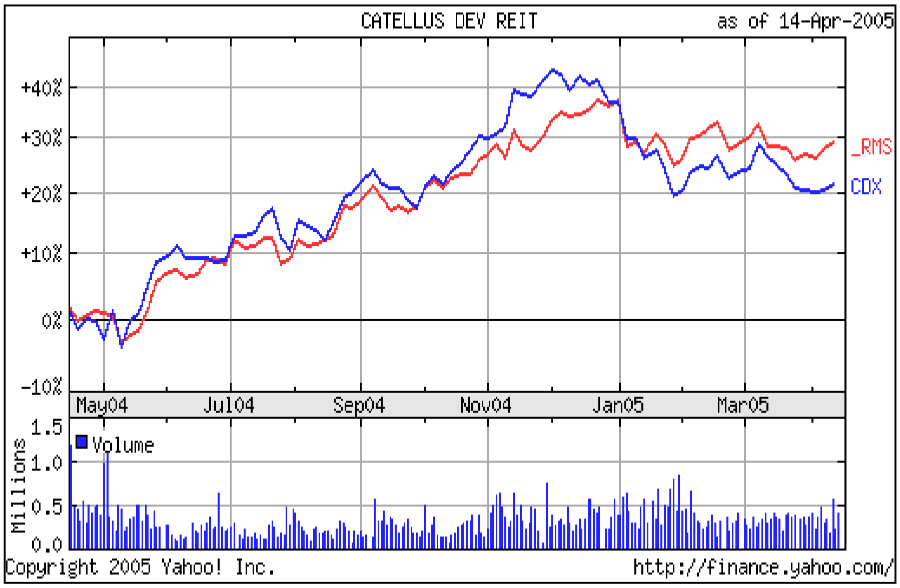
Yale SCHOOL *of* MANAGEMENT

135 Prospect Street, New Haven, Connecticut 06520

Catellus Development Corp. (NYSE: CDX)

Building a Bright Future



April 15, 2005

Current Price: $26.90
Target Price: $29.76
Upside: 10.7%
1-Year Total Projected Return with Dividend of 3.98%: 14.68%
Sector: REIT
(Real Estate Investment Trusts)
Recommendation: Buy

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Executive Summary

We are rating Catellus Development a Buy because of its current undervaluation and its dividend yield. We view Catellus as a good alternative to other REITs in the strong Industrial segment. We believe in the value creation prowess of the management team, and we like the strategy it had implemented to sell off non-core assets and to focus on expanding their industrial portfolio.

Occupancy is at a comfortable 94.7% level and will only improve due to the modest level of lease expirations the next two years. The construction pipeline is Catellus' source of growth and gives the stock reliable earnings visibility through 2006. Catellus has a modest amount of debt on its balance sheet and mainly funds its capital expenditures through free cash flow.

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CATELLUS' CURRENT EVALUATION

Investment Thesis

We are bullish on Catellus because of the quality of its portfolio assets and the management's demonstrated execution ability to reposition itself as an industrial-focused REIT. In the last two years, Catellus took advantage of the strong real estate market and has been selling its urban, residential, and other non-core properties (URO). They are currently winding down this process as most of the URO assets have been sold. We see this as a positive since Catellus is focusing on its expertise, and because the management is taking advantage of the opportunities in the industrial market and the continued growth in the more concentrated areas of investment. In a recent conversation with Mr. Thomas Zacharias, COO of W.P. Carey, there has been more potential in industrial properties verses other REIT sectors and, in his opinion, continues to be an overlooked segment of the REIT market. Catellus' common stock has low price volatility as evidenced by its 2-year 0.68 beta. It has historical earnings stability, and has high earnings visibility due to its conservative approach to growth. Our target price of $30.20 represents a 13.4% premium to current market price, and combined with their 3.98% dividend totals a projected 16.38% one-year total return.

