports they have filed with the Commission.

The Advisor

Pillar has been TCI's Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing the affairs of TCI, and for setting the policies which guide it, the day-to-day operations of TCI are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with TCI's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to ARL and IOR. 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 and as such, employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Pillar is a Nevada corporation, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust.

The May Trust is a Trust, the beneficiaries of which are the children of the late Gene E. Phillips.

Under the Advisory Agreement, Pillar is required to annually formulate and submit, for Board approval, a budget and business plan containing a twelve-month forecast of operations and cash flow, a general plan for asset sales and purchases, lending, foreclosure and borrowing activity, and other investments. Pillar is required to report quarterly to the Board on TCI's performance against the business plan. In addition, all transactions require prior Board approval, unless they are explicitly provided for in the approved business plan or are made pursuant to authority expressly delegated to Pillar by the Board.

The Advisory Agreement also requires prior Board approval for the retention of all consultants and third party professionals, other than legal counsel. The Advisory Agreement provides that Pillar shall be deemed to be in a fiduciary relationship to the TCI stockholders; contains a broad standard governing Pillar's liability for losses incurred by TCI; and contains guidelines for Pillar's allocation of investment opportunities as among itself, TCI and other entities it advises. Pillar is a company of which Messrs. Moos and Corna serve as executive officers.

The Advisory Agreement provides for Pillar to be responsible for the day-to-day operations of TCI and to receive, as compensation for basic management and advisory services, a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves).

In addition to base compensation, Pillar receives the following forms of additional compensation:

(1) an annual net income fee equal to 7.5% of TCI's net income as an incentive for successful investment and management of the Company's assets;

(2) an annual incentive sales fee to encourage periodic sales of appreciated real property at optimum value equal to 10.0% of the amount, if any, by which the aggregate sales consideration for all real estate sold by TCI during such fiscal year exceeds the sum of:

(a) the cost of each such property as originally recorded in TCI's books for tax purposes (without deduction for depreciation, amortization or reserve for losses);

(b) capital improvements made to such assets during the period owned; and

(c) all closing costs (including real estate commissions) incurred in the sale of such real estate; provided however, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an 8.0% simple annual return on the net investment including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration, and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5.0% higher in the current fiscal year than in the prior fiscal year;

(3) an acquisition commission, from an unaffiliated party of any existing mortgage or loan, for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of:

(a) up to 1.0% of the cost of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers; or

(b) the compensation customarily charged in arm's-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property, provided that the aggregate purchase price of each property (including acquisition fees and real estate brokerage commissions) may not exceed such property's appraised value at acquisition;

(4) a construction fee equal to 6.0% of the so-called "hard costs" only of any costs of construction on a completed basis, based upon amounts set forth as approved on any architect's certificate issued in connection with such construction, which fee is payable at such time as the applicable architect certifies other costs for payment to third parties. The phrase "hard costs" means all actual costs of construction paid to contractors, subcontractors and third parties for materials or labor performed as part of the construction but does not include items generally regarded as "soft costs," which are consulting fees, attorneys' fees, architectural fees, permit fees and fees of other professionals; and

(5) reimbursement of certain expenses incurred by the advisor in the performance of advisory services.

The Advisory Agreement also provides that Pillar receive the following forms of compensation:

(1) a mortgage or loan acquisition fee with respect to the acquisition or purchase from an unaffiliated party of any existing mortgage loan by TCI equal to the lesser of:

(a) 1.0% of the amount of the mortgage or loan purchased; or

(b) a brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by TCI; and

(2) a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of:

(a) 1.0% of the amount of the loan or the amount refinanced; or

(b) a brokerage or refinancing fee which is reasonable and fair under the circumstances; provided, however, that no such fee shall be paid on loans from Pillar, or a related party of Pillar, without the approval of TCI's Board of Directors. No fee shall be paid on loan extensions.

