CAPITAL TRUST INC
Form 424B3
July 16, 2004

Filed Pursuant to Rule 424(b)(3)
Registration Nos. 333-111261
333-106970

The information in this preliminary prospectus supplement is not complete and may be changed. Two registration statements relating to these securities have been filed with the Securities and Exchange Commission and have become effective. This prospectus supplement and the accompanying prospectuses are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS SUPPLEMENT (Subject to Completion) Issued July 16, 2004
(To Prospectus dated December 29, 2003
and Prospectus dated July 21, 2003)

3,500,000 Shares

[CAPITAL TRUST LOGO]

CLASS A COMMON STOCK

Capital Trust, Inc. is offering 1,363,289 shares of its class A common stock. The selling shareholders are offering 2,136,711 shares of our class A common stock. We will not receive any proceeds from the sale of shares by the selling shareholders.

Our shares of class A common stock are listed for trading on the New York Stock Exchange under the symbol "CT." The last reported sale price of our class A common stock on July 13, 2004 was $26.58 per share.

Investing in our class A common stock involves risks. See "Risk Factors" beginning on page S-7 of this prospectus supplement.

PRICE $ A SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us	Proceeds to Selling Shareholder
Per share	$	$	$	$
Total	$	$	$	$

We have granted the underwriters the right to purchase up to an additional 525,000 shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus supplement or either accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares to the purchasers on July , 2004.

MORGAN STANLEY

BEAR, STEARNS & CO. INC.

JEFFERIES & COMPANY, INC.

JMP SECURITIES

July , 2004

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

PROSPECTUS DATED DECEMBER 29, 2003

PROSPECTUS DATED JULY 21, 2003

ABOUT THIS PROSPECTUS SUPPLEMENT

Unless the context otherwise indicates, references in this prospectus supplement or the accompanying base prospectuses to "we," "us," "our" or "Capital Trust" refer to Capital Trust, Inc., a Maryland corporation and its subsidiaries, but not our third-party managed funds.

This prospectus supplement supplements two different prospectuses, which are separately included as part of two different registration statements. The prospectus dated December 29, 2003, which is a part of Registration Statement No. 333-111261 and which we refer to as the company prospectus, relates to the offering of class A common stock by us. The prospectus dated July 21, 2003, which is a part of the Registration Statement No. 333-106970 and which we refer to as the selling shareholder prospectus, relates to the offering of common stock by the selling shareholders. We refer collectively to the company prospectus and the selling shareholder prospectus as the "accompanying prospectuses."

This document has three parts. The first part is the prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectuses and the documents incorporated by reference. The second and third parts are the two accompanying prospectuses, which give more general information, some of which may not apply to this offering. TO THE EXTENT THERE IS A CONFLICT BETWEEN THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT, THE INFORMATION CONTAINED IN THE ACCOMPANYING PROSPECTUSES OR THE INFORMATION CONTAINED IN ANY DOCUMENT INCORPORATED BY REFERENCE HEREIN OR THEREIN, THE INFORMATION CONTAINED IN THE MOST RECENTLY DATED DOCUMENT SHALL CONTROL.

It is important for you to read and consider all information contained in this prospectus supplement and each accompanying prospectus, including the documents incorporated by reference herein and therein, in making your investment decision. You should also read and consider the information in the documents we have referred you to in "Where You Can Find More Information."

You should rely only on the information contained, incorporated or deemed incorporated by reference in this prospectus supplement and the accompanying prospectuses. We have not authorized anyone to give any information or to make any representation not contained, incorporated or deemed incorporated by reference in this prospectus supplement or the applicable accompanying prospectuses in connection with the offering of shares of class A common stock in this offering. You should not assume that the information contained in this prospectus supplement and the accompanying prospectuses is correct as of any date after the respective dates of this prospectus supplement and the accompanying prospectuses, even though this prospectus supplement and the accompanying prospectuses are delivered or these shares of common stock are offered or sold on a later date.

This prospectus supplement is not, and neither of the accompanying prospectuses are, an offer to sell any security other than the class A common stock and they are not soliciting an offer to buy any security other than the class A common stock. This prospectus supplement is not, and neither of the accompanying prospectuses are, an offer to sell this class A common stock to any person, and they are not soliciting an offer from any person to buy the class A common stock, in any jurisdiction where the offer or sale to that person is not permitted.

ii

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectuses. This summary does not contain all the information that you should consider before investing in our class A common stock. This prospectus supplement and the accompanying prospectuses contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements. You should read this entire prospectus supplement and the accompanying prospectuses carefully, including the risk factors and financial statements.

The per share information presented in this prospectus supplement and the accompanying prospectuses has been adjusted to give effect to the one for three reverse stock split of our outstanding shares of class A common stock effected on April 2, 2003 as though the reverse stock split was in effect for all periods presented.

CAPITAL TRUST, INC.

We are a fully integrated, self-managed finance and investment management company that specializes in credit-sensitive structured financial products. We invest in loans, debt securities and related instruments for our own account and on behalf of funds that we manage. To date, our investment programs have focused on loans and securities backed by income-producing commercial real estate assets with the objective of achieving attractive risk-adjusted returns with low volatility. We conduct our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes, and will elect REIT status when we file our federal tax return for 2003 in the fourth quarter of 2004. We generally intend to distribute each year substantially all of our taxable income, which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles, to our shareholders so as to comply with the REIT provisions of the Internal Revenue Code. We have declared dividends of $0.45 per share for each of the first and second quarters of 2004.

Since we commenced our finance business in July 1997 and through June 30, 2004, we have completed over $3.6 billion of real estate-related investments in 123 separate transactions both directly and on behalf of our managed funds. Our investment strategies are designed to generate high current returns coupled with substantial downside protection. We implement these strategies by applying a disciplined, rigorous process founded on four key elements:

- intense credit underwriting;
- creative financial structuring;
- efficient use of leverage; and
- aggressive asset management.

Our real estate investments take various forms, but are generally debt investments that are subordinate to third-party financing and senior to the owner/operator's equity position and, therefore, represent "mezzanine" capital. Our current investment programs emphasize mezzanine loans, junior interests in first mortgage loans, known as B Notes, and subordinate tranches of commercial mortgage-backed securities, known as CMBS. We employ leverage to enhance returns on equity, but seek to minimize interest rate exposure by matching the duration and interest rate index of our assets and liabilities and by using derivatives to hedge risk. Our objective is to create leveraged portfolios of high-yield structured investments that are diversified and have limited exposure to changes in interest rates. Since we commenced our finance business in 1997 and through June 30, 2004, approximately 60% of our investments, and those of our managed funds, have been fully realized and our loss experience for this period has totaled less than 1% of our investments.

We make investments both for our own balance sheet and for funds that we manage on behalf of institutional and high net worth individual investors. As of March 31, 2004, our balance sheet assets totaled $465.8 million, comprised primarily of loans receivable, mortgage-backed securities and co-investments in our managed funds. We currently manage, through our wholly-owned subsidiary, CT Investment Management Co, LLC, two private equity funds, CT Mezzanine Partners II LP and CT Mezzanine Partners III, Inc., which we refer to as Fund II and Fund III, respectively. During Fund II's two-year investment period, which expired in April 2003, Fund II invested $1.2 billion in 40 separate transactions. As of March 31, 2004, Fund II had $432.9 million of outstanding investments, all of which were performing. Fund III held its final closing in August 2003, raising a total of $425 million of equity commitments.

As of March 31, 2004, Fund III had

closed 11 investments, totaling $319.5 million, all of which were performing and $268.4 million of which were outstanding at March 31, 2004. With leverage, we are seeking to originate over $1 billion of investments for Fund III during its two-year investment period which expires in June 2005.

Our balance sheet investments generate net interest income, while our investment management business produces co-investment income, base management fees, and, if certain profit thresholds are exceeded, incentive management fees representing our share of the funds' profits. Commercial real estate investment opportunities that meet Fund III's duration, size and leveraged return parameters are allocated to Fund III and other opportunities are allocated to our balance sheet.

Our business strategy is to continue to grow our balance sheet investments and our third-party assets under management. We expect the growth of our business to be driven primarily by the following activities:

- we will continue to make balance sheet commercial real estate mezzanine investments;

- we will expand our investment management business through additional offerings of subsequent CT Mezzanine Partners funds; and

- we may pursue other balance sheet and investment management businesses that leverage our core skills in credit underwriting and financial structuring.

As we continue to grow our business, we seek to create the most efficient capital structure for our activities. Our success in the development and implementation of liability structures that offer attractive economic terms while affording us the necessary flexibility to execute our investment programs has and is expected to continue to be an integral factor in our business growth. We believe the use of structured products, such as the CDO-1 transaction discussed below, represents a major improvement in the way we finance our business and we expect to continue to develop other structured products that will become a more important, permanent portion of our capital structure in the future.

RECENT DEVELOPMENTS

On May 11, 2004, we closed on the initial tranche of a direct public offering to designated controlled affiliates of W. R. Berkley Corporation, which we refer to as Berkley. We issued 1,310,000 shares of our class A common stock and stock purchase warrants to purchase 365,000 shares of our class A common stock for a total purchase price of $30.7 million. On June 21, 2004, we closed on the second tranche of the direct public offering and issued an additional 325,000 shares of our class A common stock for a total purchase price of $7.6 million. The warrants have an exercise price of $23.40 per share and expire on December 31, 2004. Pursuant to a director designation right granted to Berkley in the transaction, we appointed Joshua A. Polan to our board of directors.