Business Description

Catellus Development Corporation is a real estate development company that is focused on operating and developing mostly industrial rental property in many of the country's major distribution centers and transportation corridors including southern California, Dallas, Chicago, and northern New Jersey. The majority of Catellus' rental portfolio is relatively new and has been developed by the Company. The Company has two reportable segments: Core Segment, and Urban, Residential and Other Segment (URO). However, in 2004 Catellus committed to, and began selling off the URO segment, and will cease its operation as soon as the remaining properties are sold. Catellus' portfolio includes developable land and rental properties. These projects include commercial business parks, residential property, and mixed-use sites. For the fiscal year ended December 31, 2004, revenues rose 60% to $814.5M. Net income from continued operations fell 36% to $146.8M which was mainly as a result from selling off their non-core business URO properties. Results reflect increased demand for the company's products and services, offset by a decrease in equity in earnings of joint ventures.[1]

Catellus' Business Strategy

Due to Catellus' relatively small size and buy-and-hold strategy, they avoid chasing down required returns. Unlike larger, more aggressive REITs, they do not have the shareholder pressure to aggressively expand by borrowing and investing in properties to seek returns in a high priced real estate market. We believe management's prudence in selecting assets makes them an advantageous buy for cautious investors. Catellus has done well by this strategy in the past as evidenced by their success in converting the former oil refinery brown field site in California into a

[1] Reuters.

lucrative residential community. This project has taken three years and is still in progress, and would not have been possible if management was forced by shareholders to chase immediate returns. By avoiding aggressive strategies they have managed to keep debt levels at a very modest Debt to Capitalization of 48%[2]. In fact, we project their interest earned from lending money should cover a projected 31% of their interest charged from borrowing in 2005. Therefore, they are not as exposed to rising interest rates as many of their peers are. Additionally, this conservative strategy allows them to pursue only high absolute development yields while many of their competitors aggressively seek to put capital to work regardless of the projected returns.

Strategy to Monetize Non-Core Assets

In 2004, Catellus management announced a strategy to sell their non-core assets and to focus their business on the industrial office segments and build-to-suit market segment. Following this strategy, Catellus sold $295.9MM of its URO assets in November, 2004 to Farallon Capital Management, L.L.C. The sale was for $343MM, which included $69MM in cash and $274MM in debt financing. Catellus provided the $274MM in debt financing, which is secured against the property it sold to Farallon. This loan to Farallon has projected revenues of $36M from this financing. Additionally, a Catellus subsidiary will be the development manager for these assets. Management projects a potential $78MM revenue gain from development and incentive fees from the management of these assets. Total projected revenues from this transaction could exceed $450MM. However, we have not included the $78MM in our projections since it is mainly based on incentive fees that may not be realized.

Included in the sale was all of the remaining undeveloped land, infrastructure obligations, and outstanding infrastructure reimbursements receivables at Mission Bay - including parcels under contract for sale that have not yet closed, but excluding the 9.65-acre land parcel that Catellus is negotiating to ground lease to University of California, and excluding all previously developed parcels. (The last remaining undeveloped parcel and infrastructure obligations at Santa Fe Depot in San Diego; West Bluffs, a 114-unit single-family home development in the Westchester-Playa del Rey area of Los Angeles; All of Catellus' interest in the residential project at Bayport, a 485-unit single-family home development in Alameda, including its joint venture interest and rights under the development agreement. The commercial development component in Alameda, on a site adjacent to Bayport, is not included in the sale.[3])

When the remaining assets from the URO business segments are eliminated, the URO segment will be gradually dissolved according to company business plan.

[2] For FY2004.
[3] Company press release, 11/23/05.