Under the Advisory Agreement, all or a portion of the annual advisory fee must be refunded by the Advisor if the operating expenses of TCI (as defined in the Advisory Agreement) exceed certain limits specified in the Advisory Agreement based on the book value, net asset value and net income of TCI during the fiscal year.

The Advisory Agreement requires Pillar to pay to TCI, one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by TCI; provided, however, that the compensation retained by Pillar, or any affiliate of Pillar, shall not exceed the lesser of (1) 2.0% of the amount of the loan commitment or (2) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

The TCI Advisory Agreement further provides that Pillar shall bear the cost of certain expenses of its employees, excluding fees paid to TCI's Directors; rent and other office expenses of both Pillar and TCI (unless TCI maintains office space separate from that of Pillar); costs not directly identifiable to TCI's assets, liabilities, operations, business or financial affairs; and miscellaneous administrative expenses relating to the performance by Pillar of its duties under the Advisory Agreement.

If and to the extent that TCI shall request Pillar, or any director, officer, partner, or employee of Pillar, to render services for TCI other than those required to be rendered by the Advisory Agreement, Pillar separately would be compensated for such additional services on terms to be agreed upon between such party and TCI from time to time. As discussed below, under "Property Management and Real Estate Brokerage," 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 similar terms as the previous agreements with Triad and Regis Realty I.

TCI entered into a Cash Management Agreement with Pillar on April 30, 2011 to further define the administration of the Company's day-to-day investment operations, relationship contacts, flow of funds and deposit and borrowing of funds. Under the Cash Management Agreement, all funds of the Company are delivered to Pillar which has a deposit liability to the Company and is responsible for payment of all payables and investment of all excess funds which earn interest at the Wall Street Journal prime rate plus 1.0% per annum, as set quarterly on the first day of each calendar quarter. Borrowings for the benefit of the Company bear the same interest rate. The term of the Cash Management Agreement is coterminous with the Advisory Agreement, and is automatically renewed each year unless terminated with the Advisory Agreement. TCI's management believes that the terms of the Advisory Agreement are at least as fair as could be obtained from unaffiliated third parties.

Situations may develop in which the interests of TCI are in conflict with those of one or more directors or officers in their individual capacities, or of Pillar, or of their respective related parties. In addition to services performed for TCI, as described above, Pillar actively provides similar services as agent for, and advisor to, other real estate enterprises, including persons and entities involved in real estate development and financing, including ARL and IOR. The Advisory Agreement provides that Pillar may also serve as advisor to other entities.

As advisor, Pillar is a fiduciary of TCI's public investors. In determining to which entity a particular investment opportunity will be allocated, Pillar will consider the respective investment objectives of each entity and the appropriateness of a particular investment in light of each such entity's existing mortgage note and real estate portfolios and business plan. To the extent any particular investment opportunity is appropriate to more than one such entity, such investment opportunity will be allocated to the entity that has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among various entities. Refer to Part III, Item 13 "Certain Relationships and Related Transactions, and Director Independence".

Pillar may assign the Advisory Agreement only with the prior consent of TCI.

The principal executive officers and directors of Pillar are set forth below:

Name	Directors/Officer(s)
Daniel J. Moos	President, Chief Executive Officer, Treasurer, Director
Gina H. Kay	Executive Vice President, Chief Accounting Officer
Louis J. Corna	Executive Vice President, Secretary

Property Management

Since 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 for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

TCI engages third-party companies to lease and manage our apartment properties for a fee of 6.0% or less of the monthly gross rents collected on the residential properties under their management.

Real Estate Brokerage

Regis provides real estate brokerage services to TCI on a non-exclusive basis, and is entitled to receive a real estate commission for property purchases and sales in accordance with the following sliding scale of total fees to be paid:

(1) maximum fee of 4.5% on the first $2.0 million of any purchase or sale transaction of which no more than 3.5% is to be paid to Regis;

(2) maximum fee of 3.5% on transaction amounts between $2.0 million-$5.0 million of which no more than 3.0% is to be paid to Regis;

(3) maximum fee of 2.5% on transaction amounts between $5.0 million-$10.0 million of which no more than 2.0% is to be paid to Regis; and

(4) maximum fee of 2.0% on transaction amounts in excess of $10.0 million of which no more than 1.5% is to be paid to Regis.

