TRAMMELL CROW CO
Form 10-K
March 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission file number 1-13531

Trammell Crow Company

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**75-2721454** (IRS Employer Identification Number)
2001 Ross Avenue **Suite 3400** **Dallas, Texas** (Address of principal executive offices)	**75201** (Zip Code)

(214) 863-3000

(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange

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

None

(Title of Class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No o

The aggregate market value of the voting and non-voting common equity held by non-affiliates on June 30, 2004, was $491,122,698, based on the closing price of the registrant s common stock, $14.10 per share, reported on the New York Stock Exchange on June 30, 2004.

There were 35,729,345 shares of the registrant s common stock outstanding as of March 1, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement to be furnished to stockholders in connection with its 2005 Annual Meeting of Stockholders are incorporated by reference in Part III of this Report.

PART I

ITEM 1. BUSINESS

Company Overview

Trammell Crow Company (the Company) is one of the largest diversified commercial real estate service companies in the world. The Company delivers a comprehensive range of services to leading multinational corporations, institutional investors and other users of real estate services. In the United States, the Company is a leading provider of commercial property and facilities management services, commercial property brokerage and transaction management services, commercial property development and construction services and project management services. In addition to its full service offices located throughout the United States, the Company has offices in Canada, Europe, Asia and Latin/South America focused on the delivery of real estate services to users of commercial real estate. The Company delivers brokerage services outside the United States through strategic alliances with leading providers in Europe and Asia, through Savills plc (Savills), a leading property services company based in the United Kingdom; and in Canada, through JJ Barnicke, a leading Canadian real estate services provider. The Company, which is headquartered in Dallas, Texas, was founded in 1948 by Mr. Trammell Crow. From its founding through the 1980 s, the Company s primary business was the development, ownership and management of industrial, office and retail projects. In 1991, the Company was reconstituted as a real estate services company. This reconstitution entailed the separation of the Company s commercial real estate asset base and related operations from its real estate services business. The Company continued to operate the real estate services business while ownership of the commercial real estate asset base that existed in 1991 was segregated into a large number of separate entities distinct from the Company, with independent management and operations.

The Company delivers four core services building management services, brokerage services, project management services and development services to both user and investor clients. The Company s business is organized under two separate national leadership structures. The Global Services Group includes substantially all of the building management services, brokerage services, and project management services delivered to both user and investor clients. Substantially all of the Company s real estate development and investment activities are conducted through the Company s Development and Investment Group. The Company s revenues are generated primarily in the United States, with approximately 97%, 97% and 96% of its revenues derived from domestic operations in each of 2002, 2003 and 2004, respectively. Revenues derived from various foreign operations comprised approximately 3%, 3% and 4% of the Company s total revenues in each of 2002, 2003 and 2004, respectively. Approximately 92%, 91% and 91% of the Company s long-lived assets at December 31, 2002, 2003 and 2004, respectively, relate to the Company s domestic operations, with the remaining portion of its long-lived assets relating to various foreign operations.

Within the Global Services segment, with approximately 6,000 full-time equivalent (FTE) employees, the Company provides services to user clients, including corporations, hospitals, universities and government agencies, that are typically the primary occupants of the commercial properties with respect to which services are performed, and investor clients that are not typically the primary occupants of the commercial properties with respect to which services are performed. The building management services provided to user clients consist primarily of facilities management, which entails providing comprehensive day-to-day occupancy related services, principally to large corporations, healthcare systems and other users that occupy commercial facilities in multiple locations. These services include administration and day-to-day maintenance and repair of client-occupied facilities. Brokerage services provided to user clients include corporate advisory services such as portfolio management and tenant representation. Project management services provided to user clients include facility planning and project management, such as construction oversight, space planning, site consolidations, facilities design, and workplace moves, adds, and changes. The building management services provided to investor clients include property management services relating to all aspects of building operations, tenant relations and oversight of building improvement processes. Brokerage services provided to investor clients include project leasing and investment sales services whereby the Company advises buyers, sellers and landlords in connection with the leasing and sale of office, industrial and retail space, and land. Project management services provided to investor clients include construction management services such as space planning and tenant finish coordination.

Within the Development and Investment segment, encompassing approximately 200 FTE employees, the Company provides development services to investor and user clients both those pursuant to which the Company takes an ownership or co-investment position and those pursuant to which the Company provides development services for others on a fee basis. The Company provides comprehensive project development services and acquires and disposes of commercial real estate projects. The development services provided include financial planning, site acquisition, procurement of approvals and permits, design and engineering coordination, construction bidding and management, tenant finish coordination, project closeout and project financing services. The Company will continue to focus its efforts in this area on risk-mitigated opportunities for investor clients and fee development and build-to-suit projects for user clients, including those in healthcare. From time to time the Company pursues development and investment activities, including opportunistic property acquisitions and new development, for its own account or on a co-investment basis. With an organization comprised of professionals dedicated fully to development and investment activities, the Company is positioned to pursue and execute new development business, particularly programmatic business with the Company s large investor clients, and exploit niche market opportunities.

