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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2023  
or

- 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 001-09240

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

94-6565852  
(I.R.S. Employer  
Identification No.)

**1603 Lyndon B. Johnson Freeway, Suite 800, Dallas, Texas 75234**  
(Address of principal executive offices) (Zip Code)

**(469) 522-4200**  
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	TCI	NYSE

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 every Interactive Data File required to be submitted 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 such files).  Yes  No

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 in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer       Non-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.

As of May 11, 2023, there were 8,639,316 shares of common stock outstanding.

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TRANSCONTINENTAL REALTY INVESTORS, INC.  
FORM 10-Q

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands, except share and par value amounts)  
(Unaudited)

	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
<b>Assets</b>		
Real estate	\$ 502,941	\$ 493,821
Cash and cash equivalents	55,313	113,424
Restricted cash	55,188	108,883
Short-term investments	158,086	119,787
Notes receivable (including \$66,630 at March 31, 2023 and December 31, 2022 from related parties)	129,056	129,304
Investment in unconsolidated joint venture	3,616	20,904
Receivables from related parties, net	141,613	147,142
Other assets (including \$1,991 at March 31, 2023 and \$4,040 at December 31, 2022 from related parties)	82,993	84,900
Total assets	<u>\$ 1,128,806</u>	<u>\$ 1,218,165</u>
<b>Liabilities and Equity</b>		
Liabilities:		
Mortgages and other notes payable	\$ 183,637	\$ 184,462
Bonds payable	41,672	129,218
Accounts payable and other liabilities (including \$599 at March 31, 2023 and December 31, 2022 to related parties)	55,948	58,094
Accrued interest	2,641	5,198
Deferred revenue	581	581
Total liabilities	<u>284,479</u>	<u>377,553</u>
Equity		
Shareholders' Equity:		
Common stock, \$0.01 par value, 10,000,000 shares authorized; 8,639,316 shares issued and outstanding	86	86
Additional paid-in capital	260,387	260,387
Retained earnings	562,511	558,994
Total shareholders' equity	822,984	819,467
Noncontrolling interest	21,343	21,145
Total equity	844,327	840,612
Total liabilities and equity	<u>\$ 1,128,806</u>	<u>\$ 1,218,165</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Revenues:</b>		
Rental revenues (including \$268 and \$256 for the three months ended March 31, 2023 and 2022, respectively, from related parties)	\$ 11,009	\$ 7,481
Other income	679	306
Total revenue	<u>11,688</u>	<u>7,787</u>
<b>Expenses:</b>		
Property operating expenses (including \$100 and \$117 for the three months ended March 31, 2023 and 2022, respectively, from related parties)	6,106	4,028
Depreciation and amortization	3,102	2,349
General and administrative (including \$1,431 and \$1,292 for the three months ended March 31, 2023 and 2022, respectively, from related parties)	2,883	2,531
Advisory fee to related party	2,170	3,005
Total operating expenses	<u>14,261</u>	<u>11,913</u>
Net operating loss	(2,573)	(4,126)
Interest income (including \$6,081 and \$3,963 for the three months ended March 31, 2023 and 2022, respectively, from related parties)	9,772	5,814
Interest expense (including \$944 and \$418 for the three months ended March 31, 2023 and 2022, respectively, from related parties)	(4,031)	(5,027)
Gain on foreign currency transactions	971	3,772
Loss on early extinguishment of debt	—	(1,639)
Equity in income from unconsolidated joint venture	688	4,706
Gain on sale or write-down of assets, net	—	11,148
Income tax provision	(1,112)	(28)
Net income	<u>3,715</u>	<u>14,620</u>
Net income attributable to noncontrolling interest	(198)	(118)
Net income attributable to the Company	<u>\$ 3,517</u>	<u>\$ 14,502</u>
<b>Earnings per share - basic and diluted</b>	<u>\$ 0.41</u>	<u>\$ 1.68</u>
Weighted average common shares used in computing earnings per share - basic and diluted	<u>8,639,316</u>	<u>8,639,316</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(dollars in thousands)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interest	Total Equity
<b>Three Months Ended March 31, 2023</b>						
Balance, January 1, 2023	\$ 86	\$ 260,387	\$ 558,994	\$ 819,467	\$ 21,145	\$ 840,612
Net income	—	—	3,517	3,517	198	3,715
Balance, March 31, 2023	<u>\$ 86</u>	<u>\$ 260,387</u>	<u>\$ 562,511</u>	<u>\$ 822,984</u>	<u>\$ 21,343</u>	<u>\$ 844,327</u>
<b>Three Months Ended March 31, 2022</b>						
Balance, January 1, 2022	\$ 86	\$ 260,387	\$ 90,732	\$ 351,205	\$ 20,403	\$ 371,608
Net income	—	—	14,502	14,502	118	14,620
Balance, March 31, 2022	<u>\$ 86</u>	<u>\$ 260,387</u>	<u>\$ 105,234</u>	<u>\$ 365,707</u>	<u>\$ 20,521</u>	<u>\$ 386,228</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in thousands)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash Flow From Operating Activities:</b>		
Net income	\$ 3,715	\$ 14,620
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale or write down of assets	—	(11,148)
Gain on foreign currency transactions	(971)	(3,772)
Loss on early extinguishment of debt	—	1,639
Depreciation and amortization	3,755	3,210
Provision for bad debts	—	139
Equity in income from unconsolidated joint venture	(688)	(4,706)
Changes in assets and liabilities, net of dispositions:		
Other assets	(691)	5,393
Related party receivables	42	(1,436)
Interest payable	(1,483)	(4,955)
Accounts payable and other liabilities	(2,146)	(3,162)
Net cash provided by (used in) operating activities	<u>1,533</u>	<u>(4,178)</u>
<b>Cash Flow From Investing Activities:</b>		
Collection of notes receivable	248	632
Originations and advances on notes receivable	—	(537)
Purchase of short-term investment	(63,956)	(16,584)
Redemption of short-term investments	27,192	—
Development and renovation of real estate	(5,653)	(6,388)
Deferred leasing costs	(19)	—
Proceeds from sale of assets	—	28,523
Distributions from unconsolidated joint venture	17,976	—
Net cash (used in) provided by investing activities	<u>(24,212)</u>	<u>5,646</u>
<b>Cash Flow From Financing Activities:</b>		
Payments on mortgages, other notes and bonds payable	(89,111)	(38,179)
Debt extinguishment costs	—	(590)
Deferred financing costs	(16)	—
Net cash used in financing activities	<u>(89,127)</u>	<u>(38,769)</u>
Net decrease in cash, cash equivalents and restricted cash	(111,806)	(37,301)
Cash, cash equivalents and restricted cash, beginning of period	222,307	72,721
Cash, cash equivalents and restricted cash, end of period	<u>\$ 110,501</u>	<u>\$ 35,420</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
**(Unaudited)**