ITEM 11. ***EXECUTIVE COMPENSATION***

TCI has no employees, payroll or benefit plans and pays no compensation to its executive officers. The executive officers of TCI, who are also officers or employees of Pillar, TCI's advisor, are compensated by Pillar. Such executive officers perform a variety of services for Pillar and the amount of their compensation is determined solely by Pillar. Pillar does not allocate the cash compensation of its officers among the various entities for which it serves as advisor. Refer to Item 10. "Directors, Executive Officers and Corporate Governance" for a more detailed discussion of the compensation payable to Pillar by TCI.

The only remuneration paid by TCI is to the directors who are not officers or employees of Pillar or its related companies. The Independent Directors (1) review the business plan of TCI to determine that it is in the best interest of TCI's stockholders, (2) review the advisory contract, (3) supervise the performance of the advisor and review the reasonableness of the compensation paid to the advisor in terms of the nature and quality of services performed, (4) review the reasonableness of the total fees and expenses of TCI and (5) select, when necessary, a qualified independent real estate appraiser to appraise properties acquired.

Effective February, 2011, each non-affiliated Director is entitled to receive an annual retainer of $12,000, with the Chairman of the Audit Committee to receive a one-time annual fee of $500. Directors who are also employees of the Company or its advisor receive no additional compensation for service as a Director.

During 2019, $40,388 was paid to non-employee Directors in total Directors' fees. The fees paid to the directors are as follows: Robert A. Jakuszewski, $12,000; Ted R. Munselle, $12,500; Henry A. Butler $3,888; and, Raymond D. Roberts, Sr., $12,000.

Director's Stock Option Plan

TCI established a Director's Stock Option Plan ("Director's Plan") for the purpose of attracting and retaining Directors who are not officers or employees of TCI or Pillar. The Director's Plan provides for the grant of options that are exercisable at fair market value of TCI's Common stock on the date of grant. The Director's Plan was approved by stockholders at their annual meeting on October 10, 2000, following which each then-serving Independent Director was granted options to purchase 5,000 shares of Common stock of TCI. On January 1 of each year, each Independent Director receives options to purchase 5,000 shares of Common stock. The options are immediately exercisable and expire on the earlier of the first anniversary of the date on which a Director ceases to be a Director or 10 years from the date of grant. The Director's Plan was terminated by the Board of Directors on December 15, 2005. As of December 31, 2015, there were 5,000 shares of stock options outstanding which were exercisable at $14.25 per share. These options expired unexercised January 1, 2016.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT***

Security Ownership of Certain Beneficial Owners

The following table sets forth the ownership of TCI's Common stock, both beneficially and of record, both individually and in the aggregate, for those persons or entities known to be beneficial owners of more than 5.0% of the outstanding shares of Common stock as of the close of business on March 30, 2020.

	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
American Realty Investors, Inc.[1][2] 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	5,383,192	62.31%
Transcontinental Realty Acquisition Corporation[2] 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	1,383,226	16.01%
Realty Advisors, LLC [3] 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	608,984	7.05%

* "Beneficial Ownership" means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentage is based upon 8,639,516 shares of Common stock outstanding at March 25, 2020.

(1) Includes 5,383,192 shares (62.31%) directly owned by American Realty Investors, Inc. "ARL" directly, over which the directors al ARL may be deemed to be beneficial owners by virtue of their positions as directors of ARL. The directors of ARL disclaim beneficial ownership of such shares.

(2) Includes 1,383,226 shares owned by Transcontinental Realty Acquisition Corporation ("TRAC"), which is a wholly owned subsidiary of ARL, over which each of the directors of TRAC, Daniel J. Moos and Alla Dzyuba may be deemed to be beneficial owners by virtue of their positions as directors of TRAC. The directors of TRAC disclaim beneficial ownership of such shares.