Long-Term Growth Strategy

The Company s long-term growth strategy is centered around taking advantage of its strong brand name, its scale and geographic scope, its large existing client base, its comprehensive service offerings and, in particular, its development capabilities, which differentiate it among commercial real estate companies, to grow with both user and investor clients, primarily in North America. The key components of this overall growth strategy are:

Focus on Large Markets and Large Clients. The Company is focused on operating in large markets and believes that this focus will allow the Company to achieve the critical mass that fuels growth with large clients. The Company believes that expanding its presence in these markets will create key hubs of growth, enabling the Company to more easily shift resources as needed, establish brand dominance and recruit top talent. The Company intends to maintain its focus on large clients, which have historically fueled much of the Company s revenue growth. The Company believes this focus on large clients will also benefit the Company as the trend continues for both investors and users of space to consolidate their requirements with a smaller number of service providers. While the Company has and will continue to focus on large markets as noted, it does have and will continue to have a presence in a number of small and mid-sized markets. This presence allows the Company to serve large clients with needs in these markets and to be opportunistic relative to locally generated requirements.

Provide Consistent Quality Service. The Company is focused on providing uniform product quality and service delivery across all markets in which it is active. The Company is also focused on continually improving its back office infrastructure capabilities including information technology, accounting, and human resources in support of both internal and client activity. The Company has aimed substantial resources at these areas in recent years and has reorganized each to make it more effective. The Company believes that the sector in which it competes consistently has been weak in these areas and that clients are eager for service providers to demonstrate improved capabilities. While the sector in general is now improving, the Company believes its efforts in this regard should create a competitive advantage, particularly with large clients, which in turn should create growth opportunities.

Expand Brokerage Network. The Company has committed significant resources to expand its brokerage network and to continue development of a highly competitive brokerage business. As part of its strategy to build stronger brokerage teams in major markets, with appropriate coverage in secondary markets, the Company has added brokers throughout its network in the U.S. The Company employed 570 FTE brokers at December 31, 2004, in addition to 54 transaction managers who provide services to national user clients, an increase from 526 FTE brokers and 46 transaction managers at December 31, 2003. Also contributing to this initiative, the Company maintains a cross-border, strategic brokerage alliance with JJ Barnicke in Canada. In addition, the Company continues its strategic alliance with Savills, which has brokerage capability throughout Europe, Asia-Pacific and Australia, to provide the Company with a delivery platform to meet the needs of its clients in these regions.

Capitalize on Outsourcing Opportunity. The commercial real estate-related outsourcing business remains a significant growth opportunity well suited to the Company s full service capabilities. As an outsourcing industry leader, the Company will continue to focus its resources, primarily in the U.S. and, to a lesser degree, in Europe, on adding new clients and growing its substantial relationships with existing outsourcing clients.

Focus on Development Opportunities. With a national organization comprised of professionals dedicated fully to development and investment activities, the Company pursues and executes new development business, with initiatives focused on programmatic business with the Company s large investor clients and, increasingly, build-to-suit projects for user clients, including those in healthcare. The healthcare industry in particular has been less cyclical than the overall economy through the latest downturn in 2001, 2002 and 2003, and the Company has increased its focus in this industry. In addition, from time to time the Company pursues opportunistic property acquisitions or new development with its capital partners or for its own account. The Company has also increased its focus on acquisitions (including those acquisitions where opportunities exist for redevelopment, re-leasing or other areas where the Company can use its expertise to add value) and expects that this activity will increase in the future. The Company has also expanded its activities to include development of mixed-use facilities with a residential component. The Company has assigned national functional experts to these initiatives. In 2004, starts and investments related to these initiatives and programs accounted for approximately 36% of total 2004 starts and investments, based on aggregate budgeted project costs (an increase in project costs of 48% from 2003).

Global Services Segment

The Company provides services to both user and investor clients through its Global Services segment. Global Services segment revenues were $710.8 million in 2004. Revenues generated from the Global Services segment were $685.6 million, $676.5 million, $656.9 million and $649.6 million in 2000, 2001, 2002 and 2003, respectively. At December 31, 2002, 2003 and 2004, total assets attributable to the Global Services segment were $253.0 million, $296.9 million and $319.5 million, respectively. Other financial information about the Global Services segment is contained in *Item 8. Financial Statements and Supplementary Data, Note 22.*

User Services

The Company provides outsourcing services, including facilities management services, corporate advisory services and project management services, to user clients. As of December 31, 2004, the Company utilized approximately 3,200 FTE employees to provide services to approximately 24,000 properties for its outsourcing clients. The goal of the Company s user services business is to align the facilities and support services of its clients with their operational and strategic business objectives. Occupancy-related costs frequently represent the second largest corporate expense item (after compensation and benefits), and the Company believes that organizations are increasingly outsourcing their facility or real estate-related functions to reduce costs, improve profitability and refocus management and other resources on core competencies. The Company has developed expertise in providing real estate outsourcing services to clients in the financial services, healthcare, automotive, oil and gas and technology/communications industries. The Company believes that its expertise in servicing clients within these industries creates additional growth opportunities.

The Company administers outsourcing services using a centralized administrative, marketing and leadership organization combined with client-based delivery systems. The Company offers the following outsourcing service delivery options: (i) dedicated Company employees located at a client site; (ii) a team of Company employees dedicated to a client but located at Company offices; and (iii) a flexible, nationwide network of Company personnel providing the full menu of the Company s real estate services from the Company s local offices. Most of the Company s outsourcing engagements provide for on-site presence of Company employees, which the Company believes enhances client communication, provides focused personal service, enhances the protection of the client s proprietary information and enables the Company to monitor client satisfaction on an ongoing basis.

The Company seeks to enter into multi-year, full-service outsourcing contracts with its clients. Most contracts are structured so the Company receives a monthly base fee and, in some cases, annual incentives if certain agreed-upon performance targets are satisfied. Most contracts also provide for the reimbursement of client-dedicated personnel costs and associated overhead expenses. In many cases, these revenue sources are augmented by variable revenues from transaction services and project management services. The Company believes that significant growth opportunities exist within its existing client base.