**1. Organization**

As used herein, the terms “the Company”, “we”, “our”, or “us” refer to Transcontinental Realty Investors, Inc., a Nevada corporation, which was formed in 1984. Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “TCI”. We are owned approximately 78% by American Realty Investors, Inc. (“ARL”), whose common stock is listed on the NYSE under the symbol “ARL”, and 7% by the controlling shareholder of ARL.

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 income from the sales of income-producing properties and land.

Substantially all of our assets are held by our wholly-owned subsidiary, Southern Properties Capital Ltd. (“SPC”), which was formed for the purpose of raising funds by issuing non-convertible bonds that were listed on the Tel-Aviv Stock Exchange (“TASE”).

At March 31, 2023, our portfolio of properties consisted of:

- Four office buildings comprising in aggregate of approximately 1,056,793 square feet;
- Fourteen multifamily properties, owned directly by us, comprising of 2,328 units; and
- Approximately 1,858 acres of developed and undeveloped land.

Our day to day operations are managed by Pillar Income Asset Management, Inc. (“Pillar”). Their 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 with third party lenders and investors. All of our employees are Pillar employees. Three of our commercial properties are managed by Regis Realty Prime, LLC (“Regis”). Regis provides leasing, construction management and brokerage services. Our multifamily properties and one of our commercial properties are managed by outside management companies. Pillar and Regis are considered to be related parties (See Note 14 – Related Party Transactions).

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included.

The consolidated balance sheet at December 31, 2022 was derived from the audited consolidated financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022. Certain 2022 consolidated financial statement amounts have been reclassified to conform to the current presentation.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

We consolidate entities in which we are considered to be the primary beneficiary of a variable interest entity (“VIE”) or have a majority of the voting interest of the entity. We have determined that we are a primary beneficiary of the VIE when we have (i) the power to direct the activities of a VIE that most significantly impacts its economic performance, and (ii) the obligations to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether we are the primary beneficiary, we consider qualitative and quantitative factors, including ownership interest, management representation, ability to control decision and other contractual rights.

We account for entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary under the equity method of accounting. Accordingly, we include our share of the net earnings or losses of these entities in our results of operations.

**3. Earnings Per Share**

Earnings per share (“EPS”) is computed by dividing net income attributable to the Company by the weighted-average number of common shares outstanding during the period.

The following table details our basic and diluted earnings per common share calculation:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Net income	\$ 3,715	\$ 14,620
Net income attributable to noncontrolling interest	(198)	(118)
Net income attributable to the Company	<u>\$ 3,517</u>	<u>\$ 14,502</u>
Weighted-average common shares outstanding — basic and diluted	<u>8,639,316</u>	<u>8,639,316</u>
EPS - attributable to common shares — basic and diluted	<u>\$ 0.41</u>	<u>\$ 1.68</u>

**4. Supplemental Cash Flow Information**

The following presents the schedule of interest paid and other supplemental cash flow information:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Cash paid for interest	<u>\$ 6,403</u>	<u>\$ 9,206</u>
Cash - beginning of period		
Cash and cash equivalents	\$ 113,424	\$ 50,735
Restricted cash	108,883	21,986
	<u>\$ 222,307</u>	<u>\$ 72,721</u>
Cash - end of period		
Cash and cash equivalents	\$ 55,313	\$ 13,789
Restricted cash	55,188	21,631
	<u>\$ 110,501</u>	<u>\$ 35,420</u>
Payments on mortgages, other notes and bonds payable		
Payments on mortgages and other notes payable	\$ 832	\$ 15,257
Payments on bond payable	88,279	22,922
	<u>\$ 89,111</u>	<u>\$ 38,179</u>



**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

The following is a schedule of noncash investing and financing activities:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Property acquired in exchange for reduction of related party receivable	\$ 5,487	\$ —
Distribution from joint venture applied to Earn Out Obligation	\$ —	\$ 7,012

**5. Operating Segments**

Our segments are based on the internal reporting that we review for operational decision-making purposes. We operate in two reportable segments: (i) the acquisition, development, ownership and management of multifamily properties and (ii) the acquisition, ownership and management of commercial properties. The services for our multifamily segment include rental of apartments and other tenant services, including parking and storage space rental. Asset information by segment is not reported because we do not use this measure to assess performance or make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses, advisory fees, interest income and interest expense are not included in segment profit as our internal reporting addresses these items on a corporate level.