In June and July of 2004, CT Investment Management Co. was approved as a Special Servicer by Fitch Ratings, Standard & Poor's and Moody's Investors Service. These approvals allow CT Investment Management Co. to act as a named Special Servicer for CMBS and B Note investments. As Special Servicer, we believe CT Investment Management Co. will be able to increase the control it has in managing certain portions of its portfolio while potentially generating additional fee income. Approval from the agencies was based upon, among other things, our experience in managing and working out problem assets, our established asset management policies and procedures and our technology systems. We believe the ability to be a Special Servicer improves the asset management of our existing portfolio, and facilitates our planned increase in our CMBS and B Note investment activity.

On June 29, 2004, we priced a $320.8 million issue of collateralized debt obligations, commonly known as CDOs. We intend to use the net proceeds from the private placement to acquire a portfolio of B Notes and mezzanine loans and to refinance certain of our existing balance sheet assets. The following related transactions, which together we call the CDO-1 transaction, are all scheduled to close on July 20, 2004:

- we will purchase a $251.2 million portfolio of 40 floating rate B Notes and one mezzanine loan from GMAC Commercial Mortgage Corporation;

- we will contribute those assets, along with $72.9 million of existing B Notes, mezzanine loans and subordinate CMBS from our own balance sheet, to Capital Trust RE CDO 2004-1, our consolidated wholly-owned subsidiary that we call the Issuer;

- the Issuer will issue $320.8 million of floating rate CDOs secured by its assets;

- the Issuer will sell all of the $252.8 million of CDOs that are rated investment grade to a group of institutional investors; and

- we will acquire and retain all of the $68.1 million of unrated and below investment grade CDOs in addition to all of the Issuer's $3.2 million of equity.

The CDO-1 transaction provides us with a number of significant benefits, including:

- increasing our balance sheet interest earning assets by $251.2 million, a 61% increase compared to March 31, 2004;

- creating non-recourse financing at an all-in borrowing cost to us that is significantly lower than the cost of our existing sources of debt capital;

- obtaining long-term, floating rate financing that matches both the interest rate index and duration of our assets;

- extending the useful life of the financing through a four year reinvestment period during which principal proceeds from the initial CDO assets can be reinvested in qualifying replacement assets; and

- establishing us as a CDO issuer and collateral manager, which we believe will facilitate our issuance of additional CDOs in the future.

The closing of this offering is not contingent upon completion of the CDO-1 transaction.

We were incorporated in Maryland on April 7, 1998 as a successor to a business trust organized in 1966. We commenced our balance sheet finance business in July 1997 and our investment management business in March 2000. Our principal executive offices are located at 410 Park Avenue, 14th Floor, New York, New York 10022, and our telephone number is (212) 655-0220. Our website address is www.capitaltrust.com. Information included or referred to on our website is not incorporated by reference nor is it otherwise a part of this prospectus supplement or the accompanying prospectuses.

S-3

THE OFFERING

ISSUER.	Capital Trust, Inc.
CLASS A COMMON STOCK OFFERED BY US.	1,363,289 shares
CLASS A COMMON STOCK OFFERED BY THE SELLING SHAREHOLDERS	2,136,711 shares
CLASS A COMMON STOCK TO BE OUTSTANDING AFTER THIS OFFERING	11,800,343 shares
USE OF PROCEEDS	We intend to use the net proceeds to us from the sale of the shares of our class A common stock for general corporate purposes, including funding our balance sheet investment activity, our capital commitments to Fund III and any future investment funds, the repayment of indebtedness, including our convertible junior subordinated debentures and our credit facility, working capital and potential business acquisitions. We will not receive any proceeds from the sale of 2,136,711 shares of our class A common stock by the selling shareholders.
NEW YORK STOCK EXCHANGE SYMBOL.	CT
RISK FACTORS.	You should carefully consider all of the information in this prospectus supplement and the accompanying prospectuses. In particular, you should evaluate the information

set forth under "Risk Factors" beginning on page S-7 of this prospectus supplement before deciding whether to invest in our class A common stock.

Unless we specifically provide otherwise, all share information in this prospectus supplement is as of June 30, 2004, assumes that the underwriters do not exercise their over-allotment option, excludes 365,000 shares of our class A common stock issuable upon the exercise of warrants issued to Berkley, 465,833 shares of our class A common stock issuable upon the exercise of options outstanding as of June 30, 2004 under our amended and restated 1997 long-term incentive stock plan with a weighted average exercise price of $19.62 per share, 85,002 shares of our class A common stock issuable upon the exercise of options outstanding as of June 30, 2004 under our amended and restated 1997 non-employee director stock plan with a weighted average exercise price of $27.65 per share, 218,818 shares of our class A common stock issued to John R. Klopp on July 15, 2004 pursuant to our employment agreement with him and, except for the shares to be sold in this offering upon conversion of convertible trust preferred securities, 2,136,711 shares of our class A common stock issuable upon the conversion of our convertible trust preferred securities outstanding as of June 30, 2004 and remaining outstanding after completion of this offering.

SUMMARY FINANCIAL DATA

The following selected consolidated financial data as of and for each of the years ended December 31, 2003, 2002, 2001, 2000 and 1999 was derived from our historical consolidated financial statements included in our Annual Reports on Form 10-K for each of the years presented. The following selected consolidated financial data as of and for each of the three months ended March 31, 2004 and 2003 was derived from our historical consolidated financial statements included in our Quarterly Reports on Form 10-Q for both of the three month periods presented, which, in the opinion of our management, have been prepared on the same basis as our audited consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position for such periods. Results for the three month periods ended March 31, 2004 and 2003 are not necessarily indicative of results that may be expected for the entire year.

Certain reclassifications have been made to all periods presented to reflect the application of Financial Accounting Standards Board Interpretation No. 46R on January 1, 2004 following the adoption of which we no longer consolidate CT Convertible Trust I, the entity which had purchased our junior subordinated debentures and issued convertible trust common and preferred securities.

We began to conduct our operations to qualify as a REIT for federal income tax purposes in the 2003 fiscal year, and will elect REIT status for the 2003 fiscal year when we file our 2003 federal tax return in the fourth quarter of 2004. This election should result in a material reduction of our tax liability for 2003 and subsequent periods. As a result, our income tax expense and net income after tax for 2003 and subsequent periods will not be comparable to our income tax expense and net income after tax for periods prior to 2003. Prior to March 8, 2000, we did not serve as investment manager for any funds under management and only our historical financial data as of and for the years ended December 31, 2003, 2002, 2001 and 2000 reflects the operating results for our investment management business. For these reasons, we believe that the following summary consolidated financial data for the year ended December 31, 1999 is not indicative of our current business.

You should read the following information together with "Risk Factors," "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this prospectus supplement.

	YEARS ENDED DECEMBER 31,			
	2003	2002	2001	2000
	(IN THOUSANDS, EXCEPT F			
STATEMENT OF OPERATIONS DATA:				
REVENUES:				
Interest and investment income	$38,577	$ 47,655	$68,200	$88,87
Income/(loss) from equity investments in affiliated funds	1,526	(2,534)	2,991	1,53
Advisory and investment banking fees	--	2,207	277	3,92
Management and advisory fees from funds	8,020	10,123	7,664	37
Total revenues	48,123	57,451	79,132	94,69
OPERATING EXPENSES:				
Interest expense	19,575	34,184	42,856	52,41
General and administrative expenses	13,320	13,996	15,382	15,43
Depreciation and amortization	1,057	992	909	90
Net unrealized (gain)/loss on derivative securities and corresponding hedged risk on CMBS	--	(21,134)	542	-
Net realized (gain)/loss on sale of fixed assets, investments and settlement of derivative securities	--	28,715	--	6
Provision for/(recapture of) allowance for possible credit losses	--	(4,713)	748	5,47
Total operating expenses	33,952	52,040	60,437	74,30
Income/(loss) before income tax expense	14,171	5,411	18,695	20,39
Income tax expense	646	15,149	9,325	10,63
NET INCOME / (LOSS)	13,525	(9,738)	9,370	9,76
Less: Preferred stock dividend and dividend requirement	--	--	606	1,61
Net income/(loss) allocable to common stock	$13,525	$ (9,738)	$ 8,764	$ 8,14
PER SHARE INFORMATION:				
Net income/(loss) per share of common stock:				
Basic	$ 2.27	$ (1.62)	$ 1.30	$ 1.0
Diluted	$ 2.23	$ (1.62)	$ 1.12	$ 0.9
Dividends declared per share of common stock	$ 1.80	$ --	$ --	$ -
Weighted average shares of common stock outstanding:				
Basic	5,947	6,009	6,722	7,72

Diluted	10,288	6,009	12,041	9,89

	AS OF DECEMBER 31,			
	2003	2002	2001	2000
BALANCE SHEET DATA:				
Total assets	$399,926	$387,759	$683,451	$649,043
Total liabilities	303,909	303,703	580,823	490,377
Shareholders' equity	96,017	84,056	102,628	158,666

UNAUDITED PRO FORMA BALANCE SHEET

The unaudited pro forma balance sheet as of March 31, 2004 gives effect to the CDO-1 transaction, which is scheduled to close on July 20, 2004, and the direct public offering to Berkley, which we closed in two tranches on May 11 and June 21, 2004, respectively, and are fully described under the caption "Prospectus Supplement Summary--Recent Developments" beginning on page S-40. The closing of this offering is not contingent upon completion of the CDO-1 transaction. The pro forma information is presented for illustrative purposes only and does not necessarily indicate the amount of our assets, liabilities and shareholders' equity that would have been recorded on our balance sheet as of March 31, 2004 had the CDO-1 transaction and direct public offering to Berkley closed as of that date.

You should read the following information together with "Prospectus Supplement Summary--Summary Financial Data," "Risk Factors," "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and the notes thereto included elsewhere in this prospectus supplement.