The five largest clients for the Company s outsourcing services business, measured in 2004 revenues from such clients, collectively represented 23% of the Company s total revenues in 2004.

In addition to the services described below, the Company also offers strategic services, such as consulting, development, properties portfolio management and real estate asset management.

Facilities Management Services

Facilities management services includes the day-to-day maintenance and repair of facilities, office services (such as security, reprographics, mail, cafeteria, shipping and receiving, and reception services) and call center services (including work-order, dispatch, vendor management and emergency response). As of December 31, 2004, the Company managed approximately 171.7 million square feet for its outsourcing clients. Revenues from facilities management services were $211.1 million in 2004 (27.1% of 2004 revenues), up from $151.5 million in 2000. The growth in revenues is due to the addition of new clients and the expansion of services provided to existing clients.

Corporate Advisory Services

Corporate advisory services include tenant representation and other transaction services such as acquisitions, dispositions, lease administration and lease audits. The Company seeks to manage a client s entire firm-wide property acquisition and divestiture program, but provides services to many clients on a transaction-by-transaction basis. Revenues from corporate advisory services were $143.3 million in 2004 (18.4% of 2004 revenues), as compared to $143.5 million in 2000. In 2001 and 2002, the Company experienced decreases in corporate advisory revenues because the downturn in the economy had a negative impact on the timing and amount of tenant representation and other corporate advisory services revenues earned by the Company. However, the Company s corporate advisory services business began to recover in 2003 and, by 2004, had returned to the peak levels achieved in 2000. In 2004, corporate advisory services revenues increased 16.2% over 2003 revenues. A substantial portion of this growth was driven by an increase in the number of tenant representation brokers as part of the Company s focus on expanding its brokerage network. In addition, growth stemmed from a focus on larger transactions and expansion of services provided to existing clients. See *Brokerage Services* for additional information regarding the Company s brokerage network.

Project Management Services

Project management services include facility planning and management of projects involving construction, space planning, site consolidations, facilities design, workspace moves, adds and changes, and furniture, signage and cabling requirements. Revenues from project management services were $91.6 million in 2004 (11.8% of 2004 revenues), up from $53.4 million in 2000. Although the downturn in the economy in 2001, 2002 and 2003 had a negative impact on user clients project spending, and hence on the timing and amount of project management revenues earned by the Company, revenues have increased since 2001 because the Company has been successful in winning new business and expanding services with existing clients.

Investor Services

The Company provides property management, brokerage, and construction management services to investors in commercial properties.

Property Management Services

As of December 31, 2004, the Company managed approximately 221.2 million square feet of commercial properties (excluding facilities occupied by user clients) and served approximately 550 clients and 12,000 tenants nationwide through its locally-based property management teams. The Company managed 312.7 million, 291.7 million, 261.1 million and 247.7 million square feet of commercial property at the end of 2000, 2001, 2002 and 2003, respectively. Revenues in 2004 from property management services were $137.2 million (17.6% of 2004 revenues), down from $165.1 million in 2000. Property management revenues were adversely impacted by the downturn in the economy during 2001, 2002 and 2003, which has resulted in decreases in occupancy levels and rents (which are drivers of these revenues). Revenues also decreased due to decreases in square footage under management due to sales of buildings in the Company s management portfolio to REITs or other investors that self-manage their properties or use other service providers. Other square footage decreases resulted from clients taking services back in-house or to other service providers. The decrease in revenues is also the result of the Company s sale of portions of the businesses acquired in 1998 from Faison & Associates and Faison Enterprises, Inc. (Faison) back to Faison in 2002 (see *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations)*. The Company has also exited from certain less profitable property management business and has increased its focus on adding office product to its management portfolio, which typically generates higher margins.

The objective of the Company s property management business is to enhance its clients investment values by maintaining high levels of occupancy and lowering property operating costs by offering a wide range of property management services. The property management services offered by the Company consist of (i) building management services such as maintenance, landscaping, security, energy management, owner s insurance, life safety and capital repairs (many of which may be subcontracted by the Company to third-party providers); (ii) tenant relations services such as promotional activities, processing tenant work orders and lease administration services; (iii) coordinating tenant finish; and (iv) related financial management services including accounting, financial reporting and analysis.

The Company expects that a significant portion of its new property management engagements will result from (i) contract wins resulting from clients consolidation of service providers; (ii) property transfers; and (iii) projects that the Company develops for investor clients. The Company focuses on expanding relationships with certain of its investor clients to obtain longer-term management contracts and to provide single-source solutions for their multi-market and multi-functional requirements.

The properties managed by the Company are typically served by locally-based teams of property managers and maintenance personnel supported by various corporate level service functions, including technology support, accounting and purchasing. Large client accounts are typically managed by National Account teams to ensure consistency of quality and to ensure that all client real estate service requirements are appropriately addressed.

The Company typically receives monthly management fees for the property management services it provides, based upon a specified percentage of the monthly rental income or rental receipts generated from the property under management. In certain cases, the Company s property management agreements entitle it to receive the greater of a minimum agreed-upon base fee or a fee based upon monthly rental income or rental receipts as described above. The amount of the management fee varies depending upon local market conditions, product type and rents, the leasing engagement, arrangements for expense reimbursements and specific services required. Incentive fees are sometimes negotiated in turnaround or other unusual circumstances. The Company also may be reimbursed for a portion of its administrative and payroll costs, as well as certain out-of-pocket expenses, directly attributable to the properties under management.