The following table presents our reportable segments for the three months ended March 31, 2023 and 2022:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Multifamily Segment</b>		
Revenues	\$ 7,373	\$ 3,229
Operating expenses	(3,708)	(1,721)
Profit from segment	3,665	1,508
<b>Commercial Segment</b>		
Revenues	3,636	4,252
Operating expenses	(2,398)	(2,307)
Profit from segment	1,238	1,945
<b>Total profit from segments</b>	<b>\$ 4,903</b>	<b>\$ 3,453</b>

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

The table below reflects the reconciliation of total profit from segments to net income for the three months ended March 31, 2023 and 2022:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Total profit from segments	\$ 4,903	\$ 3,453
Other non-segment items of income (expense)		
Depreciation and amortization	(3,102)	(2,349)
General and administrative	(2,883)	(2,531)
Advisory fee to related party	(2,170)	(3,005)
Other income	679	306
Interest income	9,772	5,814
Interest expense	(4,031)	(5,027)
Gain on foreign currency transactions	971	3,772
Loss on early extinguishment of debt	—	(1,639)
Income from unconsolidated joint venture	688	4,706
Gain on sales or write-down of assets	—	11,148
Income tax provision	(1,112)	(28)
Net income	<u>\$ 3,715</u>	<u>\$ 14,620</u>

**6. Lease Revenue**

We lease our multifamily properties and commercial properties under agreements that are classified as operating leases. Our multifamily property leases generally include minimum rents and charges for ancillary services. Our commercial property leases generally included minimum rents and recoveries for property taxes and common area maintenance. Minimum rental revenues are recognized on a straight-line basis over the terms of the related leases.

The following table summarizes the components of our rental revenue for the three months ended March 31, 2023 and 2022:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Fixed component	\$ 10,708	\$ 6,996
Variable component	301	485
	<u>\$ 11,009</u>	<u>\$ 7,481</u>

The following table summarizes the future rental payments that are payable to us from non-cancelable leases. The table excludes multifamily leases, which typically have a term of one-year or less:

2023	\$ 11,050
2024	8,819
2025	8,496
2026	8,177
2027	7,965
Thereafter	19,760
	<u>\$ 64,267</u>

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

**7. Real Estate Activity**

Below is a summary of our real estate as of March 31, 2023 and December 31, 2022:

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Land	\$ 119,203	\$ 108,933
Building and improvements	360,316	359,904
Tenant improvements	26,061	25,611
Construction in progress	66,351	65,427
Total cost	571,931	559,875
Less accumulated depreciation	(68,990)	(66,054)
Total real estate	<u>\$ 502,941</u>	<u>\$ 493,821</u>

On March 15, 2023, we entered into a development agreement with Pillar to build a 240 unit multifamily property in Lake Wales, Florida that is expected to be completed in 2025 for a total cost of approximately \$55,330. The cost of construction will be funded in part by a \$33,000 construction loan (See Note 12 - Mortgages and Other Notes Payable). The development agreement provides for a \$1,637 fee that will be paid over the construction period. As of March 31, 2023, we have incurred a total of \$10,140 in development costs.

Gain on sale or write-down of assets, net for the three months ended March 31, 2023 and 2022 consists of the following:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Land(1)	\$ —	\$ 1,989
Multifamily Properties(2)	—	9,364
Commercial Properties	—	(205)
Total	<u>\$ —</u>	<u>\$ 11,148</u>

- (1) Includes the gain on the sale of lots related to our investment in Windmill Farms, Mercer Crossing and other land holdings.
- (2) On January 14, 2022, we sold Toulon, a 240 unit multifamily property in Gautier, Mississippi for \$26,750, resulting in a gain on sale of \$9,364. We used the proceeds to pay off the \$14,740 mortgage note payable on the property and for general corporate purposes.

**8. Short-term Investments**

We have an investment in variable denominated floating rate notes and short-term commercial paper. The interest rate on the notes was 4.76% and 4.67% at March 31, 2023 and December 31, 2022, respectively.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
**(Unaudited)**

**9. Notes Receivable**

The following table summarizes our notes receivable as of March 31, 2023 and December 31, 2022:

Property/Borrower	Carrying value		Interest Rate	Maturity Date
	March 31, 2023	December 31, 2022		
ABC Land and Development, Inc.	\$ 4,408	\$ 4,408	9.50 %	6/30/26
ABC Paradise, LLC	1,210	1,210	9.50 %	6/30/26
Autumn Breeze(1)	2,157	2,326	5.00 %	7/1/25
Bellwether Ridge(1)	3,798	3,798	5.00 %	11/1/26
Forest Pines(1)(4)	6,472	6,472	5.00 %	11/1/22
Legacy Pleasant Grove	496	496	12.00 %	10/23/24
McKinney Ranch	3,926	3,926	6.00 %	9/15/24
One Realco Land Holding, Inc.	1,728	1,728	9.50 %	6/30/26
Parc at Ingleside(1)	3,759	3,759	5.00 %	11/1/26
Parc at Opelika Phase II(1)(4)	3,190	3,190	10.00 %	1/13/23
Parc at Windmill Farms(1)(4)	7,886	7,886	5.00 %	11/1/22
Phillips Foundation for Better Living, Inc.(2)	182	182	12.00 %	3/31/24
Plum Tree(1)	1,767	1,767	5.00 %	4/26/26
Polk County Land	3,000	3,000	9.50 %	6/30/26
Riverview on the Park Land, LLC	1,045	1,045	9.50 %	6/30/26
Spartan Land	5,907	5,907	12.00 %	1/16/25
Spyglass of Ennis(1)(4)	5,179	5,258	5.00 %	11/1/22
Steeple Crest(1)	6,498	6,498	5.00 %	8/1/26
Unified Housing Foundation(2)(3)	20,325	20,325	12.00 %	6/30/23
Unified Housing Foundation(2)(3)	10,096	10,096	12.00 %	3/31/24
Unified Housing Foundation(2)(3)	6,990	6,990	12.00 %	3/31/25
Unified Housing Foundation(2)(3)	3,615	3,615	12.00 %	5/31/23
Unified Housing Foundation(2)(3)	17,172	17,172	12.00 %	12/31/32
Unified Housing Foundation(2)(3)	6,521	6,521	12.00 %	3/31/24
Unified Housing Foundation(2)(3)	1,549	1,549	12.00 %	4/30/24
Unified Housing Foundation(2)(3)	180	180	12.00 %	6/30/24
	<u>\$ 129,056</u>	<u>\$ 129,304</u>		