(3) Includes 336,000 shares owned by RAI and 272,984 shares owned by AEI, over which the executive officers of RAI may be deemed to be the beneficial owners by virtue of their positions. The executive officers of RAI disclaim beneficial ownership of such shares.

Security Ownership of Management.

The following table sets forth the ownership of TCI's Common stock, both beneficially and of record, both individually and in the aggregate, for the directors and executive officers of TCI as of the close of business on March 30, 2020.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
Alla Dzyuba	5,992,176[1][3]	69.36%
Henry A. Butler	5,383,192[1]	62.31%
Louis J. Corna	5,992,176[1][3]	69.36%
Robert A. Jakuszewski	5,383,192[1]	62.31%
Daniel J. Moos	7,875,402[1][2][3]	85.37%
Ted R. Munselle	5,383,192[1]	62.31%
Raymond D. Roberts, Sr.	5,383,192[1]	62.31%
All Directors and Executive Officers as a group (7 individuals)	7,375,402[1][2][3]	85.37%

* Beneficial Ownership" means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentages are based upon 8,639,516 shares of Common Stock outstanding at March 25, 2020.

(1) Includes 5,383,192 shares owned by ARL and 1,383,226 shares owned by TRAC, over which the executive officers and members of the Board of Directors of ARL may be deemed to be the beneficial owners by virtue of their positions as executive officers and members of the Board of Directors of ARL. The executive officers and current members of the Board of Directors of ARL disclaim beneficial ownership of such shares.

(2) Daniel J. Moos owns 295,000 shares of Common Stock and is the President and Chief Executive Officer of ARL, the Company, RAI and MRHI.

(3) Includes 336,000 shares owned by RAI and 272,984 shares owned by AEI, over which the executive officers of RAI may be deemed to be the beneficial owners by virtue of their positions. The executive officers of RAI disclaim beneficial ownership of such shares.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

Policies with Respect to Certain Activities

Article 14 of TCI's Articles of Incorporation provides that TCI shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of TCI, (2) any director, officer or employee of the advisor, (3) the advisor, or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by TCI's Board of Directors or the appropriate committee thereof and (b) TCI's Board of Directors or committee thereof determines that such contract or transaction is fair to TCI and simultaneously authorizes or ratifies such contract or transaction by the affirmative vote of a majority of independent directors of TCI entitled to vote thereon.

Article 14 defines an "Independent Director" (for purposes of that Article) as one who is neither an officer or employee of TCI, nor a director, officer or employee of TCI's advisor.

TCI's policy is to have such contracts or transactions approved or ratified by a majority of the disinterested Directors with full knowledge of the character of such transactions, as being fair and reasonable to the stockholders at the time of such approval or ratification under the circumstances then prevailing. Such Directors also consider the fairness of such transactions to TCI. Management believes that, to date, such transactions have represented the best investments available at the time and they were at least as advantageous to TCI as other investments that could have been obtained.

TCI may enter into future transactions with entities, the officers, directors, or stockholders of which are also officers, directors, or stockholders of TCI, if such transactions would be beneficial to the operations of TCI and consistent with TCI's then-current investment objectives and policies, subject to approval by a majority of disinterested Directors as discussed above.

TCI does not prohibit its officers, directors, stockholders, or related parties from engaging in business activities of the types conducted by TCI.

Certain Business Relationships

Pillar has been TCI's Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing the affairs of TCI, and for setting the policies which guide it, the day-to-day operations of TCI are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with TCI's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to ARL and IOR. 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 and as such, employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Pillar is a Nevada corporation, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust.

All of TCI's directors also serve as Directors of ARL and IOR. The executive officers of TCI also serve as executive officers of ARL and IOR. As such, they owe fiduciary duties to that entity as well as to Pillar under applicable law. ARL has the same relationship with Pillar, as does TCI. Mr. Daniel J. Moos is the sole Manager and Class B 2% income Member of Victory Abode Apartments LLC, and owes fiduciary duties to VAA as well as ARL, TCI and IOR.