A typical property management agreement of the Company provides for an indefinite term, but permits the property owner or the Company to terminate the agreement without cause upon 30 days prior written notice. The Company believes that these are customary termination provisions in the industry. From time to time the Company loses assignments, most frequently in circumstances where a property has been sold and the new property owner assumes direct responsibility for managing the property or retains one of the Company s competitors to manage the property.

Brokerage Services

Brokerage services are primarily comprised of project leasing (leasing space in real estate owned by investor clients) and investment sales (representing clients buying or selling land or income-producing real estate). While, particularly in larger markets, some of the Company s brokers may specialize in specific types of transaction services (including tenant representation activities, which are included in corporate advisory services), in many cases a broker may facilitate some combination of project leasing, investment sales and tenant representation transactions.

Revenues from investor brokerage services have decreased from $145.8 million in 2000 to $114.5 million in 2004 (14.7% of 2004 revenues), but increased 19.8% from 2003 to 2004. A substantial portion of the decrease in revenues from 2000 to 2004 is due to a reduction in the volume of leasing transactions due to reluctance on the part of clients and others to make new real estate commitments due to the downturn in the economy during 2001, 2002 and 2003, and a reduction in the inventory of projects developed by the Company and available for lease as a result of the decline in project starts in 2002 and 2003. In addition, the economic downturn caused a decrease in rental rates, which are another driver of these revenues. The Company employed 574, 515, 501, 526 and 570 total brokers (including tenant representation brokers facilitating transactions for user clients) at the end of 2000, 2001, 2002, 2003 and 2004, respectively.

The Company typically receives fees for brokerage services based on a percentage of the value of the lease or sale transaction. Some transactions may stipulate a fixed fee or include an incentive bonus component based on the performance of the brokerage professional or client satisfaction. Although transaction volume, rental rates and sales prices are influenced by economic conditions (thus impacting total brokerage revenues, including tenant representation fees), percentage brokerage fee structures have remained relatively constant through both economic upswings and downturns.

Project leasing revenues are derived from the turnover of tenants and leasing of new space in the Company s property management and leasing portfolios of approximately 329.2 million square feet at December 31, 2004. As space rolls each year, the Company has the opportunity to earn a commission paid by the owner of the property for renewing the existing tenant s lease or releasing the space to a new tenant. In addition, the Company earns commissions for leasing of first generation space in certain projects developed by the Company. Investment sales revenues generally increase in economic upswings as available capital drives the trading of income-producing properties and demand for additional space drives the purchase of land for new development. Investment sales revenues generally decline in economic downturns as capital resources are more cautious in purchasing income-producing properties and demand for new space slackens. This decline was mitigated in the most recent downturn by historically low interest rates, which have allowed real estate investments to remain attractive opportunities as compared to other investment classes. In recent years, the Company s brokerage services business was adversely impacted by the weakness of the economy as a whole. The downturn in the economy during 2001, 2002 and 2003 negatively impacted the timing and amount of project leasing revenues and to a lesser extent, investment sales revenues earned by the Company, with total brokerage revenue decreasing $31.3 million from its peak in 2000. The Company s 19.8% increase in brokerage revenue in 2004 from the amount reported in 2003 reflects clients increased confidence in the economic recovery and favorable capital markets fundamentals.

The Company regards its brokerage force as an important tool in marketing the broad array of services the Company provides to its client base. The Company s large network of experienced brokers is a valuable asset when seeking new facilities and property management, project management and development services business. The sheer number of transactions in which its brokers are involved can be a source of information from which the Company can seek to identify business opportunities in specific local or regional markets.

Brokerage personnel earn commissions and are eligible to receive other forms of incentive compensation including financial rewards for cross-selling efforts that result in new engagements for the Company, such as a development project or the acquisition of a new outsourcing account, which in turn enables the Company to acquire additional brokerage business. These incentives are designed to underscore the Company s belief that the brokerage business is often a key point of entry for new clients, and is thus integral to firm wide efforts to cross-sell a full range of services.

The Company believes that the quality brand identification of its name, its large client base, the full range of services it offers clients, the overall breadth and scope of the Company s real estate activities and the Company s incentive-based compensation system create an environment conducive to attracting experienced and capable brokerage professionals.

Construction Management

Construction management services primarily include space planning and tenant finish coordination for investor clients, typically in conjunction with property management and leasing assignments. These fees are typically based on a percentage of project construction costs. In 2004, construction management revenues were $11.2 million (1.4% of 2004 revenues) as compared to $22.7 million in 2000. This decrease in construction management revenues was driven by the Company s disposition of several construction businesses in 2001 and 2002, in addition to general decreases in leasing activity.

Development and Investment

Revenues in the Company s Development and Investment segment primarily consist of development and construction fees (including incentive fees) and gain on disposition of real estate. In addition, segment income is generated from investments in unconsolidated subsidiaries and from the operation and/or disposition of real estate classified as discontinued operations. The impact of Development and Investment project sales accounted for as income from unconsolidated subsidiaries or as income from discontinued operations is a regular part of, and can contribute significantly to, Development and Investment results in any given period.

The Company s network of development talent, access to capital and local market knowledge (attained in part through brokers and other employees in the Global Services segment) give it the capability to generate and implement a significant volume of real estate development and investment activity. The Company undertakes this activity on behalf of its clients, in partnership with its clients (through co-investment) or, from time to time, for its own account.