Earnings Drivers for 2005

1. High expected increases in sale gains and in fee income.
2. Realization of projects in development pipeline coming on-line and contributing to Revenue.
3. By properly investing through capital expenditures, the sale proceeds from the sale of their non-core assets.
4. The company has a strong presence in the country's largest industrial markets and we see this presence continuing to benefit it in the future.
5. Net Operating Income from commercial rental portfolio will contribute to earnings, but we expect to be flat compared to 04'.
6. The company could exceed its target if it is able to meet its annual lease obligations better than we expect in this difficult environment, or if the URO portfolio is sold faster or at higher valuations than we have projected.

Risks to Catellus' Valuation

1. Although the Industrial and Office markets are showing signs of pickup, the fundamentals could reverse. There is concern of a downturn, particularly in the Northern California markets.[4] Any setback in our assumption of a broader economic recovery might also have similar effects on these industries. In that case, Catellus' occupancy rate might be lower once again and force higher capital expenditures which are already very high.
2. The acquisition market is very tough right now according to both management, and Mr. Zacharias, COO of W.P. Carey (REIT which focuses on leasing offices and industrial space).[5] If this market continues to be too expensive to find projects that could contribute a positive rate of return, Catellus will have difficulty putting capital to work, which will result in earnings dilution.
3. Higher mortgage rates could weaken the residential home-buyer market, which will hurt the company's ability to sell their spec housing lots (hence management's move away from this market and into the build-to-suit market).

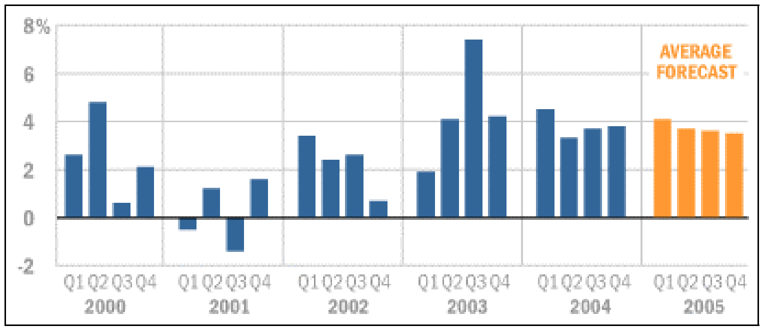
[4] Morgan Stanley, 2/28/2005, page 5.
[5] Management comment from Morgan Stanley, 2/28/2005, page 5; Zacharias comment from personal interview.

RECAP OF MACROECONOMIC OUTLOOK

Economic growth – steady and gradual recovery

From the most recent March survey conducted by the *Wall Street Journal,* the economists surveyed forecasted a real GDP growth of an average of 3.6%, which is higher than the 3.4% rate averaged from 1991 to 2001. Moreover, the GDP recovery this year is expected to be mainly driven by the business sector, thus the positive GDP growth should continue to improve corporate investment and demand for industrial space.

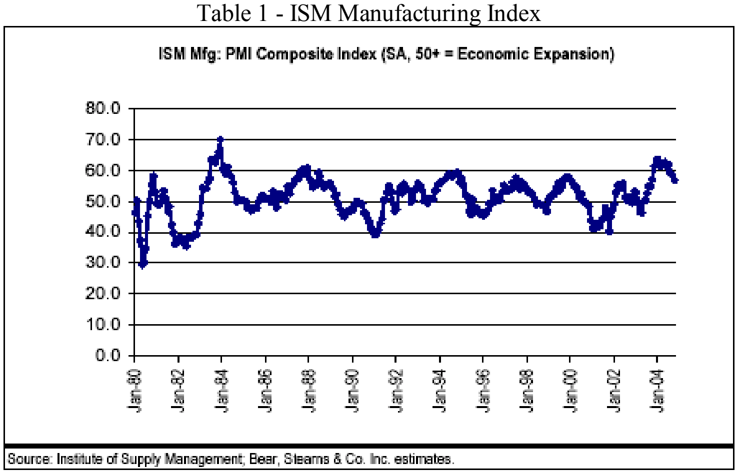
GDP: Overview
Economists nudged their forecasts for first-quarter economic growth higher, but dialed back their expectations for the remainder of the year. They put growth for the balance of 2005 at around 3.6%.