Effective since 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 for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

At December 31, 2019, TCI owned approximately 81.23% of the outstanding common shares of IOR.

The Company is part of a tax sharing and compensating agreement with respect to federal income taxes among ARL, TCI and IOR and their subsidiaries. That agreement continued until August 31, 2012, at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOR and MRHI for the remainder of 2012 and subsequent years. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%.

The Company has a development agreement with Unified Housing Foundation, Inc. "UHF" a non-profit corporation that provides management services for the development of residential apartment projects in the future. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

Related Party Transactions

The Company has 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 the best interest of our company.

In 2019, the Company paid advisory fees of $5.8 million, net income fees of $0.4 million, mortgage brokerage and equity refinancing fees of $0 million, and cost reimbursements of $6.7 million.

The Company paid property management fees, construction management fees and leasing commissions of $0.2 million to Re gis in 2019. In addition, SPC is part of a management service agreement with the controlling shareholder owned company in which SPC for an annual payment of 0.5% on the value of the investment properties receives from the Advisor office space, administrative and management services. During 2019, SPC paid management fees to Pillar in the amount of $2.2 million.

During 2019, the Company received $19.4 million cash distribution from VAA as a result of the annual surplus cash computation from its HUD collaterized residential properties and other amounts owed to the Company as agreed to in the joint venture operating agreement.

In accordance with the provisions of the VAA Joint Venture Agreement dated November 19, 2018, Southern and TCI are expected to receive approximately $14 million ($6 million and $8 million, respectively) for the cash balances remaining in the transferred properties as of the date of the transaction. The cash balance was determined and agreed upon by the partners in the joint venture, and based on the estimated bank balances on the day of closing. Additionally, VAA did not purchase the accounts receivable or the utilities' and other deposits. These items as well as the reconciliation of the expense pro-rations will result in additional adjustments being required, subject to the consent of both parties. On February 6, 2019, Abode JVP, LLC, a fully owned subsidiary of SPC, received $7.4 million related to the cash credit and transferred it to TCI. On May 15, 2019, Members of the Joint Venture agreed to record approximately $1.1 million of pro-ration adjustments and on July 25,2019, the remaining outstanding balance has been paid in full.

As of December 31, 2019, the Company had notes and interest receivables, net of allowances, of $54.0 million and $3.2 million, respectively, due from related parties. Refer to Part 2, Item 8. Note 5. "Notes and Interest Receivable". During the current period, the Company recognized interest income of $6.9 million, originated $21.4 million, received $12.4 million principal payments, and received interest payments of $7.6 million from these related party notes receivables.

The Company is the primary guarantor on a $25.0 million mezzanine loan between UHF and a lender. In addition, TCI, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2019 UHF was in compliance with the covenants to the loan agreement.

Operating Relationships

The Company received rental revenue of $1.3 million, $1.2 million, and $0.8 million in the years ended December 31, 2019, 2018, and 2017, respectively, from Pillar and its related parties for properties owned by the Company.

Advances and Loans

From time to time, TCI and its related parties have made advances to each other, which generally have not had specific repayment terms, did not bear interest, are unsecured, and have been reflected in TCI's financial statements as other assets or other liabilities. TCI and the advisor charge interest on the outstanding balance of funds advanced to or from TCI. The interest rate, set at the beginning of each quarter, is the prime rate plus 1.0% on the average daily cash balances advanced. At December 31, 2019, TCI has a receivable from ARL in the amount of $142.1 million.

Director Independence

See "Determination of Director Independence" under Item 10 above to which reference is made.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets for the aggregate fees for professional services rendered to TCI and its subsidiaries for the year ended December 31, 2019 and 2018 by TCI's principal accounting firms: Farmer, Fuqua and Swalm and Associates, P.C.