Historically, the Company primarily focused its commercial real estate development business on office, industrial and retail projects for investor clients. Increasingly, however, the Company has focused on development for user clients, including corporations and those in the healthcare sector. By expanding its focus on development for user clients, particularly those in the healthcare sector, the Company seeks to mitigate the cyclicality traditionally inherent in the commercial development business. In addition, through High Street Residential, a wholly-owned subsidiary of the Company, the Company has expanded its focus to include development of mixed-use facilities with a residential component, including condominium development and transit-oriented development. The Company is also directing its efforts toward acquisitions, including those acquisitions where opportunities exist to add value through redevelopment or re-leasing.

In 2004, income before income taxes from development and investment activities was $24.8 million. Income before income taxes generated from the Development and Investment segment for 2000, 2001, 2002 and 2003 was $40.4 million, $8.3 million, $15.3 million and $8.2 million, respectively. At December 31, 2002, 2003 and 2004, total assets attributable to the Development and Investment segment were $369.1 million, $333.2 million and $429.5 million, respectively. Other financial information about the Development and Investment segment is contained in *Item 8. Financial Statements and Supplementary Data, Note 22.*

From January 1, 2000 through December 31, 2004, the Company acquired and/or commenced development of approximately 42.7 million square feet of projects with aggregate budgeted project costs of approximately $4.6 billion. Acquisitions (including projects acquired for redevelopment or re-leasing purposes) are included in these statistics.

The Company provides its clients with services that are vital in all stages of the development and construction process, including: (i) evaluating project feasibility, budgeting, scheduling and cash flow analysis; (ii) site identification, due diligence and acquisition; (iii) procurement of approvals and permits, including zoning and other entitlements; (iv) coordination of project design and engineering; (v) construction bidding and management and tenant finish coordination; (vi) project close-out and tenant move coordination; and (vii) project finance advisory services.

The Company typically receives a fee for its development services that is based on a negotiated percentage of a project s budgeted construction and development cost. Incentive bonuses may be received for completing a project under budget and within certain critical time deadlines. The Company also seeks to negotiate other incentive compensation arrangements that allow the Company to participate in the investment returns on projects it develops for its clients. The Company may make a co-investment with its clients, receive its pro rata return on its investment in the project and also receive an incentive participation in the project because of the Company s role in sourcing the development project and/or creating value through executing a variety of services in the development process. The Company s co-investments in real estate projects typically result in an upside economic interest substantially greater than the co-investment percentage.

To facilitate the Company s pursuit of development and acquisitions/re-development opportunities that the Company believes have attractive risk/reward profiles yet may not be suitable for its investor clients, from 1996 through 2004, the Company established a series of five discretionary development and investment funds (Trammell Crow Investment Funds I through V), which through December 31, 2004, had received aggregate funding commitments of $154.2 million, consisting of $98.3 million from unrelated parties, $10.9 million from current or former employees of the Company and $45.0 million from the Company. Of the total funding commitments, $104.1 million had been invested through December 31, 2004, in projects with an aggregate project cost of approximately $855.8 million. Of those projects, projects with total costs of $435.5 million had been sold through December 31, 2004.

During 2004, the Company established an industrial development program with ING Clarion. The Company co-invests in the program, which is targeting up to $500 million of product with a focus on the development, aggregation and sale of new bulk warehouse distribution centers in major markets throughout the United States. The program is structured as a joint venture with the Company sourcing projects and providing development services for projects initiated by the program and ING Clarion providing the credit support to the underlying projects. None of the debt related to the projects is recourse to the Company. Since its inception, the program has secured land to develop projects with aggregate budgeted project costs of approximately $160.0 million.

The Company s intent is to explore new programmatic opportunities instead of concentrating on stand-alone real estate transactions. Specifically, the Company is working towards establishing a medical office building fund with a major pension fund to develop, acquire and own medical office buildings. The Company will continue to consider other product types for future programs.

The commercial real estate development business is cyclical and is driven by a variety of economic conditions. New development activity and activity associated with harvesting in-process projects slowed considerably from 2001 through 2003 in response to the downturn in the general economy and its impact on real estate market fundamentals (primarily rental and occupancy rates). The reduced activity levels from 2001 through 2003 led directly to the reduced revenue and earnings from peak levels in 2000 for the Development and Investment segment in those years. During 2004, the pace of the Company s development activity picked up significantly, as measured by the volume of development starts and acquisitions of properties with redevelopment potential.

Competition

The Company competes in several market segments within the commercial real estate industry, each of which is highly competitive on a national and a local level. The Company faces competition from other real estate services providers, consulting firms, in-house corporate real estate departments and developers. Some of the Company s principal competitors in certain of these segments have capabilities and financial resources equal to or greater than those of the Company and a more substantial global presence. Many of the Company s competitors are local or regional firms, which are smaller than the Company on an overall basis, but may be substantially larger than the Company in a particular local or regional market. While the Company does not believe that any of its competitors are dominant in the business lines in which the Company operates, the providers of real estate services that compete with the Company on a national level include Jones Lang LaSalle Incorporated, CB Richard Ellis, Cushman & Wakefield, Inc., Grubb & Ellis and national, regional and local developers. The Company has faced increased competition in recent years, which has, in some cases, resulted in lower service fees, or compensation arrangements more closely aligned with the Company s performance in rendering services to its clients. In recent years, there has been a significant increase in real estate ownership by REITs, many of which self-manage most of their real estate assets. Continuation of this trend could shrink the asset base available to be managed by third-party service providers, decrease the demand for the Company s services and thereby significantly increase its competition. In general, the Company expects the industry to remain very competitive in the future. There can be no assurance that such competition will not have a material adverse effect on the Company s business, financial condition or results of operations.