	MA
ASSETS	
Cash and cash equivalents	$
Available-for-sale securities, at fair value	
Commercial mortgage-backed securities available-for-sale, at fair value	
Loans receivable, net of $6,672 reserve for possible credit losses at March 31, 2004	
Equity investment in CT Mezzanine Partners I LLC, CT Mezzanine Partners II LP, CT MP II LLC and CT Mezzanine Partners III, Inc.	

Deposits and other receivables	
Accrued interest receivable	
Deferred income taxes	
Prepaid and other assets	
Total assets	$
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Accounts payable and accrued expenses	$
Credit facilities	
Collateralized debt obligations	
Repurchase obligations	
Step up convertible junior subordinated debentures	
Deferred origination fees and other revenue	
Interest rate hedge liabilities	
Total liabilities	
Shareholders' equity:	
Class A common stock, $0.01 par value, 100,000 shares authorized, 6,572 and 8,207 shares issued and outstanding at March 31, 2004 and March 31, 2004, as adjusted, respectively	
Restricted class A common stock, $0.01 par value, 64 shares issued and outstanding at March 31, 2004	
Additional paid-in capital	
Unearned compensation	
Accumulated other comprehensive loss	
Accumulated deficit	
Total shareholders' equity	
Total liabilities and shareholders' equity	$

RISK FACTORS

An investment in our class A common stock involves various risks. You should carefully consider the following risk factors in conjunction with the other information contained and incorporated by reference into this prospectus supplement and the accompanying prospectuses before purchasing our class A common stock. If any of the risks discussed in this prospectus supplement actually occur, our business, operating results, prospects and/or financial condition could be adversely impacted. This could cause the market price of our class A common stock to decline and could cause you to lose all or part of your investment.

In connection with the forward-looking statements that appear in this prospectus supplement and the accompanying prospectuses, you should also carefully review the cautionary statement referred to under "Cautionary Statement Regarding Forward-Looking Statements."

RISKS RELATED TO OUR INVESTMENT PROGRAM

OUR EXISTING LOANS AND INVESTMENTS EXPOSE US TO A HIGH DEGREE OF RISK ASSOCIATED WITH INVESTING IN COMMERCIAL REAL ESTATE-RELATED ASSETS.

Real estate historically has experienced significant fluctuations and cycles in performance that may result in reductions in the value of our real estate-related investments. The performance and value of our loans and investments once originated or acquired by us depends on many factors beyond our control. The ultimate performance and value of our investments is subject to the varying degrees of risk generally incident to the ownership and operation of the commercial properties which collateralize or support our investments. The ultimate performance and value of our loans and investments depends upon the commercial property owner's ability to operate the property so that it produces cash flows needed to pay the interest and principal due to us on our loans and investments. Revenues and cash flows may be adversely affected by:

- changes in national economic conditions;
- changes in local real estate market conditions due to changes in national or local economic conditions or changes in local property market characteristics;
- competition from other properties offering the same or similar services;
- changes in interest rates and in the availability of mortgage financing;
- the ongoing need for capital improvements, particularly in older structures;
- changes in real estate tax rates and other operating expenses;
- adverse changes in governmental rules and fiscal policies, civil unrest, acts of God, including earthquakes, hurricanes and other natural disasters, acts of war or terrorism, which may decrease the availability of or increase the cost of insurance or result in uninsured losses;
- adverse changes in zoning laws;
- the impact of present or future environmental legislation and compliance with environmental laws; and
- other factors that are beyond our control and the control of the commercial property owners.

In the event that any of the properties underlying our loans or investments experiences any of the foregoing events or occurrences, the value of, and return on, such investments, our profitability and the market price of our class A common stock would be negatively impacted.

WE MAY CHANGE OUR INVESTMENT STRATEGY WITHOUT SHAREHOLDER CONSENT WHICH MAY RESULT IN RISKIER INVESTMENTS THAN OUR CURRENT INVESTMENTS.

As part of our strategy, we may seek to expand our investment activities beyond real estate-related investments. We may change our investment activities at any time without the consent of our shareholders, which could result in our making investments that are different from, and possibly riskier than, our current real estate investments. New investments we may make outside of our area of expertise may not perform as well as our current portfolio of real estate investments.

WE ARE EXPOSED TO THE RISKS INVOLVED WITH MAKING SUBORDINATED INVESTMENTS.

Our investments involve the risks attendant to investments consisting of subordinated loan positions. In many cases, management of our investments and our remedies with respect thereto, including the ability to foreclose on or direct decisions with respect to the collateral securing such investments, is subject to the rights of senior lenders and the rights set forth in inter-creditor or servicing agreements.

WE MAY NOT BE ABLE TO OBTAIN THE LEVEL OF LEVERAGE NECESSARY TO OPTIMIZE OUR RETURN ON INVESTMENT.

Our return on investment depends, in part, upon our ability to grow our balance sheet portfolio of invested assets and those of our funds through the use of leverage at interest rates that are lower than the interest rates earned on our investments. We generally obtain leverage through bank credit facilities, repurchase agreements and other borrowings. Our ability to obtain the necessary leverage on attractive terms ultimately depends upon the quality of the portfolio assets that are being pledged and our ability to maintain interest coverage ratios meeting prevailing market underwriting standards which vary according to lenders' assessments of our and our funds' creditworthiness and the terms of the borrowings. Our failure to obtain and/or maintain leverage at desired levels, or to obtain leverage on attractive terms, could have a material adverse effect on our performance or that of our funds. Moreover, we are dependent upon a few lenders to provide the primary credit facilities for our origination or acquisition of loans and investments. Our ability to obtain financing through collateralized debt obligations is subject to conditions in the debt capital markets, which may be adverse from time to time, that affect the level of investor demand for such securities, which are impacted by factors beyond our control.

WE ARE SUBJECT TO THE RISKS OF HOLDING LEVERAGED INVESTMENTS.

Leverage creates an opportunity for increased return on equity, but at the same time creates other risks. For example, leveraging magnifies changes in the net worth of our funds. We and our funds will leverage assets only when there is an expectation that leverage will enhance returns, although we cannot assure you that the use of leverage will prove to be beneficial. Increases in credit spreads in the market generally may adversely affect the market value of our investments. Because borrowings under our credit facilities are secured by our investments, the borrowings available to us may decline if the market value of our investments decline. Moreover, we cannot assure you that we and our funds will be able to meet debt service obligations and, to the extent such obligations are not met, there is a risk of loss of some or all of our and their assets through foreclosure or a financial loss if we or they are required to liquidate assets at a commercially inopportune time to satisfy our debt obligations.

OUR SUCCESS DEPENDS ON THE AVAILABILITY OF ATTRACTIVE INVESTMENTS AND OUR ABILITY TO IDENTIFY, STRUCTURE, CONSUMMATE, MANAGE AND REALIZE RETURNS ON ATTRACTIVE INVESTMENTS.

Our operating results are dependent upon the availability of, as well as our ability to identify, structure, consummate, manage and realize returns on, credit-sensitive investment opportunities. In general, the availability of desirable credit sensitive investment opportunities and, consequently, our balance sheet returns and our funds' investment returns, will be affected by the level and volatility of interest rates, by conditions in the financial markets, by general economic conditions, by the market and demand for credit-sensitive investment opportunities, and by the supply of capital for such investment opportunities. We cannot assure you that we will be successful in identifying and consummating investments which satisfy our rate of return objectives or that such investments, once consummated, will perform as anticipated.

In addition, notwithstanding the fact that we earn base management fees based upon committed capital during the investment period, if we are not successful in investing all available equity capital for our funds, the potential revenues we earn, including base management fees that are charged on the amount of invested assets after the investment period and incentive management fees, will be reduced. We may expend significant time and resources in identifying and pursuing targeted investments, some of which may not be consummated.

THE REAL ESTATE INVESTMENT BUSINESS IS HIGHLY COMPETITIVE. OUR SUCCESS DEPENDS ON OUR ABILITY TO COMPETE WITH OTHER PROVIDERS OF CAPITAL FOR REAL ESTATE INVESTMENTS.

Our business is highly competitive. We compete for attractive investments with traditional lending sources, such as insurance companies and banks, as well as other REITs, specialty finance companies and private equity funds with similar investment objectives, which may make it more difficult for us to consummate our target investments. Many of our competitors have greater financial resources than us, which provides them with greater operating flexibility.

OUR LOANS AND INVESTMENTS MAY BE SUBJECT TO FLUCTUATIONS IN INTEREST RATES WHICH MAY NOT BE ADEQUATELY PROTECTED, OR PROTECTED AT ALL, BY OUR HEDGING STRATEGIES.

Our current balance sheet investment program emphasizes loans with "floating" interest rates to protect against fluctuations in interest rates. We do, however, from time to time make fixed rate loans and purchase fixed rate securities, which are subject to the risk of fluctuations in interest rates. Depending on market conditions, fixed rate assets may become a greater portion of our new loan originations. In such cases, we may employ various hedging strategies to limit the effects of changes in interest rates, including engaging in interest rate swaps, caps, floors and other interest rate derivative products. No strategy can completely insulate us or our funds from the risks associated with interest rate changes and there is a risk that they may provide no protection at all. Hedging transactions involve certain additional risks such as counterparty risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot assure you that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us or our funds against the foregoing risks. In addition, cash flow hedges which are not perfectly correlated with a variable rate financing will impact our reported income as gains, and losses on the ineffective portion of such hedges will be recorded.

OUR LOANS AND INVESTMENTS MAY BE ILLIQUID WHICH WILL CONSTRAIN OUR ABILITY TO VARY OUR PORTFOLIO OF INVESTMENTS.