	2019		2018	
	Farmer, Fuqua & Huff, L.P.	Swalm & Associates, P.C. (*)	Farmer, Fuqua & Huff, L.P.	Swalm & Associates, P.C. (*)
Audit Fees	$ 227,755	$ 53,024	$ 551,996	$ 72,210
Tax Fees	12,377	—	38,304	—
Total	$ 240,132	$ 53,024	$ 590,300	$ 72,210

(*) Fees related to IOT

The audit fees for 2019 and 2018 were for professional services rendered for the audits and reviews of the consolidated financial statements of TCI and its subsidiaries. Tax fees for 2019 and 2018 were for services related to federal and state tax compliance and advice.

All services rendered by the principal auditors are permissible under applicable laws and regulations and were pre-approved by either the Board of Directors or the Audit Committee, as required by law. The fees paid to the principal auditors for the services described in the above table fall under the categories listed below:

Audit Fees. These are fees for professional services performed by the principal auditor for the audit of the Company's annual financial statements and review of financial statements included in the Company's 10-Q filings and services that are normally provided in connection with statutory and regulatory filing or engagement.

Audit-Related Fees. These are fees for assurance and related services performed by the principal auditor that are reasonably related to the performance of the audit or review of the Company's financial statements. These services include attestations by the principal auditor that are not required by statute or regulation and consulting on financial accounting/reporting standards.

Tax Fees. These are fees for professional services performed by the principal auditor with respect to tax compliance, tax planning, tax consultation, returns preparation and review of returns. The review of tax returns includes the Company and its consolidated subsidiaries.

All Other Fees. These are fees for other permissible work performed by the principal auditor that do not meet the above category descriptions.

These services are actively monitored (as to both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in the principal auditor's core work, which is the audit of the Company's consolidated financial statements.

The Audit Committee has established policies and procedures for the approval and pre-approval of audit services and permitted non-audit services. The Audit Committee has the responsibility to engage and terminate TCI's independent auditors, to pre-approve their performance of audit services and permitted non-audit services, to approve all audit and non-audit fees, and to set guidelines for permitted non-audit services and fees. All fees for 2019 and 2018 were pre-approved by the Audit Committee or were within the pre-approved guidelines for permitted non-audit services and fees established by the Audit Committee, and there were no instances of waiver of approved requirements or guidelines during the same periods.

Under the Sarbanes-Oxley Act of 2002 (the "SOX Act"), and the rules of the Securities and Exchange Commission (the "SEC"), the Audit Committee of the Board of Directors is responsible for the appointment, compensation and oversight of the work of the independent auditor. The purpose of the provisions of the SOX Act and the SEC rules for the Audit Committee role in retaining the independent auditor is two-fold. First, the authority and responsibility for the appointment, compensation and oversight of the auditors should be with directors who are independent of management. Second, any non-audit work performed by the auditors should be reviewed and approved by these same independent directors to ensure that any non-audit services performed by the auditor do not impair the independence of the independent auditor. To implement the provisions of the SOX Act, the SEC issued rules specifying the types of services that an independent may not provide to its audit client, and governing the Audit Committee's administration of the engagement of the independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that they do not impair the auditor's independence. Accordingly, the Audit Committee has adopted a pre-approval policy of audit and non-audit services (the "Policy"), which sets forth the procedures and conditions pursuant to which services to be performed by the independent auditor are to be pre-approved. Consistent with the SEC rules establishing two different approaches to pre-approving non-prohibited services, the Policy of the Audit Committee covers Pre-approval of audit services, audit-related services, international administration tax services, non-U.S. income tax compliance services, pension and benefit plan consulting and compliance services, and U.S. tax compliance and planning. At the beginning of each fiscal year, the Audit Committee will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and will approve or reject each service, taking into account whether services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor's independence from management. Typically, in addition to the generally pre-approved services, other services would include due diligence for an acquisition that may or may not have been known at the beginning of the year. The Audit Committee has also delegated to any member of the Audit Committee designated by the Board or the financial expert member of the Audit Committee responsibilities to pre-approve services to be performed by the independent auditor not exceeding $25,000 in value or cost per engagement of audit and non-audit services, and such authority may only be exercised when the Audit Committee is not in session.