Employees

As of March 1, 2005, the Company had approximately 6,300 employees. Management believes its relations with employees are good. Employees of the Company at certain properties located in Reno, Nevada, New York, New York and Naperville, Illinois are currently represented by a labor union. The unions represented at the respective locations are: Southern California Nevada Regional Council of Carpenters, Local #971; and Laborers International Union of North America-AFL-CIO Local No. 169 (Reno, Nevada); International Union of Operating Engineers Local Union #94-94A-94B AFL-CIO (New York, New York); and International Union of Operating Engineers Local No. 399 (Naperville, Illinois).

Insurance

The Company has the types of insurance coverage, including comprehensive general liability and excess umbrella liability insurance, that it believes are appropriate for a company in the lines of business in which it operates. The Company s management uses its discretion in determining the amounts, coverage limits and deductibility provisions of appropriate insurance coverage on the Company s properties and operations at a reasonable cost and on suitable terms. This might result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full value of the damages suffered by the Company.

Trademarks

The trade name Trammell Crow is material to the Company s business. The Company is party to a license agreement with respect to such trade name (the License Agreement) with CF98, L.P., (CF98), an affiliate of Crow Realty Investors, L.P. d/b/a Crow Holdings (Crow Holdings), which is wholly-owned by certain descendants and affiliates of Mr. Trammell Crow. See *Risk Factors Trade Name License* for additional information.

Environmental Liability

Various federal, state, local and foreign laws and regulations impose liability on current or previous real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the property. If contamination occurs or is present during the Company s role as a property or facility manager or developer, it could be held liable for such costs as a current operator of the property. Such liability may be imposed without regard to the legality of the acts or omissions that caused the contamination and without regard to whether the Company knew of, or was responsible for, the presence of such hazardous or toxic substances, and such liability may be joint and several with any other parties that are deemed legally liable for the contamination. If the liability is joint and several, the Company could be responsible for payment of the full amount of the liability, whether or not any other responsible party is also liable. Under certain laws and common law principles, any failure by the Company to disclose environmental contamination at a property could subject the Company to liability to a buyer or lessee of the property. In addition, some environmental laws create a lien on a contaminated site for costs that a governmental entity incurs in connection with the contamination. The operator of a site also may be liable under common law to third parties for damages and injuries resulting from exposure to hazardous substances or environmental contamination at a site, including liabilities arising from exposure to asbestos-containing materials. There can be no assurance that any of these types of environmental liabilities to which the Company or any of its affiliates become subject will not have a material adverse effect on the Company s business and results of operations.

Some of the properties owned, operated, managed or under development by the Company contain or are adjacent to or near properties that have contained in the past, or currently contain, underground and/or above-ground storage tanks used to store regulated substances such as petroleum products or other hazardous or toxic substances. Some of the properties owned, operated or managed by the Company are in the vicinity of properties which are currently, or have been, the site of releases of regulated substances and remediation activity, and the Company is currently aware of several properties owned, operated or managed by the Company which may be impacted by regulated substances which may have migrated from adjacent or nearby properties or which may be within the borders of areas suspected to be impacted by regional groundwater contamination. In addition, the Company is aware of the presence or the potential presence of regulated substances in the soil or groundwater at several properties owned, operated or managed by it, which may have resulted from historical or ongoing activities on those properties. Based on the information available to date, the Company believes that the environmental issues described above are being or have been appropriately managed and will not have a material adverse effect on the Company, but there can be no assurance that environmental liabilities or claims will not adversely affect the Company in the future.

Government Regulation

The Company and its brokers, salespersons and, in some instances, property managers are regulated by the states in which they do business. These regulations include licensing procedures, prescribed fiduciary responsibilities and anti-fraud provisions. The Company s activities are also subject to various local, state, national and international jurisdictions fair advertising, trade, housing and real estate settlement laws and regulations and are affected by laws and regulations relating to real estate and real estate finance and development. In particular, a number of jurisdictions have imposed environmental controls, permitting requirements and zoning restrictions on the development of real estate.

The Company is subject to laws governing its relationship with employees, including minimum wage requirements, overtime, working conditions and work permit requirements. The Company believes that it has the necessary permits and approvals to operate each of its properties and their respective businesses.

Under the Americans with Disabilities Act of 1990 (ADA), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. While the Company believes that its properties in which it holds an equity interest are substantially in compliance with these requirements, a determination that such properties are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants.

Risk Factors

An investment in the Company involves certain risks. Readers should read this entire report carefully and should consider among other things, the risks described below.

Trade Name License. The Company has entered into a License Agreement with an affiliate of Crow Holdings that allows the Company to use the name Trammell Crow perpetually throughout the world in any business except the residential real estate business, although the Company can use this name in serving certain mixed-use properties or in providing investment sales brokerage services to buyers and sellers of multi-family residential facilities. This license can be revoked if the Company fails to maintain certain quality standards or infringes upon certain of the licensor s intellectual property rights. If the Company loses the right to use the Trammell Crow name, the Company s business could suffer significantly.

The License Agreement permits certain existing uses of the name Trammell Crow by affiliates of Crow Holdings. The use of the Trammell Crow name or other similar names by third parties may create confusion or reduce the value associated with the Trammell Crow name.