- (1) The note is convertible, at our option, into a 100% ownership interest in the underlying development property, and is collateralized by the underlying development property.
- (2) The borrower is deemed to be a related party due to our significant investment in the performance of the collateral secured by the notes receivable.
- (3) Principal and interest payments on the notes from Unified Housing Foundation, Inc. (“UHF”) are funded from surplus cash flow from operations, sale or refinancing of the underlying properties and are cross collateralized to the extent that any surplus cash available from any of the properties underlying the notes.
- (4) We are working with the borrower to extend the maturity and/or exercise our conversion option.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
**(Unaudited)**

**10. Investment in Unconsolidated Joint Ventures**

On November 16, 2018, our SPC subsidiary formed the Victory Abode Apartments, LLC ("VAA"), a joint venture with the Macquarie Group ("Macquarie"). VAA was formed as a result of a sale of the 50% ownership interest in a portfolio of multifamily properties owned by us in exchange for a 50% voting interest / 49% profit participation interest ("Class A interest") in VAA and a note payable ("Mezzanine Loan"). Concurrent with the Contribution, VAA issued Class B interests with a 2% profits participation interest and no voting rights to the manager of VAA ("Class B Member").

In connection with the formation of VAA, ten of the initial properties were subject to an earn-out provision ("Earn Out") that provided for a remeasurement of value after a two-year period following the completion of construction. Upon the formation of VAA, we recorded an initial liability ("Earn Out Obligation") of \$10,000 for the advance on the Earn Out that we received from Macquarie. Upon remeasurement, the Earn Out Obligation was determined to be approximately \$39,600. In accordance with the joint venture operating agreement, the Earn Out Obligation was paid from our share of distributions from VAA in 2022.

On September 16, 2022, VAA sold 45 of its properties ("VAA Sale Portfolio") for \$1,810,700, resulting in gain on sale of \$738,444 to the joint venture. In connection with sale, we received an initial distribution of \$182,848 from VAA, which included the payment of the remaining balance of the Earn Out Obligation.

On November 1, 2022, we received an additional distribution from VAA, which included the full operational control of the remaining seven properties of VAA ("VAA Holdback Portfolio") (See Note 11 - Acquisitions) and a cash payment of \$204,036. We are in the process of negotiating the assumption of the mortgage notes payable on the VAA Holdback Portfolio with the lenders.

On March 23, 2023, we received \$17,976 from VAA, which represented the remaining distribution of the proceeds from the sale of the VAA Sale Portfolio.

We plan to use our share of the proceeds from the sale of the VAA Sale Portfolio to invest in additional income-producing real estate, pay down our debt and for general corporate purposes.

The following is a summary of our investment in VAA:

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
<b>Assets</b>		
Cash, cash equivalents and restricted cash	\$ 6,883	\$ 50,058
Other assets	295	2,346
	<u>\$ 7,178</u>	<u>\$ 52,404</u>
<b>Liabilities and partners' capital</b>		
Liabilities from discontinued operations	\$ —	\$ 8,824
Other liabilities	162	1,988
Our share of partners' capital	3,616	20,904
Outside partner's capital	3,400	20,688
	<u>\$ 7,178</u>	<u>\$ 52,404</u>

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
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The following is a summary of income from VAA:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Revenue</b>		
Rental revenue	\$ —	\$ 3,931
Other revenue	—	142
Total revenue	—	4,073
<b>Expenses</b>		
Operating expenses	(331)	2,621
Depreciation and amortization	—	844
Interest	(291)	5,714
Total expenses	(622)	9,179
Income (loss) from continuing operations	622	(5,106)
Income from discontinued operations	754	3,436
Net income (loss)	<u>\$ 1,376</u>	<u>\$ (1,670)</u>
Equity in income from unconsolidated joint venture	<u>\$ 688</u>	<u>\$ 4,706</u>

**11. Acquisitions**

On November 1, 2022, we acquired the remaining 50% ownership interest in the VAA Holdback Portfolio that we did not previously own through a distribution from VAA (See Note 10 – Investment in Unconsolidated Joint Ventures). Prior to the acquisition, we had accounted for the VAA Holdback Portfolio under the equity method of accounting as part of our investment in VAA. The acquisition was completed in order to obtain 100% ownership and control over this well positioned portfolio of multifamily residential properties in southern United States.

The VAA Holdback Portfolio consisted of the following properties:

<b>Property</b>	<b>Location</b>	<b>Units</b>
Blue Lake Villas	Waxahachie, TX	186
Blue Lake Villas Phase II	Waxahachie, TX	70
Northside on Travis	Sherman, TX	200
Parc at Denham Springs	Denham Spring, LA	224
Residences at Holland Lake	Weatherford, TX	208
Villas of Park West I	Pueblo, CO	148
Villas of Park West II	Pueblo, CO	112
		<u>1,148</u>

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The following is a summary of the preliminary allocation of the fair value of the VAA Holdback Portfolio:

Real estate	\$ 219,500
Other assets	4,843
Total assets acquired	<u>224,343</u>
Mortgage notes payable	70,330
Accounts payable and other liabilities	1,624
Accrued interest	190
Total liabilities assumed	<u>72,144</u>
Fair value of acquired net assets (100% ownership)	<u><u>\$ 152,199</u></u>

We have determined that the purchase price represented the fair value of the additional ownership interest in the VAA Holdback Portfolio that was acquired.