Source: www.wsj.com

Second, the **ISM manufacturing index**, a measure of industrial production, remains above 50%, an expansion signal. The March Manufacturing Survey data also support the notion that the industrial sector will continue to be resilient, and we expect to see sustained improvement in fundamental performance during 2005.

Table 1 - ISM Manufacturing Index



MARCH ISM MANUFACTURING SURVEY

INDEX	MARCH INDEX	FEB. INDEX	% POINT CHANGE	DIRECTION	RATE OF CHANGE	TREND* (MONTHS)
PMI	55.2	55.3	-0.1	Growing	Slower	22
New Orders	57.1	55.8	+1.3	Growing	Faster	23
Production	56.5	56.7	-0.2	Growing	Slower	23
Employment	53.3	57.4	-4.1	Growing	Slower	17
Supplier Deliveries	52.5	53.9	-1.4	Slowing	Slower	21
Inventories	54.1	48.6	+5.5	Growing	From Contracting	1
Customers' Inventories	46.0	42.5	+3.5	Contracting	Slower	46
Prices	73.0	65.5	+7.5	Increasing	Faster	37
Backlog of Orders	56.0	50.5	+5.5	Growing	Faster	4
New Export Orders	55.4	57.4	-2.0	Growing	Slower	39
Imports	58.9	60.7	-1.8	Growing	Slower	40

Source: Inside Supply Management, April 2005

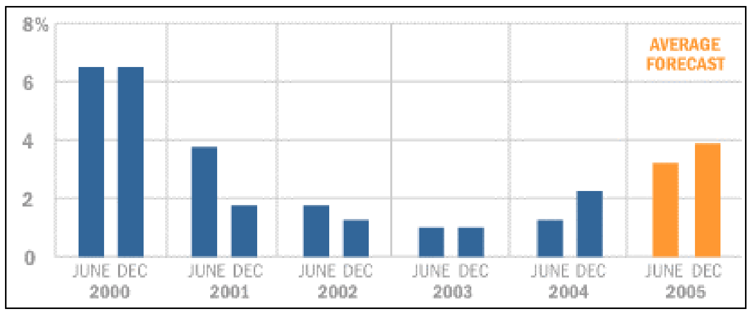
The February Business Inventory data released on Thursday (April 14, 2005) increased by 0.5% - indicating healthy corporate demand, as major U.S. manufacturers, despite high energy and raw-material costs, are continuing to see firm growth in orders, aided by the weaker dollar. However, the latest factory data on Friday (April 15, 2005) indicates that manufacturing output in the U.S. dropped for the first time in six months even as overall industrial production grew in line with expectations. Utilities boosted industrial production, but New York factory data shows cooling growth (although the New York data arguably will not impact Catellus' portfolio). Employment indexes continue to send mixed signals, and the market now seems to be more unclear of economic growth prospects this year. Our team remains confident in the industrial sector.

Interest Rates – mixed view: inflation and slow economic growth?

From the most recent March survey conducted by the *Wall Street Journal,* the economists surveyed forecasted the fed-funds rate to rise to about 4% by year end. However, the forecast for this year is very difficult due to mixed signals from different economic indicators, and is frequently being revised every month.

FED-FUNDS RATE:

The average estimate for the fed-funds rate in June rose to 3.21%, reflecting expectations the Fed will continue to raise interest rates. By year's end, economists expect the funds rate to rise to about 4%.



Source: *www.wsj.com*

Predicting the inflation and oil prices is becoming increasingly important:

1) Higher consumer inflation could push up interest rates and erode the purchasing power of households, which could eventually derail economic growth. While commodity prices have soared, manufacturers have had difficulty passing higher costs on to consumers. Wage pressures are also growing, and could pose upward pressures to the consumer-price index (CPI).