Real Estate Investment and Co-investment Activities. Selective investment in real estate projects is an important part of the Company s strategy and there is an inherent risk of loss of the Company s investment. As of December 31, 2004, the Company had 46 consolidated real estate projects with invested equity of $26.9 million and $27.5 million of notes payable on real estate that are recourse to the Company (beyond being recourse to the single-purpose entity that holds the real estate asset and is the obligor on the note payable). The estimated aggregate project cost of these consolidated real estate projects is $516.9 million. In addition, at December 31, 2004, the Company was involved as a principal (in most cases, co-investing with one of its clients) in 33 unconsolidated real estate subsidiaries in which the Company had invested $39.8 million and had guaranteed notes payable of these unconsolidated subsidiaries of $15.4 million.

Because the disposition of a single significant investment can impact the Company s financial performance in any period, its real estate investment activities could increase (and have historically increased) fluctuations in the Company s net earnings and cash flow. The Company has limited control over the timing of the disposition of these investments and the recognition of any related gain or loss.

The commercial real estate market is cyclical and depends on the perceptions of real estate investors as to general economic conditions. Because the Company s investment strategy typically entails making relatively modest investments alongside its investor clients, its ability to conduct these activities depends in part on the supply of investment capital for commercial real estate and related assets. While the Company believes ample supply of investment capital for real estate currently exists, changes in market perceptions or other economic factors may lead to decreased availability of such capital, which could adversely impact the Company s development and investment strategy. Furthermore, in real estate down-cycles, economic conditions may make certain development project pursuits less viable, and the Company may decide not to continue pursuing such projects. Consequently, the Company s financial results in down cycles may be (and have been) adversely impacted by increased write-offs of pursuit costs that have been capitalized in connection with potential development projects that the Company has determined not to pursue.

Building occupancies and rental rates typically decline in an economic downturn. Therefore, it may take longer for the Company to dispose of real estate investments or the selling prices may be lower than originally anticipated. As a result, the carrying value of the Company s real estate investments may become impaired and the Company could record losses as a result of such impairment.

Recruiting and Retention of Qualified Personnel. The Company s continued success is highly dependent upon the efforts of its executive officers and key employees. If any of the Company s key employees leave, its business may suffer. The growth of the Company s business is also largely dependent upon its ability to attract and retain qualified personnel in all areas of its business, including management. If the Company is unable to attract and retain such qualified personnel, it may be forced to limit its growth, and its business and operating results could suffer. Organizational changes within the Company could impact its ability to retain personnel.

Reliance on Major Clients and Contract Retention. A relatively small number of the Company s clients generate a significant portion of its revenues. The Company s ten largest clients accounted for approximately 31% of its total revenues in 2004, including one client (Bank of America Technology and Operations, Inc., which receives services primarily from the Company s Global Services segment) that accounted for 12% of the Company s total revenues. The loss of one or more of its major clients could have a material adverse effect on the Company s business.

In 2004, revenue from property management and from user clients with whom the Company has outsourcing contracts constituted approximately 18% and 45%, respectively, of the Company s total revenues. The Company s property management contracts can generally be cancelled upon 30 days notice by either party, and its outsourcing services contracts are typically for multi-year terms with options to renew. Accordingly, contracts representing a significant percentage of the Company s revenues are terminable on short notice or may be scheduled to expire in any one year. The Company has been successful in retaining and renewing a significant portion of its contracts but may not be able to do so in the future. Moreover, increased competition may force the Company to renew such contracts on less favorable terms.

Long-Term Growth. The Company will continue to focus on additions to its base business that should be less impacted by economic down cycles over time and are expected to create long-term growth. The Company s historical growth and any significant future growth will continue to place demands on the Company s resources. The Company s future success and profitability will depend, in part, on its ability to enhance its management and operating systems, manage and adapt to rapid changes in technology, obtain financing for capital expenditures or strategic acquisitions and retain employees and clients through periods of internal changes. The Company may not be able to successfully manage any significant expansion or obtain adequate financing for such expansion on favorable terms, if at all. In addition, the Company is impacted by cycles in the general economy and the commercial real estate industry and, as a result, its growth strategy is directly impacted by those economic cycles.

Business Acquisitions. The Company may pursue strategic acquisitions in the future. However, the Company may not be able to acquire businesses on favorable terms, and may have to use a substantial portion of its capital resources for any such acquisitions. Challenges and issues commonly encountered in strategic acquisitions include:

- diversion of management s attention to assimilating the acquired business;
- maintaining employment relationships with the Company s employees and employees of an acquired business;
- adverse short-term effects on operating results;
- integrating financial and other administrative systems;
- amortization or impairment of any acquired intangible assets; and
- maintaining uniform standards, controls, procedures and policies.

In addition, the acquired businesses clients could cease to do business with the Company. Potential conflicts between the Company s clients and those of an acquired business could threaten its business relationships. If the Company is not able to manage these risks, its business could suffer significantly.

International Operations. The Company operates in several markets outside the United States and is subject to the risks common for international operations and investments in foreign countries. These risks include:

- difficulties in staffing and managing geographically and culturally diverse, multinational operations;
- lack of familiarity with local business customs and operating environments;
- changes in foreign tax laws;
- changes in currency exchange rates;
- limitations on repatriation of earnings;
- restrictive actions by local governments;

- nationalization and expropriation; and
- acts of terror, war and civil disturbances.

Fluctuations in Quarterly Operating Results. In recent years, the Company s revenues have been lower in each of the first three quarters than in the fourth quarter because its clients tend to close transactions toward the end of their fiscal years (typically the calendar year). This causes the Company to earn a significant portion of its revenues under transaction-oriented service contracts or real estate transactions in the fourth quarter.