Fair value of existing ownership interest (at 50% ownership)	\$ 219,500
Carrying value of investment	146,313
Gain on remeasurement of assets	<u><u>\$ 73,187</u></u>

From November 1, 2022, we have included the VAA Holdback Portfolio in our consolidated financial statements.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
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**12. Mortgages and Other Notes Payable**

The following table summarizes our mortgages and other notes payable as of March 31, 2023 and December 31, 2022:

Property/ Entity	Carrying Value		Interest Rate	Maturity Date
	March 31, 2023	December 31, 2022		
770 South Post Oak	\$ 11,345	\$ 11,406	4.40 %	6/1/2025
Athens	1,155	1,155	4.00 %	8/28/2023
Blue Lake Villas(1)	9,631	9,673	3.15 %	11/1/2055
Blue Lake Villas Phase II(1)	3,405	3,424	2.85 %	6/1/2052
Chelsea	7,834	7,875	3.40 %	12/1/2050
EQK Portage	3,350	3,350	10.00 %	11/13/2024
Forest Grove	7,092	7,128	3.75 %	5/5/2024
Landing Bayou	14,099	14,161	3.50 %	9/1/2053
Legacy at Pleasant Grove	12,960	13,039	3.60 %	4/1/2048
Northside on Travis(1)	11,591	11,656	2.50 %	2/1/2053
Parc at Denham Springs(1)	16,653	16,737	3.75 %	4/1/2051
Parc at Denham Springs Phase II	15,744	15,789	4.05 %	2/1/2060
RCM HC Enterprises	5,086	5,086	5.00 %	12/31/2024
Residences at Holland Lake(1)	10,573	10,622	3.60 %	3/1/2053
Villas at Bon Secour	19,310	19,410	3.08 %	9/1/2031
Villas of Park West I(1)	9,326	9,373	3.04 %	3/1/2053
Villas of Park West II(1)	8,462	8,504	3.18 %	3/1/2053
Vista Ridge	9,634	9,674	4.00 %	8/1/2053
Windmill Farms(2)	6,387	6,400	7.75 %	2/28/2024
	<u>\$ 183,637</u>	<u>\$ 184,462</u>		

- (1) On November 1, 2022, we assumed the mortgage note payable from our joint venture in connection with the acquisition of the underlying property (See Note 11 - Acquisitions) and are in the process of obtaining lender approval of the assumption.
- (2) On February 28, 2023, we extended the maturity of the loan to February 28, 2024 and an interest rate of 7.75%.

Interest payable at March 31, 2023 and December 31, 2022, was \$2,155 and \$2,004, respectively. We capitalized interest of \$642 and \$803 during the three months ended March 31, 2023 and 2022, respectively.

On March 15, 2023, we entered into a \$33,000 interest only loan to finance the development of Lake Wales (See Note 7 - Real Estate Activity) that bears interest at the Secured Overnight Financing Rate ("SOFR") plus 3% and matures on March 15, 2026, with two one-year extension options.

As of March 31, 2023, we were in compliance with all of our loan covenants except for the minimum debt service coverage ratio ("DSCR") for the loan on 770 South Post Oak. As a result, the lender requires us to lock the surplus cash flow of the property into a designated deposit account controlled by them, until we are in compliance with the DSCR for a period of two consecutive quarters.

All of the above mortgages and other notes payable are collateralized by the underlying property. In addition, we have guaranteed the loans on Athens, Forest Grove, Lake Wales and Villas at Bon Secour.



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**13. Bonds Payable**

We have issued nonconvertible bonds ("Bonds") through SPC, which were traded on the TASE. The Bonds are denominated in New Israeli Shekels ("NIS") and provide for semiannual principal and interest payments through maturity. The Bonds are subject to a number of covenants, which include restrictions on the distribution of cash from SPC.

In connection with the Bonds, we incurred a gain on foreign currency transactions of \$971 and \$3,772 for the three months ended March 31, 2023 and 2022, respectively.

The outstanding balance of our Bonds at March 31, 2023 and December 31, 2022 is as follows:

<b>Bond Issuance</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>	<b>Interest Rate</b>	<b>Maturity</b>
Series A Bonds(1)	\$ 14,101	\$ 28,971	7.30 %	7/31/23
Series B Bonds(1)	29,046	35,806	6.80 %	7/31/25
Series C Bonds(2)	—	66,546	4.65 %	1/31/23
	43,147	131,323		
Less unamortized deferred issuance costs	(1,475)	(2,105)		
	<u>\$ 41,672</u>	<u>\$ 129,218</u>		

(1) The bonds were collateralized by the assets of SPC.

(2) The bonds were collateralized by a trust deed on Browning Place, a 625,297 square foot office building in Dallas, Texas.

On January 31, 2023, we completed our scheduled bond payment of \$88,279, which included in the full repayment of the Series C bonds. On May 4, 2023, we paid off the remaining balances of the Series A and Series B Bonds and withdrew from the TASE.

**14. Related Party Transactions**

We engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions of real estate. 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.

Pillar and Regis are wholly owned by an affiliate of May Realty Holdings, Inc., which also owns approximately 90.8% of ARL. Pillar is compensated for advisory services in accordance with an agreement. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. In addition, Regis is entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement.

Rental income includes \$268 and \$256 for the three months ended March 31, 2023 and 2022, respectively, for office space leased to Pillar and Regis.

Property operating expense includes \$100 and \$117 for the three months ended March 31, 2023 and 2022, respectively, for management fees on commercial properties payable to Regis.

General and administrative expense includes \$1,431 and \$1,292 for the three months ended March 31, 2023 and 2022, respectively, for employee compensation and other reimbursable costs payable to Pillar.

Advisor fees paid to Pillar were \$2,170 and \$3,005 for the three months ended March 31, 2023 and 2022, respectively.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
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Notes receivable include amounts held by UHF (See Note 9 – Notes Receivable). UHF is deemed to be a related party due to our significant investment in the performance of the collateral secured by the notes receivable. In addition, we have receivables from Pillar and other related parties. Interest income on these notes and related party receivables was \$6,081 and \$3,963 for the three months ended March 31, 2023 and 2022, respectively.

Interest expense on payable to Pillar was \$944 and \$418 for the three months ended March 31, 2023 and 2022, respectively.

Related party receivables, net represents the net amounts outstanding from Pillar for loans and advances, net of unreimbursed fees, expenses and costs as provided above.

#### **15. Noncontrolling Interests**

The noncontrolling interest represents the third party ownership interest in Income Opportunity Realty Investors, Inc. ("IOR"). Shares of IOR are listed on the NYSE American stock exchange under the symbol of IOR. We owned 81.1% in IOR during the three months ended March 31, 2023 and 2022.