2) The economists say they don't think oil prices, at current levels, pose much of a threat to the overall pace of growth. The recent oil spurt has occurred when the economy was still strong and was able to absorb it quite well. Nearly eight in 10 believe crude oil would have to rise to more than $80 a barrel in order to bring on a recession. Only a few see any danger from oil prices above $60.

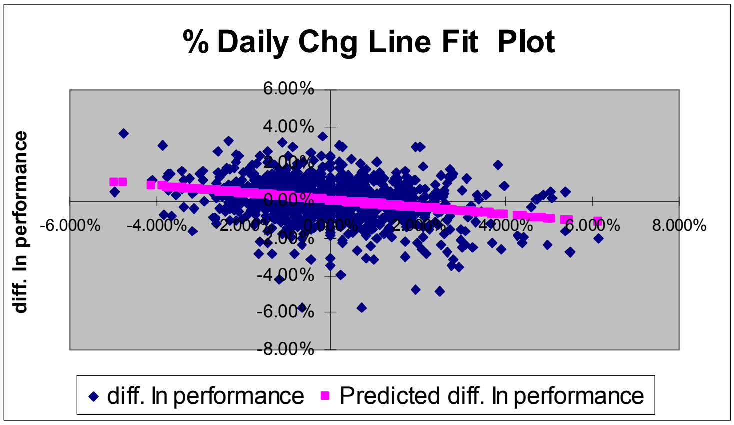
We believe that the economists' estimation of the June Fed-funds movements are reasonably reliable, while the forecasts for the rest of the year is highly contingent on the aforementioned two factors, as well as the trends of core economic indicators, such as the CPI and Producer price index (PPI). Investors should keep a close eye on the economic indicators announced this week, as they will be useful guidance of the Fed's future decisions.

Next economics statistics release:
Tuesday, April 19, 2005 - 8:30a.m. March Producer Price Index. (Previous: +0.4%, Ex-Food & Energy +0.1%)
Wednesday, April 20, 2005 - 8:30a.m. March Consumer Price Index. (Previous: +0.4%, Ex-Food & Energy +0.3%)

Relative REIT performance and Interest Rates?

Contrary to common (mis)conception, we found that the relative performance of the Dow Jones REIT Index (DRJ) was not greatly correlated to the 10-year treasury yield. As we have argued in our industry report, as REITs become more common investment vehicles with relatively stable yield and lower risks, they are less of a direct substitute to fixed income investments. In the regression results below, no substantial meaningful relationship between the two variables was shown to exist. Investors should therefore *not* consider interest rate as a macroeconomic risk for the REIT industry, except for each individual REIT's debt exposure.

Table 2 - % Daily Change versus Difference in Performance[6]



Regression Statistics	
Multiple R	0.2602
R Square	0.0677
Adjusted R Sq.	0.0668
Standard Error	0.0108
F	76.9370
Significance F	6.932E-18
Observations	1061

Correlation output	*diff. In performance*	*% Daily Chg*
diff. In performance	1	
% Daily Chg	-0.2602	1

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	0.000386	0.000330	1.168238	0.242974
% Daily Chg	-0.194463	0.022170	-8.771374	6.93227E-18

As can be seen by above regression output, 1% increase of 10-year treasury yield will negatively impact the relative performance of DJR index (over DJI) by -0.19%.. The result is statistically significant, confirming general intuition, but the magnitude is so small that it will not pose much threat to be considered a valid macroeconomic risk. In addition, the change in treasury yield can only explain around 7% of the movement in DJR's relative performance. Their correlation is -0.2602.