Our real estate investments are relatively illiquid. Such illiquidity may limit our ability to vary our portfolio or our funds' portfolios of investments in response to changes in economic and other conditions. Illiquidity may result from the absence of an established market for investments as well as the legal or contractual restrictions on their resale. In addition, illiquidity may result from the decline in value of a property securing one of our or our funds' investments. We cannot assure you that the fair market value of any of the real property serving as security will not decrease in the future, leaving our or our funds' investments under-collateralized or not collateralized at all, which could impair the liquidity and value, as well as our return on such investments.

WE MAY NOT HAVE CONTROL OVER CERTAIN OF OUR LOANS AND INVESTMENTS.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we or our funds may:

- acquire investments subject to rights of senior classes and servicers under inter-creditor or servicing agreements;

- acquire only a participation in an underlying investment;

- co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or

- rely on independent third party management or strategic partners with respect to the management of an asset.

Therefore, we may not be able to exercise control over the loan or investment. Such financial assets may involve risks not present in investments where senior creditors, servicers or third party controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior creditors or servicers whose interests may not be aligned with ours. A third party partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic

or business interests or goals which are inconsistent with ours and those of our funds, or may be in a position to take action contrary to our or our funds' investment objectives. In addition, we and our funds may, in certain circumstances, be liable for the actions of our third party partners or co-venturers.

WE MAY NOT ACHIEVE OUR TARGETED RATE OF RETURN ON OUR INVESTMENTS.

We originate or acquire investments based on our estimates or projections of overall rates of return on such investments, which in turn are based on, among other considerations, assumptions regarding the performance of assets, the amount and terms of available financing to obtain desired leverage and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that we have not anticipated may occur and may have a significant effect on the actual rate of return received on an investment.

We are currently experiencing a low interest rate environment which negatively impacts our ability to originate or acquire investments that produce rates of returns similar to existing investments that were added to our portfolio during a higher interest rate environment. As we acquire or originate investments for our balance sheet portfolio, whether as new additions or as replacements for maturing investments, there can be no assurance that we will be able to originate or acquire investments that produce rates of return comparable to rates on our existing investments.

The commercial mortgage and mezzanine loans we originate or acquire and the commercial mortgage loans underlying the CMBS in which we invest are subject to delinquency, foreclosure and loss, which could result in losses to us.

Our commercial mortgage and mezzanine loans are secured by commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged; any need to address environmental contamination at the property; changes in national, regional or local economic conditions and/or specific industry segments; declines in regional or local real estate values and declines in regional or local rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; and changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

OUR INVESTMENTS IN SUBORDINATED CMBS ARE SUBJECT TO LOSSES.

In general, losses on an asset securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, and then by the most junior security holder. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit and any classes of securities junior to those in which we invest, we may not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related mortgage-backed securities, the securities in which we invest may incur significant losses.

The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns and underlying borrower developments. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality securities because the ability of borrowers of the mortgages underlying the mortgage-backed securities to make principal and interest payments may be impaired. In such event, existing credit support in the securitization structure may be insufficient to protect us against loss of our principal on these securities.

WE MAY EXPERIENCE SIGNIFICANT REDUCTIONS IN NET INCOME IF THE IMPAIRMENTS ON OUR CMBS INVESTMENTS ARE DEEMED TO BE "OTHER-THAN-TEMPORARY".

The current fair value of certain of our CMBS investments is less than their recorded amortized cost. Since our CMBS investments are accounted for as available-for-sale securities, we have reduced our shareholders equity by an amount equal to the difference between the amortized cost and the fair value by taking a charge to other comprehensive income. As of March 31, 2004, these unrealized losses totaled $28.6 million. Under generally accepted accounting principles, if there are significant changes in the future to the expected cash flows from a particular investment due to prepayment or credit loss experience, the investment will have incurred an other-than-temporary impairment. If that occurs, we will be required to write down the investment to its fair value and take a charge to income equal to the unrealized loss, recognizing an offsetting increase to other comprehensive income with equity remaining unchanged. If we recognize other-than-temporary impairments on our CMBS investments that have experienced significant reductions in fair value, the resulting write-downs could result in significant reductions of our net income for the period in which the other-than-temporary impairment is recognized.

WE MAY INVEST IN TROUBLED ASSETS THAT ARE SUBJECT TO A HIGHER DEGREE OF FINANCIAL RISK.

We may make investments in non-performing or other troubled assets that involve a higher degree of financial risk. We cannot assure you that our investment objectives will be realized or that there will be any return on our investment. Furthermore, investments in properties subject to work-out conditions or under bankruptcy protection laws may, in certain circumstances, be subject to additional potential liabilities that could exceed the value of our original investment, including equitable subordination and/or disallowance of claims or lender liability.

WE MAY NOT BE ABLE TO ACQUIRE ELIGIBLE INVESTMENTS FOR A COLLATERALIZED DEBT OBLIGATION ISSUANCE, OR MAY NOT BE ABLE TO ISSUE COLLATERALIZED DEBT OBLIGATION SECURITIES ON ATTRACTIVE TERMS, WHICH MAY REQUIRE US TO UTILIZE MORE COSTLY FINANCING FOR OUR INVESTMENTS.

We intend to capitalize on opportunities to finance certain of our investments on a non-recourse, long-term basis, such as through the issuance of collateralized debt obligations. During the period that we are acquiring these investments, we intend to finance our purchases through our credit and repurchase obligation facilities. We use these facilities to finance our acquisition of investments until we have accumulated a sufficient quantity of investments, at which time we may refinance these lines through a securitization, such as a collateralized debt obligation issuance, or other types of long-term financing. As a result, we are subject to the risk that we will not be able to acquire a sufficient amount of eligible investments to maximize the efficiency of a collateralized debt obligation issuance. In addition, conditions in the capital markets may make the issuance of collateralized debt obligations less attractive to us when we do have a sufficient pool of collateral. If we are unable to issue a collateralized debt obligation to finance these investments, we may be required to utilize other forms of potentially less attractive financing.

WE MAY NOT BE ABLE TO FIND SUITABLE REPLACEMENT INVESTMENTS IN COLLATERALIZED DEBT OBLIGATIONS WITH REINVESTMENT PERIODS.

Some collateralized debt obligations have periods where principal proceeds received from assets securing the collateralized debt obligation can be reinvested for a defined period of time, commonly referred to as a reinvestment period. Our ability to find suitable investments during the reinvestment period that meet the criteria set forth in the collateralized debt obligation documentation and by rating agencies may determine the success of our collateralized debt obligation investments. Our potential inability to find suitable investments may cause, among other things, interest deficiencies, hyper-amortization of the senior collateralized debt obligation liabilities and may cause us to reduce the life of our collateralized debt obligations and accelerate the amortization of certain fees and expenses.

THE USE OF COLLATERALIZED DEBT OBLIGATION FINANCINGS WITH OVER-COLLATERALIZATION AND INTEREST COVERAGE REQUIREMENTS MAY HAVE A NEGATIVE

IMPACT ON OUR CASH FLOW.

The terms of collateralized debt obligations will generally provide that the principal amount of investments must exceed the principal balance of the related bonds by a certain amount and that interest income exceeds interest expense by a certain amount. We anticipate that the collateralized debt obligation

terms will provide that, if certain delinquencies and/or losses or other factors cause a decline in collateral or cash flow levels, the cash flow otherwise payable on our investment may be redirected to repay classes of CDOs senior to ours until the issuer or the collateral is in compliance with the terms of the governing documents. Other tests (based on delinquency levels or other criteria) may restrict our ability to receive net income from assets pledged to secure collateralized debt obligations. We cannot assure you that the performance tests will be satisfied. Nor can we assure you, in advance of completing negotiations with the rating agencies or other key transaction parties as to the actual terms of the delinquency tests, over-collateralization and interest coverage terms, cash flow release mechanisms or other significant factors upon which net income to us will be calculated. Failure to obtain favorable terms with regard to these matters may adversely affect the availability of net income to us. If our investments fail to perform as anticipated, our over-collateralization, interest coverage or other credit enhancement expense associated with our collateralized debt obligation financings will increase.

WE MAY BE REQUIRED TO REPURCHASE LOANS THAT WE HAVE SOLD OR TO INDEMNIFY HOLDERS OF OUR COLLATERALIZED DEBT OBLIGATIONS.

If any of the loans we originate or acquire and sell or securitize through collateralized debt obligations do not comply with representations and warranties that we make about certain characteristics of the loans, the borrowers and the underlying properties, we may be required to repurchase those loans or replace them with substitute loans. In addition, in the case of loans that we have sold instead of retained, we may be required to indemnify persons for losses or expenses incurred as a result of a breach of a representation or warranty. Repurchased loans typically require a significant allocation of working capital to carry on our books, and our ability to borrow against such assets is limited. Any significant repurchases or indemnification payments could adversely affect our financial condition and operating results.

THE IMPACT OF THE EVENTS OF SEPTEMBER 11, 2001 AND THE RESULTING EFFECT ON TERRORISM INSURANCE EXPOSE US TO CERTAIN RISKS.

The terrorist attacks on September 11, 2001 disrupted the U.S. financial markets, including the real estate capital markets, and negatively impacted the U.S. economy in general. Any future terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the U.S. and its allies may have a further adverse impact on the U.S. financial markets and the economy generally. We cannot predict the severity of the effect that such future events would have on the U.S. financial markets, the economy or our business.

In addition, the events of September 11 created significant uncertainty regarding the ability of real estate owners of high profile assets to obtain insurance coverage protecting against terrorist attacks at commercially reasonable rates, if at all. With the enactment of the Terrorism Risk Insurance Act of 2002, insurers must make terrorism insurance available under their property and casualty insurance policies through the end of 2004, which may be extended by the Secretary of the Treasury through the end of 2005, but this legislation does not regulate the pricing of such insurance. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment.