#### **16. Deferred Income**

In previous years, we sold properties to related parties at a gain, and therefore the sales criteria for the full accrual method was not met, and as such, we deferred the gain recognition and accounted for the sales by applying the finance, deposit, installment or cost recovery methods, as appropriate. The gain on these transactions is deferred until the properties are sold to a non-related third party.

As of March 31, 2023 and December 31, 2022, we had deferred gain of \$581.

#### **17. Income Taxes**

We are part of a tax sharing and compensating agreement with respect to federal income taxes with ARL. In accordance with the agreement, our expense (benefit) in each year is calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%.

The following table summarizes our income tax provision:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Current	\$ 41	\$ 28
Deferred	1,071	—
	<u>\$ 1,112</u>	<u>\$ 28</u>

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
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**18. Commitments and Contingencies**

We believe that we will generate excess cash from property operations in the next twelve months; such excess, however, might not be sufficient to discharge all of our obligations as they become due. We intend to sell income-producing assets, refinance real estate and obtain additional borrowings primarily secured by real estate to meet our liquidity requirements.

**19. Subsequent Events**

On May 4, 2023, we paid off the remaining balances of the Series A and Series B Bonds and withdrew from the TASE (See Note 13 - Bonds Payable).

The date to which events occurring after March 31, 2023, the date of the most recent balance sheet, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is May 11, 2023, which is the date on which the consolidated financial statements were available to be issued.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis by management should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes included in this Quarterly Report on Form 10-Q (the "Quarterly Report") and in our Form 10-K for the year ended December 31, 2022 (the "Annual Report").

This Report on Form 10-Q 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 construction and mortgage financing and the use of debt to fund acquisitions and developments;
- demand for apartments and commercial properties in our markets and the effect on occupancy and rental rates;
- our ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;
- risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;
- 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; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive. 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 factors listed and described at Part I, Item 1A. "Risk Factors" Annual Report on Form 10-K, which investors should review.

## Management's 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 throughout the Southern United States. Our portfolio of income-producing properties includes residential apartment communities ("multifamily properties"), office buildings and retail properties ("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.

Our operations are managed by Pillar Income Asset Management, Inc. ("Pillar") in accordance with an Advisory Agreement. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges our debt and equity financing with third party lenders and investors. We have no employees. Employees of Pillar render services to us in accordance with the terms of the Advisory Agreement. Pillar is considered to be a related party due to its common ownership with American Realty Investors, Inc. ("ARL"), who is our controlling shareholder.

The following is a summary of our recent acquisition, disposition, financing and development activities:

### *Acquisitions and Dispositions*

- On January 14, 2022, we sold Toulon, a 240 unit multifamily property in Gautier, Mississippi for \$26.8 million, resulting in a gain on sale of \$9.4 million. We used the proceeds to pay off the \$14.7 million mortgage note payable on the property and for general corporate purposes.
- On May 17, 2022, we sold Fruitland Park, a 6,722 square foot commercial building in Fruitland Park, Florida for \$0.8 million, resulting in a gain on sale of \$0.7 million. We used the proceeds for general corporate purposes.
- On September 16, 2022, we sold Sugar Mill Phase III, a 72 unit multifamily property in Baton Rouge, Louisiana for \$11.8 million in connection with a sale of properties by VAA (See "Other Developments"), resulting in a gain on sale of \$1.9 million. We used the proceeds to pay off the \$9.6 million mortgage note payable on the property and for general corporate purposes.
- On November 1, 2022, we acquired seven multifamily properties from VAA (See "Other Developments") with a fair value of \$219.5 million.
- During the year ended December 31, 2022, we sold a total of 26.9 acres of land from our holdings in Windmill Farms for \$5.1 million in aggregate, resulting in gains on sale of \$4.2 million. In addition, we sold 0.9 acres of land from our holdings in Mercer Crossing for \$0.7 million, resulting in a gain on sale of \$0.2 million.

### *Financing Activities*

- On January 14, 2022, we paid off the \$14.7 million loan on Toulon in connection with the sale of the underlying property (See "Acquisitions and Dispositions").
- On March 3, 2022, we extended our loan on Stanford Center to February 26, 2023.
- On September 1, 2022, we extended our \$1.2 million loan on Athens to August 28, 2023.
- On September 16, 2022, the \$9.6 million loan on Sugar Mill Phase III was paid off in connection with the sale of the underlying property (See "Acquisitions and Dispositions").
- On October 21, 2022, we paid off the \$38.5 million loan on Stanford Center from the cash generated from sale of the VAA Sale Portfolio.
- On November 1, 2022, we assumed the \$70.3 million mortgage notes payable on the VAA Holdback Portfolio in connection with the distribution of the underlying properties from VAA (See "Other Developments").
- On January 31, 2023, we paid off our \$67.4 million of Series C bonds.
- On February 28, 2023, we extended the maturity of our loan on Windmill Farms until February 28, 2024 at a revised interest rate of 7.75%.
- On March 15, 2023, we entered into a \$33.0 million interest only loan to finance the development of Lake Wales (See "Development Activities") that bears interest at the Secured Overnight Financing Rate ("SOFR") plus 3% and matures on March 15, 2026, with two one-year extension options.
- On May 4, 2023, we paid off our \$14.1 million of Series A Bonds and \$29.0 million of Series B Bonds.

### *Development Activities*

On March 15, 2023, we entered into a development agreement with Pillar to build a 240 unit multifamily property in Lake Wales, Florida that is expected to be completed in 2025 for a total cost of approximately \$55.3 million. The cost of construction will be funded in part by a \$33.0 million construction loan. The development agreement provides for a \$1.6 million fee that will be paid over the construction period. As of March 31, 2023, we have incurred a total of \$10.1 million in development costs.

In 2021, Landing Bayou, a 240 unit multifamily property in Houma, Louisiana suffered extensive damage from Hurricane Ida. As a result, the property required extensive renovation. As of March 31, 2023, we have incurred a total of \$10.4 million in restoration costs, which has been substantially funded by insurance proceeds. We expect to complete the restoration and lease-up by the end of this year.