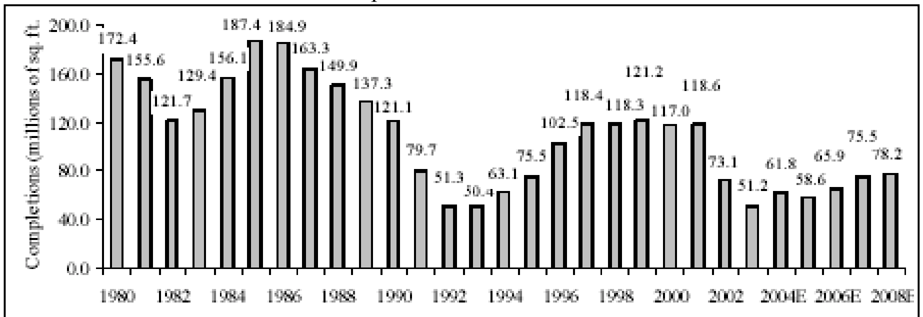
[6] Note: <u>% daily change</u> is daily % change in 10-year treasury yields. <u>Difference in performance</u> is defined by the relative performance (difference in daily % change) of DJ REIT index and the broad DJIA index. Data is only available from 15 April, 1999 to date.

IMPROVING INDUSTRIAL MARKET OUTLOOK

The industrial sector is usually quite closely tied to general economic performance. Given much supply-side discipline throughout the recent fundamental downturn, we believe the industrial sector looks relatively strong. We expect to see a pickup in development activity in 2005, and believe that increases in inventories, factory orders, and industrial production should spur increased demand for space.

Favorable signal 1 - Modest Supply Growth Ahead

Table 3 – U.S. Industrial Market Completions

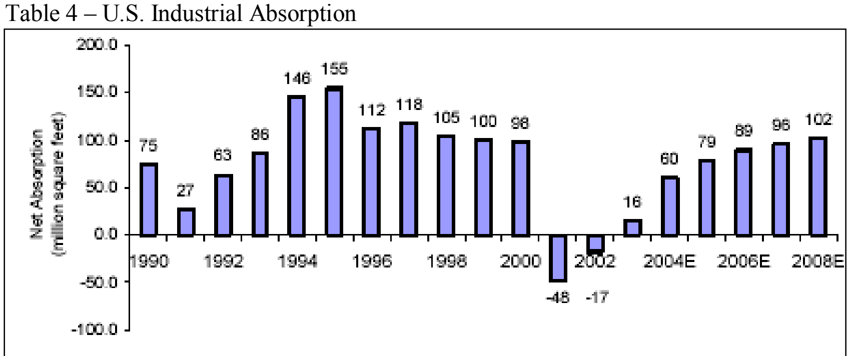


Source: REIS Inc.; Bear, Steams & Co. Inc. estimates.

As in past cycles, the industrial sector proved to be sensitive to economic change as development slowed dramatically in 2002 and 2003 in response to changes in economic activity. According to REIS Inc., new completions dropped to 51.2 million sq. ft. in 2003 from 73.1 million sq. ft. in 2002 and 118.6 million sq. ft. in 2001. Given the early stage of a recovery in demand for industrial space, development activity has increased. However, developers are showing much constraint during the early stage of the cyclical recovery.

Favorable signal 2 - Positive absorption

Table 4 – U.S. Industrial Absorption



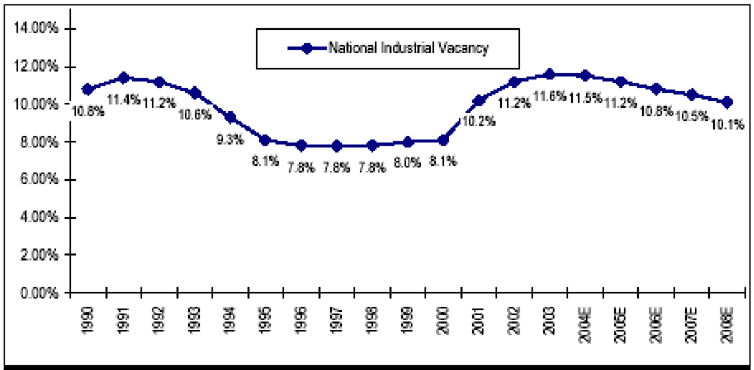
Source: REIS Inc.; Bear, Steams & Co. Inc. estimates.