The economic impact of any future terrorist attacks could also adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to the adverse effects than others, such as hotel loans, which may experience a significant reduction in occupancy rates following any future attacks. We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our results of operation.

RISKS RELATED TO OUR INVESTMENT MANAGEMENT BUSINESS

BECAUSE WE COMMENCED OUR INVESTMENT MANAGEMENT BUSINESS IN 2000, WE ARE SUBJECT TO RISKS AND UNCERTAINTIES ASSOCIATED WITH DEVELOPING AND OPERATING A NEW BUSINESS, AND WE MAY NOT ACHIEVE FROM THIS NEW BUSINESS THE INVESTMENT RETURNS THAT WE EXPECT.

Our investment management business commenced in 2000 and, therefore, has a limited track record of proven results upon which to predict our future performance. We will encounter risks and difficulties as we proceed to develop and operate our investment management business. In order to achieve our goals as an investment manager, we must:

- manage our funds successfully by investing a majority of our funds' capital in suitable investments that meet the funds' specified investment criteria;

- actively manage the assets in our portfolios in order to realize targeted performance;

- incentivize our management and professional staff to the task of developing and operating the investment management business; and

- structure, sponsor and capitalize future funds and other investment products under our management that provide investors with attractive investment opportunities.

If we do not successfully develop and operate our investment management business to achieve the investment returns that we or the market anticipates, the market price of our class A common stock could decline.

WE MAY PURSUE FUND MANAGEMENT OPPORTUNITIES RELATED TO OTHER CLASSES OF INVESTMENTS WHERE WE DO NOT HAVE PRIOR INVESTMENT EXPERIENCE.

We may expand our fund management business to the management of private equity funds involving other investment classes where we do not have prior investment experience. We may find it difficult to attract third party investors without a performance track record involving such investments. Even if we attract third party investments, there can be no assurance that we will be successful in deploying the capital to achieve targeted returns on the investments.

WE FACE SUBSTANTIAL COMPETITION FROM ESTABLISHED PARTICIPANTS IN THE PRIVATE EQUITY MARKET AS WE OFFER MEZZANINE AND OTHER FUNDS TO THIRD PARTY INVESTORS.

We face significant competition from large financial and other institutions that have proven track records in marketing and managing private equity investment funds and otherwise have a competitive advantage over us because they have access to pre-existing third party investor networks into which they can channel competing investment opportunities. If our competitors offer investment products that are competitive with the mezzanine and other fund investments offered by us, we will find it more difficult to attract investors and to capitalize our mezzanine and other funds.

OUR FUNDS ARE SUBJECT TO THE RISK OF DEFAULTS BY THIRD PARTY INVESTORS ON THEIR CAPITAL COMMITMENTS.

The capital commitments made by third party investors to our funds represent unsecured promises by those investors to contribute cash to the funds from time to time as investments are made by the funds. Accordingly, we are subject to general credit risks that the investors may default on their capital commitments. If defaults occur, we may not be able to close loans and investments we have identified and negotiated, which could materially and adversely affect the funds' investment program or make us liable for breach of contract, in either case to the detriment of our franchise in the private equity market.

RISKS RELATED TO OUR COMPANY

WE ARE DEPENDENT UPON OUR SENIOR MANAGEMENT TEAM TO DEVELOP AND OPERATE OUR BUSINESS.

Our ability to develop and operate our business depends to a substantial extent on the experience, relationships and expertise of our senior management and key employees. We cannot assure you that these individuals will remain in our employ. The employment agreement with our chief executive officer, John R. Klopp, expires on December 31, 2008, unless further extended. The loss of the services of our senior management and key employees could have a material adverse effect on our operations.

THERE MAY BE CONFLICTS BETWEEN THE INTERESTS OF OUR INVESTMENT FUNDS AND US.

We are subject to a number of potential conflicts between our interests and the interests of our managed investment funds. Although we have agreed to offer Fund III the first opportunity to invest in investment opportunities which have characteristics and projected leveraged returns which meet Fund III's investment and return objectives, we are subject to potential conflicts of interest in the allocation of investment opportunities between our balance sheet and our managed funds. In addition, we may make investments that are senior or junior to, participations in, or have rights and interests different from or adverse to, the investments made by our managed funds. Our interests in such investments may conflict with the interests of our managed funds in related investments at the time of origination or in the event of a default or restructuring of the investment. In the event a default occurs with respect to such an investment, the directors of Fund III appointed by us have agreed to recuse themselves from any vote of the board of Fund III concerning such investment and our co-sponsor's controlled advisor to Fund III will assume and perform our asset management responsibility with respect to such investment.

Finally, our officers and employees may have conflicts in allocating their time and services among us and our managed funds.

OUR BALANCE SHEET PORTFOLIO CONTINUES TO HAVE CONCENTRATIONS IN MARK-TO-MARKET MORTGAGE-BACKED SECURITIES WHICH SUBJECTS US TO GREATER VARIATIONS IN EQUITY AND INCOME AS WE RECORD BALANCE SHEET GAINS AND LOSSES ON SUCH ASSETS.

Our venture agreement with affiliates of Citigroup Alternative Investments, LLC placed restrictions on our ability to originate new mezzanine loan investments for our balance sheet during the investment period for Fund II which resulted in our balance sheet portfolio becoming more concentrated in longer term fixed rate mortgage-backed securities that had been originated prior to 2000. We have adopted accounting policies under which such securities are recorded as available-for-sale and changes in the market value will impact either or both shareholders' equity or net income depending on the characterization of the change in market value. If a reduction in market value is deemed to be other than temporary, generally due to a change in the credit risk, the reduction in value will be recorded as a reduction of net income. If any of the available-for-sale securities are sold, the resulting gain or loss will be recorded through the income statement. All other changes in market value will impact shareholders equity only.

While the restrictions on our balance sheet investment activities diminished when the investment period for Fund II ended and we have begun making new investments for our own account, there can be no assurance that the concentration in mark-to-market mortgage-backed securities will be reduced in the near term through new originations. In an environment of relatively low interest rates, there is also a higher risk that our existing non-mark-to-market loans will pay off early. To the extent our balance sheet remains concentrated in mark-to-market assets, we will remain subject to potential swings in equity and income as we record gains and losses on such assets on our balance sheet. If interest rates fluctuate and significantly affect the market value of such mark-to-market assets, the corresponding reductions or increases in our equity and income may be significant.

WE MUST MANAGE OUR PORTFOLIO IN A MANNER THAT ALLOWS US TO RELY ON AN EXCLUSION FROM REGISTRATION UNDER THE INVESTMENT COMPANY ACT OF 1940 IN ORDER TO AVOID THE CONSEQUENCES OF REGULATION UNDER THAT ACT.

We rely on an exclusion from registration as an investment company afforded by Section 3(c)(5)(C) of the Investment Company Act of 1940. Under this exclusion, we are required to maintain, on the basis of positions taken by the SEC staff in interpretive and no-action letters, a minimum of 55% of the value of the total assets of our portfolio in "mortgages and other liens on and interests in real estate." We refer to this category of investments herein as "Qualifying Interests." In addition, we must maintain an additional minimum of 25% of the value of our total assets in Qualifying Interests or other real estate-related assets. Because registration as an investment company would significantly affect our ability to engage in certain transactions or to organize ourselves in the manner we are currently organized, we intend to maintain our qualification for this exclusion from registration. In the past, when required due to the mix of assets in our balance sheet portfolio, we have purchased pools of whole loan residential mortgage-backed securities that we treat as Qualifying Interests based on SEC staff positions. Investments in such pools of whole loan residential mortgage-backed securities may not represent an optimum use of our investable capital when compared to the available investments we target pursuant to our investment strategy. We continue to analyze our investments and may acquire other pools of whole loan mortgage-backed securities when and if required for compliance purposes. In addition, certain of our investments in subordinated CMBS have terms which we believe allows them to be categorized as Qualifying Interests, including rights to cure any defaults on senior CMBS classes, rights to acquire such senior classes in the event of a default or special servicing rights to service defaulted mortgage loans, including rights to control the oversight and management of the resolution of such mortgage loans by workout or modification of loan provisions, foreclosure, deed in lieu of foreclosure or otherwise, and to control decisions with respect to the preservation of the collateral generally, including property management and maintenance decisions. We have not obtained an exemptive order or a no-action letter or other form of interpretive guidance from the SEC or its staff supporting our position, and, therefore, any decision by the SEC or its staff which advances a position to the contrary would require us to no longer treat these investments in subordinated CMBS as Qualifying Interests.

If our portfolio does not comply with the requirements of the exclusion we rely upon, we could be forced to alter our portfolio by selling or otherwise disposing of a substantial portion of the assets that are not Qualifying Interests or by acquiring a significant position in assets that are Qualifying Interests. Altering our portfolio in this manner may have a material adverse effect on our investments if we are forced to dispose of or acquire assets in an unfavorable market.

WE MAY EXPAND OUR FRANCHISE THROUGH BUSINESS ACQUISITIONS AND THE RECRUITMENT OF FINANCIAL PROFESSIONALS, WHICH MAY PRESENT ADDITIONAL COSTS AND OTHER CHALLENGES AND MAY NOT PROVE SUCCESSFUL.

Our business plan contemplates expansion of our franchise into complementary investment strategies involving other credit-sensitive structured financial products. We may undertake such expansion through business acquisitions or the recruitment of financial professionals with experience in other products. We may also expend a substantial amount of time and capital pursuing opportunities to expand into complementary investment strategies that we do not consummate. The expansion of our operations could place a significant strain on our management, financial and other resources. Our ability to manage future expansion will depend upon our ability to monitor operations, maintain effective quality controls and significantly expand our internal management and technical and accounting systems, all of which could result in higher operating expenses and could adversely affect our current business, financial condition and results of operations.