PART IV

ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES*

(a) The following documents are filed as part of this Report:

1. *Financial Statements*

Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets—December 31, 2019 and 2018
Consolidated Statements of Operations—Years Ended December 31, 2019, 2018, and 2017
Consolidated Statements of Stockholders' Equity—Years Ended December 31, 2019, 2018, and 2017
Consolidated Statements of Cash Flows—Years Ended December 31, 2019, 2018, and 2017
Statements of Consolidated Comprehensive Income (Loss) – Years Ended December 31, 2019, 2018, and 2017
Notes to Financial Statements

2. *Financial Statement Schedules*

Schedule III—Real Estate and Accumulated Depreciation
Schedule IV—Mortgage Loan Receivables on Real Estate

All other schedules are omitted because they are not applicable or because the required information is shown in the Consolidated Financial Statements or the Notes thereto.

3. *Incorporated Financial Statements*

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc. (incorporated by reference to Item 8 of Income Opportunity Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019.

Consolidated Financial Statements of American Realty Investors, Inc. (incorporated by reference to Item 8 of American Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019).

(b) *Exhibits*

The following documents are filed as Exhibits to this Report:

Exhibit Number	Description
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, Preferences, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporation by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).

3.5 Certificate of Designation of Transcontinental Realty Investors, Inc., Setting for the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).

3.6 Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc. Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).

3.7 By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).

3.8 Certificate of designation of Transcontinental Realty Investors, Inc. setting forth the Voting Powers, Designations, Preferences Limitations, Restrictions and Relative rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrants current report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof.

Exhibit Number	Description
10.0	Advisory Agreement dated as of April 30, 2011, between Transcontinental Realty Investors, Inc. and Pillar Income Asset Management LLC (incorporated by reference to Exhibit 10.0 to the Registrant's Current Report on Form 8-K for event occurring April 30, 2011).
10.1	Leman Development Ltd. and Kaufman Land Partners, Ltd. (incorporated by reference to Registrant's current report in Form 8-K dated November 21, 2006 at Exhibit 10.1 thereof.
14.0	Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.0 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
21.0*	Subsidiaries of the Registrant.
31.1*	Certification Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934 as amended of Principal Executive Officer.
31.2*	Certification Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934 as amended of Principal Financial and Accounting Officer.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

ITEM 16. FORM 10-K SUMMARY

Optional and not included herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSCONTINENTAL REALTY INVESTORS, INC.

Dated: March 30, 2020

By: /s/ ALLA DZYUBA
Alla Dzyuba
Vice President and Chief Accounting Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ HENRY A. BUTLER	Chairman of the Board and Director	March 30, 2020
Henry A. Butler		
/s/ WILLIAM J. HOGAN	Director	March 30, 2020
William J. Hogan		
/s/ RAYMOND D. ROBERTS, SR.	Director	March 30, 2020
Raymond D. Roberts, Sr.		
/s/ ROBERT A. JAKUSZEWSKI	Director	March 30, 2020
Robert A. Jakuszewski		
/s/ TED R. MUNSELLE	Director	March 30, 2020
Ted R. Munselle		
/s/ DANIEL J. MOOS	President and Chief Executive Officer (Principal Executive Officer)	March 30, 2020
Daniel J. Moos		
/s/ ALLA DZYUBA	Vice President and Chief Accounting Officer (Principal Financial Officer)	March 30, 2020
Alla Dzyuba		

ANNUAL REPORT ON FORM 10-K
EXHIBIT INDEX
For the Year Ended December 31, 2019

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31.1*	Certification Pursuant to Rule 13a-14(a) and 15d-14 under the Securities Exchange Act of 1934, as amended of Principal Executive Officer.
31.2*	Certification Pursuant to Rule 13a-14(a) and 15d-14 under the Securities Exchange Act of 1934, as amended of Principal Financial and Accounting Officer
32.1*	Certification pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.