During 2023, we spent \$0.7 million on our ongoing development of Windmill Farms. Our expenditure includes \$0.3 million on the development of land lots for sale to single family home developers and \$0.4 million on reimbursable infrastructure investments.

### *Other Developments*

On September 16, 2022, VAA sold 45 properties (“VAA Sale Portfolio”) for \$1.8 billion, resulting in gain on sale of \$738.4 million to the joint venture. In connection with sale, we received an initial distribution of \$182.8 million from VAA.

On November 1, 2022, we received an additional distribution from VAA, which included the full operational control of the remaining seven properties of VAA (“VAA Holdback Portfolio”) and a cash payment of \$204.0 million. We are in the process of negotiating the assumption of the mortgage notes payable on the VAA Holdback Portfolio with the lenders.

On March 23, 2023, we received \$18.0 million distribution from VAA, which represented the remaining distribution of the proceeds from the sale of the VAA Sale Portfolio.

We plan to use our share of the proceeds from the sale of the VAA Sale Portfolio to invest in additional income-producing real estate, pay down our debt and for general corporate purposes.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements in conformity with United States generally accepted accounting principles (“GAAP”) requires 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Some of these estimates and assumptions include judgments on revenue recognition, estimates for common area maintenance and real estate tax accruals, provisions for uncollectible accounts, impairment of long-lived assets, the allocation of purchase price between tangible and intangible assets, capitalization of costs and fair value measurements. Our significant accounting policies are described in more detail in Note 2—Summary of Significant Accounting Policies in our notes to the consolidated financial statements in the Annual Report. However, the following policies are deemed to be critical.

#### *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 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 our own separate interests, or affiliates of the entity.

#### **Results of Operations**

Many of the variations in the results of operations, discussed below, occurred because of the transactions affecting our properties described above, including those related to the Redevelopment Property, the Acquisition Properties and the Disposition Properties (each as defined below).

For purposes of the discussion below, we define "Same Properties" as all of our properties with the exception of those properties that have been recently constructed or leased-up ("Redevelopment Property"), properties that have recently been acquired ("Acquisition Properties") and properties that have been disposed ("Disposition Properties"). A developed property is considered leased-up, when it achieves occupancy of 80% or more. We move a property in and out of Same Properties based on whether the property is substantially leased-up and in operation for the entirety of both periods of the comparison.

For the comparison of the three months ended March 31, 2023 to the three months ended March 31, 2022, the Redevelopment Property is Landing Bayou. The Acquisition Properties are Blue Lake Villas, Blue Lake Villas Phase II, Northside on Travis, Parc at Denham Springs, Residences at Holland Lake, Villas of Park West I and Villas of Park West II. The Disposition Properties are Fruitland Park, Sugar Mill Phase III and Toulon.

The following table summarizes our results of operations for the three months ended March 31, 2023 and 2022:

	<b>Three Months Ended March 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>Variance</b>
<b>Multifamily Segment</b>			
Revenue	\$ 7,373	\$ 3,229	\$ 4,144
Operating expenses	(3,708)	(1,721)	(1,987)
	3,665	1,508	2,157
<b>Commercial Segment</b>			
Revenue	3,636	4,252	(616)
Operating expenses	(2,398)	(2,307)	(91)
	1,238	1,945	(707)
Segment operating income	4,903	3,453	1,450
<b>Other non-segment items of income (expense)</b>			
Depreciation and amortization	(3,102)	(2,349)	(753)
General, administrative and advisory	(5,053)	(5,536)	483
Interest income (expense), net	5,741	787	4,954
Loss on early extinguishment of debt	—	(1,639)	1,639
Gain on foreign currency transactions	971	3,772	(2,801)
Gain on sale or write down of assets	—	11,148	(11,148)
Income from joint venture	688	4,706	(4,018)
Other (expense) income	(433)	278	(711)
Net income	<u>\$ 3,715</u>	<u>\$ 14,620</u>	<u>\$ (10,905)</u>

*Comparison of the three months ended March 31, 2023 to the three months ended March 31, 2022:*

Our \$10.9 million decrease in net income is primarily attributed to the following:

- The increase in profit from the multifamily segment is primarily due to an increase of \$2.5 million from the Acquisition Properties, \$0.2 million from the Redevelopment Property and \$0.1 million from the Same Properties offset in part by a decrease of \$0.6 million from the Disposition Properties.
- The decrease in profit from the commercial segment is primarily due to a decrease in occupancy at Stanford Center.
- The change in interest, net is due to a \$4.0 million increase in interest income and a \$1.0 million decrease in interest expense. The increase in interest income is due to an increase in interest from our convertible loans, an increase in interest rates and an increase in short term investments. The increase in short-term investments is due to the cash distributions received from VAA in 2022 (See "Other Developments" in Management's Overview). The decrease in interest expense is primarily due to the repayment of the bonds payable and the repayment of mortgage notes payable on properties sold in 2022 (See "Acquisitions and Dispositions" in Management's Overview).
- The loss on early extinguishment of debt is due to the early pay off of the mortgage note payable on Toulon in connection with sale of the underlying property (See "Acquisitions and Dispositions" and "Financing Activities" in Management's Overview).
- The decrease in gain on foreign currency transactions is due to a decrease in our bonds payable.
- The decrease in gain on sale or write down of assets is primarily due to the \$9.4 million gain on the sale of Toulon in 2022 (See "Acquisitions and Dispositions" in Management's Overview) and the \$2.0 million gain on sales of land parcels in 2022 (See "Acquisitions and Dispositions" in Management's Overview).
- The decrease in income from joint venture is primarily due to the sale of the VAA Sale Portfolio and the distribution of the VAA Holdback Portfolio in 2022 (See "Acquisitions and Dispositions" and "Other Developments" in Management's Overview).



## Liquidity and Capital Resources

Our principal sources of cash have been, and will continue to be, property operations; proceeds from land and income-producing property sales; collection of notes receivable; refinancing of existing mortgage notes payable; and additional borrowings, including mortgage notes and bonds payable, and lines of credit.