We cannot assure you that we will be able to identify and integrate businesses or professional teams we acquire to pursue complementary investment strategies and expand our business. Moreover, any decision to pursue expansion into businesses with complementary investment strategies will be in the discretion of our management and may be consummated without prior notice or shareholder approval. In such instances, shareholders will be relying on our management to assess the relative benefits and risks associated with any such expansion.

RISKS RELATING TO THIS OFFERING

BECAUSE A LIMITED NUMBER OF SHAREHOLDERS, INCLUDING MEMBERS OF OUR MANAGEMENT TEAM, OWN A SUBSTANTIAL NUMBER OF OUR SHARES, DECISIONS MADE BY THEM MAY BE DETRIMENTAL TO YOUR INTERESTS.

By virtue of their direct and indirect share ownership, John R. Klopp, a director and our president and chief executive officer, Craig M. Hatkoff, a director and former officer, and other shareholders indirectly owned by trusts for the benefit of our chairman of the board, Samuel Zell, have the power to significantly influence our affairs and are able to influence the outcome of matters required to be submitted to shareholders for approval, including the election of our directors, amendments to our charter, mergers, sales of assets and other acquisitions or sales. The influence exerted by these shareholders over our affairs might not be consistent with the interests of some or all of our other shareholders. We cannot assure you that these shareholders will not exercise their influence over us in a manner detrimental to your interests. As of June 30, 2004, these shareholders collectively own and control 2,480,805 shares of our class A common stock representing approximately 28.9% of our outstanding class A common stock. This concentration of ownership may have the effect of delaying or preventing a change in control of our company, including transactions in which you might otherwise receive a premium for your class A common stock, and might negatively affect the market price of our class A common stock.

Berkley owns 1,635,000 shares of our class A common stock and may purchase an additional 365,000 shares upon the exercise of warrants, which assuming the exercise of the warrants, represents 23.1% of our outstanding class A common stock. The conversion of the outstanding convertible trust preferred securities

held by Vornado Realty, L.P. and JPMorgan Chase Bank, as trustee for the GMAM Investment Funds Trust and the GMAM Group Pension Trust II, could result in other significant concentrated holdings of our class A common stock. Following this offering, Vornado Realty, L.P. may acquire 1,424,474 shares of our class A common stock and JPMorgan Chase Bank, as trustee for the GMAM Investment Funds Trust and the GMAM Group Pension Trust II, may acquire 49,856 and 662,381 shares, respectively, of our class A common stock. An officer of Berkley and a person associated with the General Motor's pension trusts serve on our board of directors and, therefore, have the power to significantly influence our affairs. Through their significant ownership of our class A common stock, assuming for this purpose the trust preferred securities were converted, these security holders may have the ability to influence the outcome of matters submitted for shareholder approval.

SOME PROVISIONS OF OUR CHARTER AND BYLAWS AND MARYLAND LAW MAY DETER TAKEOVER ATTEMPTS, WHICH MAY LIMIT THE OPPORTUNITY OF OUR SHAREHOLDERS TO SELL THEIR SHARES AT A FAVORABLE PRICE.

Some of the provisions of our charter and bylaws and Maryland law discussed below could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders by providing them with the opportunity to sell their shares at a premium to the then current market price.

Issuance of Preferred Stock Without Shareholder Approval. Our charter authorizes our board of directors to authorize the issuance of up to 100,000,000 shares of preferred stock and up to 100,000,000 shares of class A common stock. Our charter also authorizes our board of directors, without shareholder approval, to classify or reclassify any unissued shares of our class A common stock and preferred stock into other classes or series of stock and to amend our charter to increase or decrease the aggregate number of shares of stock of any class or series that may be issued. Our board of directors, therefore, can exercise its power to reclassify our stock to increase the number of shares of preferred stock we may issue without shareholder approval. Preferred stock may be issued in one or more series, the terms of which may be determined without further action by shareholders. These terms may include preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption. The issuance of any preferred stock, however, could materially adversely affect the rights of holders of our class A common stock and, therefore, could reduce its value. In addition, specific rights granted to future holders of our preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The power of our board of directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change in control, thereby preserving the current shareholders' control.

Advance Notice Bylaw. Our bylaws contain advance notice procedures for the introduction of business and the nomination of directors. These provisions could discourage proxy contests and make it more difficult for you and other shareholders to elect shareholder-nominated directors and to propose and approve shareholder proposals opposed by management.

Maryland Takeover Statutes. We are subject to the Maryland Business Combination Act which could delay or prevent an unsolicited takeover of us. The statute substantially restricts the ability of third parties who acquire, or seek to acquire, control of us to complete mergers and other business combinations without the approval of our board of directors even if such transaction would be beneficial to shareholders. "Business combinations" between such a third party acquiror or its affiliate and us are prohibited for five years after the most recent date on which the acquiror or its affiliate becomes an "interested shareholder." An "interested shareholder" would be any person who beneficially owns 10 percent or more of our shareholder voting power or an affiliate or associate of ours who, at any time within the two-year period prior to the date interested shareholder status is determined, was the beneficial owner of 10 percent or more of our shareholder voting power. If our board of directors approved in advance the transaction that would otherwise give rise to the acquiror or its affiliate attaining such status, such as the issuance of shares of our class A common stock to Berkley, the acquiror or its affiliate would not become an interested shareholder and, as a result, it could enter into a business combination with us. Our board of directors could choose not to negotiate with an acquirer if the board determined in its business judgment that considering such an acquisition was not in our strategic interests. Even after the lapse of the five-year prohibition period, any business combination with an interested shareholder must be recommended by our board of directors and approved by the affirmative vote of at least:

o 80% of the votes entitled to be cast by shareholders; and

o two-thirds of the votes entitled to be cast by shareholders other than the interested shareholder and affiliates and associates thereof.

The super-majority vote requirements do not apply if the transaction complies with a minimum price requirement prescribed by the statute.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that an interested shareholder becomes an interested shareholder. Our board of directors has exempted any business combination involving family partnerships controlled separately by John R. Klopp and Craig M. Hatkoff, and a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell and his family. As a result, these persons and Berkley may enter into business combinations with us without compliance with the super-majority vote requirements and the other provisions of the statute.

We are subject to the Maryland Control Share Acquisition Act. With certain exceptions, the Maryland General Corporation Law provides that "control shares" of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiring person or by our officers or directors who are our employees, and may be redeemed by us. "Control shares" are voting shares which, if aggregated with all other shares owned or voted by the acquirer, would entitle the acquirer to exercise voting power in electing directors within one of the specified ranges of voting power. A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions, including an undertaking to pay expenses, may compel our board to call a special meeting of shareholders to be held within 50 days of demand to consider the voting rights of the "control shares" in question. If no request for a meeting is made, we may present the question at any shareholders' meeting.

If voting rights are not approved at the shareholders' meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, we may redeem any or all of the control shares, except those for which voting rights have previously been approved for fair value. If voting rights for control shares are approved at a shareholders' meeting and the acquirer may then vote a majority of the shares entitled to vote, then all other shareholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, nor does it apply to acquisitions approved or exempted by our charter or bylaws. We have exempted certain holders identified in our bylaws from this statute which exemptions extend to Berkley, family partnerships controlled separately by John R. Klopp and Craig M. Hatkoff, and a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell and his family.

We are also subject to the Maryland Unsolicited Takeovers Act which permits our board of directors, among other things, to elect on our behalf to stagger the terms of directors, to increase the shareholder vote required to remove a director and to provide that shareholder-requested meetings may be called only upon the request of shareholders entitled to cast at least a majority of the votes entitled to be cast at the meeting. Such an election would significantly restrict the ability of third parties to wage a proxy fight for control of our board of directors as a means of advancing a takeover offer. If an acquirer was discouraged from offering to acquire us, or prevented from successfully completing a hostile acquisition, you could lose the opportunity to sell your shares at a favorable price.

SHARES ELIGIBLE FOR SALE IN THE NEAR FUTURE MAY CAUSE THE MARKET PRICE FOR OUR CLASS A COMMON STOCK TO DECLINE.

Sales of a substantial number of shares of our class A common stock in the public market following this offering, or the perception that these sales could occur, may depress the market price for our class A common stock. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.

The number and timing of shares of class A common stock available for sale in the public market is limited by restrictions under federal securities laws and under agreements that we and each of our executive officers and directors and each of the selling shareholders have entered into with the underwriters of this offering. Those agreements restrict these persons from selling, pledging or otherwise disposing of their shares, subject to specified exceptions, for a period of 90 days after the date of this prospectus without the prior written consent of Morgan Stanley & Co. Morgan Stanley & Co. may, however, in its sole discretion, release all or any portion of the common stock from the restrictions of the lockup agreements. Upon completion of this offering we will have outstanding 11,800,343 shares of class A common stock. Of these shares, 7,807,036 shares, including the 3,500,000 shares sold in this offering are freely tradeable. Subject to any restrictions pursuant to other agreements or under applicable law, the remaining 3,993,307 shares will be eligible for sale in the public market at various times commencing 90 days from the date of this prospectus supplement. In addition, following this offering, 550,835 shares of common stock may be issued pursuant to the exercise of stock options that are outstanding.

THE MARKET VALUE OF OUR CLASS A COMMON STOCK MAY BE ADVERSELY AFFECTED BY MANY FACTORS.