In addition, a growing portion of the Company s outsourcing contracts provide for bonus payments upon achieving certain performance targets. These incentive payments are generally earned in the fourth quarter. Furthermore, revenues can be influenced by the timing of significant individual transactions. The Company plans its capital and operating expenditures based on its expectations of future revenues. If revenues are below expectations in any given quarter, the Company may be unable to adjust expenditures to compensate for any unexpected revenue shortfall. The Company s business could suffer as a consequence.

Competition. The Company competes in several market segments within the commercial real estate industry, each of which is highly competitive on an international, national and local level. The Company faces competition from other real estate services providers, consulting firms, in-house corporate real estate departments and developers. The adverse consequences of intense competition may include loss of clients and downward pressure on pricing. In recent years, there has been a significant increase in real estate ownership by REITs, many of which self-manage most of their real estate assets. Continuation of this trend could shrink the asset base available to be managed by third party service providers, decrease the demand for the Company s services and thereby significantly increase its competition.

Environmental Liability. Various laws and regulations impose liability on real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the property. In the Company s role as a property or facility manager or developer, the Company could be held liable as an operator for such costs. This liability may be imposed without regard to the legality of the original actions and without regard to whether the Company knew of, or was responsible for, the presence of the hazardous or toxic substances. If the Company fails to disclose environmental issues, the Company could also be liable to a buyer or lessee of the property. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs incurred in connection with the contamination. If the Company incurs any such liability, its business could suffer significantly.

Anti-takeover Considerations. Certain provisions of the Company s certificate of incorporation, bylaws and certain provisions of Delaware law may deter or prevent a takeover attempt, including an attempt that might result in a premium over the market price for its common stock. These provisions include:

- *Staggered Board of Directors.* The Company s Board of Directors is divided into three classes serving terms currently expiring in 2005, 2006 and 2007. Because the Company s Board of Directors is divided into classes, members of its Board of Directors may only be removed from office prior to the expiration of their terms if such removal is for cause. Therefore, the staggered terms of directors may limit the ability of holders of common stock to complete a change of control.

- *Stockholder Proposals.* The Company s stockholders must follow an advance notification procedure for certain stockholder nominations of candidates for the Company s Board of Directors and for certain other business to be conducted at any stockholders meeting. This limitation on stockholder proposals could inhibit a change of control.

- *Special Meetings of the Stockholders.* Subject to limited exceptions, special meetings of stockholders may be called only by the Chairman of the Board of Directors or a majority of the members of the Board of Directors. This limitation on special meetings of the stockholders could inhibit a change of control.

- *Preferred Stock.* The Company s certificate of incorporation authorizes the Company s Board of Directors to issue up to 30,000,000 shares of preferred stock having such rights as may be designated by the Company s Board of Directors, without stockholder approval. The issuance of such preferred stock could inhibit a change of control.

- *Delaware Anti-takeover Statute.* Section 203 of the Delaware General Corporation Law restricts certain business combinations with interested stockholders upon their acquiring 15% or more of the Company s common stock. This statute may have the effect of inhibiting a non-negotiated merger or other business combination.

Available Information

The Company s Internet address is www.trammellcrow.com. The Company makes available free of charge through its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

ITEM 2. PROPERTIES

The Company s executive offices are located at 2001 Ross Avenue, 3400 Trammell Crow Center, Dallas, Texas 75201 and consist of approximately 46,898 square feet of leased office space. The Company s telephone number at such address is (214) 863-3000. The Company s lease at its executive offices expires on December 31, 2009.

ITEM 3. LEGAL PROCEEDINGS

The Company and one of its subsidiaries are defendants in a lawsuit styled *Bank One Oklahoma, N.A., et al.* (the Bank) *v. Trammell Crow Services, Inc. and Trammell Crow Company*, No. 03 C 3624, pending in the US District Court for the Northern District of Illinois, originally filed on April 2, 2003. The claims asserted by the plaintiffs relate to a sale/leaseback transaction involving a property in Oklahoma City previously owned by the Bank. The suit alleges breach of contract, breach of fiduciary duty, negligent misrepresentation, fraudulent misrepresentation and fraudulent concealment against the Company and/or its subsidiary and alleges that the plaintiffs have been damaged in an unspecified amount in excess of $15.0 million. The plaintiffs seek to recover actual damages, punitive damages and reasonable attorneys fees. The suit is in the process of discovery, and no trial date has been set. As of the date of this Form 10-K, the outcome of the suit cannot be predicted with any certainty, and the Company cannot at this time estimate an amount or range of potential loss in the event of an unfavorable outcome. While the Company cannot predict with any certainty the outcome of this matter, the Company currently believes the plaintiffs claims are without merit and is vigorously defending the lawsuit.

From time to time, the Company is involved in other litigation matters that arise in the ordinary course of its business, some of which involve claims for damages which are substantial in amount. The ultimate liability for these matters cannot be determined. However, based on the information currently available, the Company does not believe that the resolution of any such matters to which it is currently a party will have a material adverse effect on the Company s results of operations, financial condition or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock is listed on the New York Stock Exchange (NYSE) and trades under the symbol TCC. At March 1, 2005, 35,729,345 shares were held by approximately 2,151 stockholders of record. The following table sets forth the high and low sales prices per share of Common Stock as reported on the NYSE Composite Transaction Tape on a quarterly basis for the last two fiscal years.

	High	Low
2003:		
First Quarter	$ 9.67	$ 7.75
Second Quarter	$ 10.68	$ 7.75
Third Quarter	$ 13.05	$ 10.50
Fourth Quarter	$ 14.15	$ 11.30
2004:		
First Quarter	$ 14.52	$ 13.25
Second Quarter	$ 14.30	$ 12.25
Third Quarter		