Our principal liquidity needs are to 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.

We anticipate that our cash and cash equivalents as of March 31, 2023, along with cash that will be generated from notes and interest receivables, will be sufficient to meet all of our cash requirements. We may selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet our liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of our current maturity obligations.

The following summary discussion of our cash flows is based on the consolidated statements of cash flows in our consolidated financial statements, 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):

	<b>Three Months Ended March 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>Variance</b>
Net cash provided by (used in) operating activities	\$ 1,533	\$ (4,178)	\$ 5,711
Net cash (used in) provided by investing activities	\$ (24,212)	\$ 5,646	\$ (29,858)
Net cash used in financing activities	\$ (89,127)	\$ (38,769)	\$ (50,358)

The increase in cash provided by operating activities is primarily due to an increase in interest income and rents provided by the Acquisition Properties (See "Acquisitions and Dispositions" in Management's Overview). The increase in interest income is primarily due to an increase in short-term investments and cash equivalents and an increase in interest rates.

The increase in cash used in investing activities is primarily due the \$28.5 million proceeds from the sale of real estate received in 2022 and the \$20.2 million increase in net purchase of short term investments offset in part by the \$18.0 million distribution from joint venture in 2023 (See "Other Developments" in Management's Overview).

The increase in cash used in financing activities is primarily due to the \$50.9 million increase in payments of mortgages, notes and bonds payable. The increase in payments of mortgages, notes and bonds payable is primarily due to the \$67.4 million payoff of the Series C Bonds in 2023, offset in part by the payoff of the \$14.7 million mortgage note on Toulon in 2022 (See "Financing Activities" in Management's Overview).

## Funds From Operations ("FFO")

We use FFO in addition to net income to report our operating and financial results and consider FFO and FFO-diluted as supplemental measures for the real estate industry and a supplement to GAAP measures. The National Association of Real Estate Investment Trusts ("Nareit") defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of properties, plus real estate related depreciation and amortization, impairment write-downs of real estate and write-downs of investments in an affiliate where the write-downs have been driven by a decrease in the value of real estate held by the affiliate and after adjustments for unconsolidated joint ventures. Adjustments for unconsolidated joint ventures are calculated to reflect FFO on the same basis. We also present FFO excluding the impact of the effects of foreign currency transactions.

FFO and FFO on a diluted basis are useful to investors in comparing operating and financial results between periods. This is especially true since FFO excludes real estate depreciation and amortization, as we believe real estate values fluctuate based on market conditions rather than depreciating in value ratably on a straight-line basis over time. We believe that such a presentation also provides investors with a meaningful measure of our operating results in comparison to the operating results of other real estate companies. In addition, we believe that FFO excluding gain (loss) from foreign currency transactions

provide useful supplemental information regarding our performance as they show a more meaningful and consistent comparison of our operating performance and allows investors to more easily compare our results.

We believe that FFO does not represent cash flow from operations as defined by GAAP, should not be considered as an alternative to net income as defined by GAAP, and is not indicative of cash available to fund all cash flow needs. We also caution that FFO, as presented, may not be comparable to similarly titled measures reported by other real estate companies.

We compensate for the limitations of FFO by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of FFO and a reconciliation of net income to FFO and FFO-diluted. We believe that to further understand our performance, FFO should be compared with our reported net income and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table reconciles net income attributable to the Company to FFO and FFO adjusted for the three months ended March 31, 2023 and 2022 (dollars and shares in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Net income attributable to the Company	\$ 3,517	\$ 14,502
Depreciation and amortization	3,102	2,349
Gain on sale or write down of assets, net	—	(11,148)
Gain on sale of land	—	1,989
Depreciation and amortization on unconsolidated joint ventures at our pro rata share	—	(2,579)
FFO-Basic and Diluted	6,619	5,113
Loss on early extinguishment of debt	—	1,639
Gain on foreign currency transaction	(971)	(3,772)
FFO-adjusted	<u>\$ 5,648</u>	<u>\$ 2,980</u>

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Optional and not included.

### ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation by our management (with the participation of our Principal Executive and Financial Officer), as of the end of the period covered by this report, our Principal Executive and Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive and Financial Officer, to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None

### ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes from the risk factors previously disclosed in the 2022 10-K. For a discussion on these risk factors, please see “Item 1A. Risk Factors” contained in the 2022 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We have a program that allows for the repurchase of up to 1,637,000 shares of our common stock. This repurchase program has no termination date. There were no shares purchased under this program during the three months ended March 31, 2023. As of March 31, 2023, 1,230,535 shares have been purchased and 406,465 shares may be purchased under the program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

The following exhibits are filed with this report or incorporated by reference as indicated;

<b>Exhibit Number</b>	<b>Description</b>
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, References, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporated 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 forth 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 Registrant's Current Report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).
10.1	Advisory Agreement dated as of April 30, 2011, between Transcontinental Realty Investors, Inc., and Pillar Income Asset Management, Inc. (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K for event occurring May 2, 2011).
<a href="#">31.1*</a>	Certification of the Principal Executive and Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
<a href="#">32.1*</a>	Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

**SIGNATURE PAGE**

Pursuant to the requirements 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.

Date: May 11, 2023

By: /s/ ERIK L. JOHNSON  
Erik L. Johnson  
Executive Vice President and Chief Financial Officer

## CERTIFICATION

I, Erik L. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transcontinental Realty Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officers(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - (d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 11, 2023

By: /s/ ERIK L. JOHNSON  
Erik L. Johnson  
Executive Vice President and Chief Financial Officer  
(Principal Executive and Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officer of Transcontinental Realty Investors, Inc., a Nevada corporation (the “Company”) hereby certifies that:

- (i) The Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2023 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2023 fairly presents in all material respects, the financial condition and results of operations of the Company, at and for the period indicated.

Dated: May 11, 2023

By: /s/ ERIK L. JOHNSON

Erik L. Johnson

Executive Vice President and Chief Financial Officer  
(Principal Executive and Financial Officer)