As with any public company, a number of factors may adversely influence the price of our class A common stock, many of which are beyond our control. These factors include:

- the level of institutional interest in us;
- the perception of REITs generally and REITs with portfolios similar to ours, in particular, by market professionals;
- the attractiveness of securities of REITs in comparison to other companies; and
- the market's perception of our growth potential and potential future cash dividends.

AN INCREASE IN MARKET INTEREST RATES MAY LEAD PROSPECTIVE PURCHASERS OF OUR CLASS A COMMON STOCK TO EXPECT A HIGHER DIVIDEND YIELD, WHICH WOULD ADVERSELY AFFECT THE MARKET PRICE OF OUR CLASS A COMMON STOCK.

One of the factors that will influence the price of our class A common stock will be the dividend yield on our stock (distributions as a percentage of the price of our stock) relative to market interest rates. An increase in market interest rates may lead prospective purchasers of our class A common stock to expect a higher dividend yield, which would adversely affect the market price of our class A common stock.

YOUR ABILITY TO SELL A SUBSTANTIAL NUMBER OF SHARES OF OUR CLASS A COMMON STOCK MAY BE RESTRICTED BY THE LOW TRADING VOLUME HISTORICALLY EXPERIENCED BY OUR CLASS A COMMON STOCK.

Although our class A common stock is listed on the New York Stock Exchange, the daily trading volume of our shares of class A common stock has historically been lower than the trading volume for certain other companies. As a result, the ability of a holder to sell a substantial number of shares of our class A common stock in a timely manner without causing a substantial decline in the market of the shares, especially by means of a large block trade, may be restricted by the limited trading volume of the shares of our class A common stock.

WE CANNOT ASSURE YOU THAT OUR PROPOSED CDO-1 TRANSACTION WILL BE CONSUMMATED.

The closing of this offering is not contingent upon completion of the CDO-1 transaction, which is expected to occur prior to the closing of this offering. The CDO-1 transaction is subject to a number of closing conditions that are outside of our control. If we do not close the CDO-1 transaction, we will not receive any of the benefits we expect to receive from that transaction and our ability to issue other CDOs in the future may be adversely impacted.

RISKS RELATED TO OUR REIT STATUS

OUR CHARTER DOES NOT PERMIT ANY INDIVIDUAL TO OWN MORE THAN OVER 2.5% OF OUR CLASS A COMMON STOCK, AND ATTEMPTS TO ACQUIRE OUR CLASS A COMMON STOCK IN EXCESS OF THE 2.5% LIMIT WOULD BE VOID WITHOUT THE PRIOR APPROVAL OF OUR BOARD OF DIRECTORS.

For the purpose of preserving our qualification as a REIT for federal income tax purposes, our charter prohibits direct or constructive ownership by any individual of more than 2.5% of the lesser of the total number or value of the outstanding shares of our class A common stock as a means of preventing ownership of more than 50% of our class A common stock by five or fewer individuals. The charter's constructive ownership rules are complex and may cause the outstanding class A common stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual. As a result, the

acquisition of less than 2.5% of our outstanding class A common stock by an individual or entity could cause an individual to own constructively in excess of 2.5% of our outstanding class A common stock, and thus be subject to the charter's ownership limit. There can be no assurance that our board of directors, as permitted in the charter, will increase this ownership limit in the future. Any attempt to own or transfer shares of our class A common stock in excess of the ownership limit without the consent of our board of directors will be void, and will result in the shares being transferred by operation of law to a charitable trust, and the person who acquired such excess shares will not be entitled to any distributions thereon or to vote such excess shares.

Our charter contains a provision that exempts certain of our officers, directors and their related persons from this ownership limit and we increased the limit for William R. Berkley to 6.0% and for one other major shareholder of Berkley identified to us to 4.0%. The 2.5% ownership limit may have the effect of precluding a change in control of us by a third party without the consent of our board of directors, even if such change in control would be in the interest of our shareholders or would result in a premium to the price of our class A common stock (and even if such change in control would not reasonably jeopardize our REIT status). The ownership limit exemptions and the reset limits granted to date would limit our board of directors' ability to reset limits in the future and at the same time maintain compliance with the REIT qualification requirement prohibiting ownership of more than 50% of our class A common stock by five or fewer individuals.

THERE ARE NO ASSURANCES THAT WE WILL BE ABLE TO PAY DIVIDENDS IN THE FUTURE.

We intend to pay quarterly dividends and to make distributions to our shareholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. There are no assurances that we will be able to pay dividends in the future. In addition, some of our distributions may include a return of capital, which would reduce the amount of capital available to operate our business.

RECENT TAX LEGISLATION MAY HAVE NEGATIVE CONSEQUENCES FOR REITS.

Recent tax legislation allows certain corporations to pay dividends that qualify for a reduced tax rate in the hands of certain shareholders. This legislation generally does not apply to REITs. Although the legislation does not adversely affect the tax treatment of REITs, it may cause investments in non-REIT corporations to become relatively more desirable. As a result, the capital markets may be less favorable to REITs, such as ourselves, when they seek to raise equity capital, and the prices at which REIT equity securities trade, including our class A common stock, may decline or underperform non-REIT corporations.

WE WILL BE DEPENDENT ON EXTERNAL SOURCES OF CAPITAL TO FINANCE OUR GROWTH.

As with other REITs, but unlike corporations generally, our ability to finance our growth must largely be funded by external sources of capital because we generally will have to distribute to our shareholders 90% of our taxable income in order to qualify as a REIT, including taxable income where we do not receive corresponding cash. Our access to external capital will depend upon a number of factors, including general market conditions, the market's perception of our growth potential, our current and potential future earnings, cash distributions and the market price of our class A common stock.

IF WE DO NOT MAINTAIN OUR QUALIFICATION AS A REIT, WE WILL BE SUBJECT TO TAX AS A REGULAR CORPORATION AND FACE A SUBSTANTIAL TAX LIABILITY. OUR TAXABLE REIT SUBSIDIARIES WILL BE SUBJECT TO INCOME TAX.

We expect to operate so as to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial or administrative interpretations exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

o we would be taxed as a regular domestic corporation, which under current laws, among other things, means being unable to deduct distributions to shareholders in computing taxable income and being subject to federal income tax on our taxable income at regular corporate rates;

S-19

o any resulting tax liability could be substantial, could have a material adverse effect on our book value and could reduce the amount of cash available for distribution to shareholders; and

o unless we were entitled to relief under applicable statutory provisions, we would be required to pay taxes, and thus, our cash available for distribution to shareholders would be reduced for each of the years during which we did not qualify as a REIT.

Income from our fund management business is expected to be realized by one of our taxable REIT subsidiaries and, accordingly, will be subject to income tax.

COMPLYING WITH REIT REQUIREMENTS MAY CAUSE US TO FOREGO OTHERWISE ATTRACTIVE OPPORTUNITIES.

In order to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the nature of our investments in commercial real estate and related assets, the amounts we distribute to our shareholders and the ownership of our stock. We may also be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

COMPLYING WITH REIT REQUIREMENTS MAY FORCE US TO LIQUIDATE OR RESTRUCTURE OTHERWISE ATTRACTIVE INVESTMENTS.

In order to qualify as a REIT, we must also ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investments in securities cannot include more than 10% of the outstanding voting securities of any one issuer or 10% of the total value of the outstanding securities of any one issuer. In addition, no more than 5% of the value of our assets can consist of the securities of any one issuer. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences.

COMPLYING WITH REIT REQUIREMENTS MAY FORCE US TO BORROW TO MAKE DISTRIBUTIONS TO SHAREHOLDERS.

From time to time, our taxable income may be greater than our cash flow available for distribution to shareholders. If we do not have other funds available in these situations, we may be unable to distribute substantially all of our taxable income as required by the REIT provisions of the Internal Revenue Code. Thus, we could be required to borrow funds, sell a portion of our assets at disadvantageous prices or find another alternative. These options could increase our costs or reduce our equity.

THE "TAXABLE MORTGAGE POOL" RULES MAY LIMIT THE MANNER IN WHICH WE EFFECT FUTURE SECURITIZATIONS.

Certain of our future securitizations could be considered to result in the creation of taxable mortgage pools for federal income tax purposes. Since we conduct our operations to qualify as a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we would not be adversely affected by the characterization of the securitization as a taxable mortgage pool (assuming that we do not have any shareholders who might cause a corporate income tax to be imposed upon us by reason of our owning a taxable mortgage pool). We would be precluded, however, from selling to outside investors equity interests in such securitizations or from selling any debt securities issued in connection with such securitizations that might be considered to be equity interests for tax purposes. These limitations will preclude us from using certain techniques to maximize our returns from securitization transactions. If the securitization vehicles in which we participate were considered a taxable mortgage pool, shareholders who are tax-exempt and shareholders who are not United States persons may be required to pay tax on their share of any excess inclusion income.

CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectuses, including the information incorporated by reference herein and therein, as well as other oral and written statements made in press releases and otherwise by or on our behalf, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements predict or describe our future operations, our business plans, our business and investment strategies and portfolio management and the performance of our investments and funds under management, and do not relate solely to historical matters. You can generally identify forward-looking statements by the use of words such as "believes," "expects," "may," "will," "should," "could," "seeks," "approximately," "intends," "plans," "objectives," "goals," "projects," "estimates," "anticipates," "continues to," "designed to," "foreseeable future," "scheduled" and similar words. Because these statements reflect our current views concerning future events and are based on current assumptions, they involve risks, uncertainties and other factors which may lead to actual results or effects that are materially different from those anticipated or contemplated in the forward-looking statements. Some, but not all, of the factors that may cause these differences include, but are not limited to:

o the general political, economic and competitive conditions in the United States;

o the level and volatility of prevailing interest rates and credit spreads, adverse changes in general economic conditions and real estate markets, the deterioration of credit quality of borrowers and the risks associated with the ownership and operation of real estate;

o a significant compression of the spreads of the interest rates earned on interest-earning assets over the interest rates paid on interest-bearing liabilities that adversely affects operating results;

o adverse developments in the availability of desirable loan and investment opportunities and the ability to obtain and maintain targeted levels of leverage and borrowing costs;

o adverse changes in local market conditions, competition, increases in operating expenses and uninsured losses affecting a property owner's ability to cover operating expenses and the debt service on financing provided by us;

o the recognition of unrealized losses on our CMBS investments that are deemed "other-than-temporary;"

o the failure of our CDO-1 transaction to close in the form and manner contemplated on July 20, 2004;

o authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board and the Securities and Exchange Commission; and

o those items discussed in the "Risk Factors" section of this prospectus supplement and in other information incorporated by reference into this prospectus supplement or the accompanying prospectuses.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We caution you not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update or revise any forward-looking statements included or incorporated by reference in this prospectus supplement or the accompanying prospectuses after the date hereof, either to conform them to actual results or to changes in our expectations.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $33.2 million at an assumed offering price of $26.58 per share, the last reported sale price of our class A common stock on the NYSE composite transaction tape on July 13, 2004, or approximately $46.4 million if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and commissions and expenses of this offering. We will not receive any proceeds from the sale of 2,136,711 shares of our class A common stock by the selling shareholders. We intend to use the net proceeds for general corporate purposes, including funding our balance sheet investment activity, our capital commitments to Fund III and any future investment funds, the repayment of indebtedness, including our convertible junior subordinated debentures and our credit facility, working capital and potential business acquisitions.

As of March 31, 2004, we had outstanding borrowings under our credit facility of $64,700,000. Our credit facility provides for asset specific borrowings that bear interest at specified spreads over LIBOR, which spreads depend upon the perceived risk of the pledged assets. Based upon borrowings in place at March 31, 2004, the effective borrowing rate on the credit facility was LIBOR plus 2.86%, or 3.96%. Our credit facility matures on July 16, 2005. As of March 31, 2004, we had outstanding borrowings under repurchase obligations of $194,333,000, which bear interest at specified spreads over LIBOR that depend upon the perceived risk of the assets subject to the repurchase obligations. Based upon borrowings in place at March 31, 2004, the average effective rate on the repurchase obligations was LIBOR plus 1.34%, or 2.44%.

As of March 31, 2004, we have $89,742,000 aggregate liquidation amount of variable step up convertible trust preferred securities outstanding that were issued by our consolidated statutory trust subsidiary, CT Convertible Trust I. The underlying convertible junior subordinated debentures bear interest at 10% per annum, which increases by 0.75% per annum on October 1, 2004 and each October 1 thereafter. If the quarterly dividend paid on a share of our class A common stock multiplied by four and divided by $21.00 is in excess of the interest rate in effect at that time, then the holders are entitled to be paid additional interest at that rate. The convertible trust preferred securities are redeemable by us, in whole or in part, on or after September 30, 2004. The convertible trust preferred securities mature on September 30, 2018. Following the conversion of the convertible trust preferred securities owned by EOP Operating Limited Partnership and JPMorgan Chase Bank, as trustee for the GMAM Investment Funds Trust and the GMAM Group Pension Trust II in connection with their sale of class A common stock in this offering, there will remain outstanding $44,871,000 aggregate liquidation amount of convertible trust preferred securities which are convertible into 2,136,711 shares of common stock based upon a $21.00 conversion price.

We have from time to time engaged in, and expect to continue to pursue, discussions with respect to possible business acquisitions. While we have no present commitments or agreements with respect to any material acquisitions, we frequently investigate acquisitions of companies engaged in businesses that we believe will complement our existing business.

Our management will have considerable discretion in the application of the net proceeds of this offering and may spend the net proceeds in a manner and at times other than as set forth above. As a result, you will not have the opportunity, as part of your investment decision, to assess how and when the net proceeds will be used.

Pending such uses, the net proceeds may be invested in interest-bearing accounts and short-term interest-bearing securities that are consistent with our qualification as a REIT.

SELLING SHAREHOLDERS

The following table sets forth information with respect to the selling shareholders' beneficial ownership of our class A common stock as of June 30, 2004 and after giving effect to this offering. We will not receive any proceeds from the sale of our class A common stock by the selling shareholders. All of the shares of class A common stock beneficially owned by the selling shareholders are issuable upon conversion of variable step up convertible trust preferred securities issued by CT Convertible Trust I. Applicable percentage ownership set forth in the following table is based upon 8,300,343 shares of class A common stock outstanding as of June 30, 2004 and 11,800,343 shares of class A common stock outstanding after completion of this offering. If the underwriters exercise their over-allotment option in full, the number of shares outstanding immediately after completion of this offering will be 12,325,343.

NAME	SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING	
	NUMBER	PERCENT
EOP Operating Limited Partnership (1)	1,424,474	14.6%
JPMorgan Chase Bank, as trustee for the GMAM Investment Funds Trust (2)	99,713	1.2%
JPMorgan Chase Bank, as trustee for GMAM Group Pension Trust II (2)	1,324,761	13.8%

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(1) Samuel Zell, chairman of our board of directors, serves as chairman of the board of trustees of Equity Office Properties Trust, the managing general partner of EOP Operating Limited Partnership. Thomas E. Dobrowski, who serves as one of our directors, is a trustee of Equity Office Properties Trust. Sheli Z. Rosenberg, who served as one of our directors until her resignation in April 2004, is also a trustee of Equity Office Properties Trust.

(2) General Motors Investment Management Corporation serves as investment manager to these pension trusts. Thomas E. Dobrowski, who serves as one of our directors, is a managing director of General Motors Investment Management Corporation. First Plaza Group Trust, a pension trust managed by General Motors Investment Management Corporation, is an investor in Fund II and Fund III.

S-23

PRICE RANGE OF CLASS A COMMON STOCK AND DIVIDEND POLICY

Our class A common stock is listed for trading on the New York Stock Exchange under the symbol "CT." The table below sets forth, for the calendar quarters indicated, the reported high and low sale prices of the class A common stock as reported on the NYSE composite transaction tape:

2002	
First Quarter..........	
Second Quarter..........	
Third Quarter..........	
Fourth Quarter..........	
2003	
First Quarter..........	
Second Quarter..........	
Third Quarter..........	
Fourth Quarter..........	
2004..........	
First Quarter..........	
Second Quarter..........	
Third Quarter (through July 13, 2004)	

The last reported sale price of the class A common stock on July 13, 2004 as reported on the NYSE composite transaction tape was $26.58. As of July 13, 2004, there were 1,322 holders of record of the class A common stock. By including persons holding shares in broker accounts under street names, however, we estimate that there were approximately 3,100 holders of record of our class A common stock as of July 13, 2004.

Although in recent years we have not paid dividends, with our decision to elect to be taxed as a REIT, we began paying dividends on our class A common stock in the first quarter of 2003 and have paid quarterly dividends since then.

We generally intend to distribute each year substantially all of our taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles) to our shareholders so as to comply with the REIT provisions of the Internal Revenue Code. We intend to make dividend distributions quarterly and, if necessary for REIT qualification purposes, we may need to distribute any taxable income remaining after the distribution of the final regular quarterly dividend each year, together with the first regular quarterly dividend payment of the following taxable year or, at our discretion, in a special dividend distributed prior thereto. Our dividend policy is subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend on our taxable income, our financial condition, our maintenance of REIT status and other factors as our board of directors deems relevant.

Distributions to shareholders will generally be subject to tax as ordinary income, although a portion of the distributions may be designated by us as capital gain or may constitute a tax-free return of capital. Annually, our transfer agent will furnish to each of our shareholders a statement of distributions paid during the preceding year and their characterization as ordinary income, capital gains or return of capital.

Our ability to pay distributions in the future and the amounts of any such distributions will depend upon a number of factors, including those discussed under the caption "Risk Factors."

HISTORICAL AND PRO FORMA CAPITALIZATION

The following table sets forth our historical capitalization as of March 31, 2004 and a pro forma capitalization as of March 31, 2004, giving effect to the CDO-1 transaction, which is scheduled to close on July 20, 2004, and the direct public offering to Berkley, which we closed in two tranches on May 11 and June 21, 2004, respectively, and are fully described under the caption "Prospectus Supplement Summary -- Recent Developments" beginning on page S-40, as adjusted to give effect to the sale of the 1,363,289 shares of our class A common stock offered by us at an assumed offering price of $26.58 per share, equal to the last reported sale price of our class A common stock on the NYSE on July 13, 2004 and the 2,136,711 shares of class A common stock offered by the selling shareholders pursuant to this prospectus supplement and the application of the estimated net proceeds received by us from this offering, after deduction of underwriting discounts and commissions and estimated offering expenses. We will not receive any of the proceeds from the sale of 2,136,711 shares of our class A common stock by the selling shareholders. The closing of this offering is not contingent upon completion of the CDO-1 transaction. The pro forma information is presented for illustrative purposes only and does not necessarily indicate the amount of our assets, liabilities and shareholders' equity that would have been recorded on our balance sheet as of March 31, 2004 had the CDO-1 transaction and direct public offering to Berkley closed as of that date.

You should read the following information together with "Prospectus Supplement Summary -- Summary Financial Data," "Risk Factors" and the consolidated financial statements and the notes thereto included elsewhere in this prospectus supplement.

	HIS
CASH AND CASH EQUIVALENTS	$
SHORT-TERM DEBT	
Current maturities of repurchase obligations	$1