We believe fundamentals for industrial REITs are generally improving for 2005 relative to the last three years. They bottomed sometime in mid- to late-2003, and the recovery continues from the second half of 2004, as supply-chain activity rises, global trade accelerates, and companies build inventories. We also expect rental rates to improve, with a return of pricing power in the second half of 2005, or 2006 for weaker markets.

REIS expects net absorption to continue its rebound to positive 78.7 million sq. ft. in 2005 from 59.9 million sq. ft. in 2004. As shown in the table above, absorption is expected to improve significantly through 2008.

Favorable signal 3 - Declining vacancy

Table 5 – U.S. Industrial Vacancy



Source: REIS Inc.; Bear, Stearns & Co. Inc. estimates.

The national vacancy rate declined 0.2%, to 11.2%, at September 30, 2004. All of the major market research firms confirm that demand is currently outpacing new supply, and that the nation's warehouse and distribution leasing markets are on recovery. Improved demand wasn't strong enough to boost rental rates in 2004, which remained flat. However, REIS projects that national industrial vacancy will decline from its peak of 11.6% in 2003 to 10.8% by year-end 2006, as shown above. Thereafter, vacancy should continue to descend as absorption gains momentum[7].

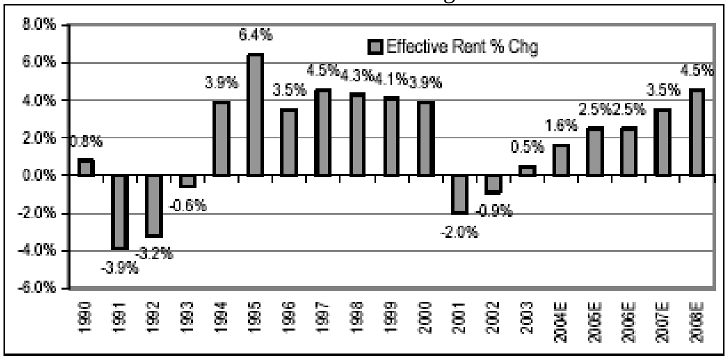
Expectation of rental rate recovery in 2H2005

We have seen rental rates largely stabilize, though they have yet to rise. Most landlords don't expect to see rent improvement until late 2005. In its midyear "U.S. Property Market Review," ProLogis' market officers reported that net taking rents had bottomed out, but had not yet begun to rise.

Using available data from 1990 to 2003, we tried to find the relationship between rent change and 1) absorption, or 2) vacancy rate. Consistent with basic intuition, we find the statistics to be closely correlated – as absorption increases by a factor of 10, rent increases by 0.4%; as vacancy decreases by 1%, rent increases by 1.6%. Also, an important takeaway from the analysis in the next page is that rental growth is not likely to occur until market vacancy begins to stabilize and moves below the 9%-10% level.

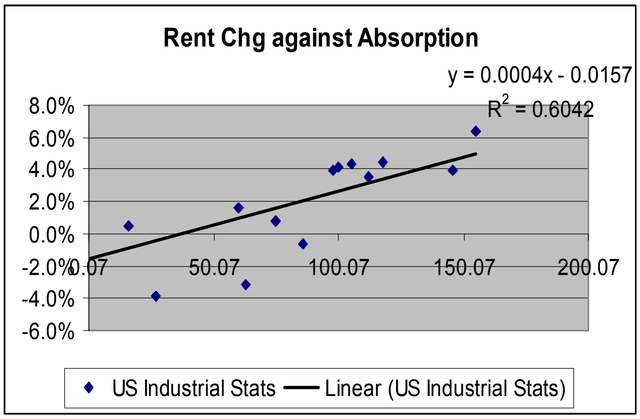
[7] Bear Stearns: Industrial REIT Performance Monitor (January 18, 2005)

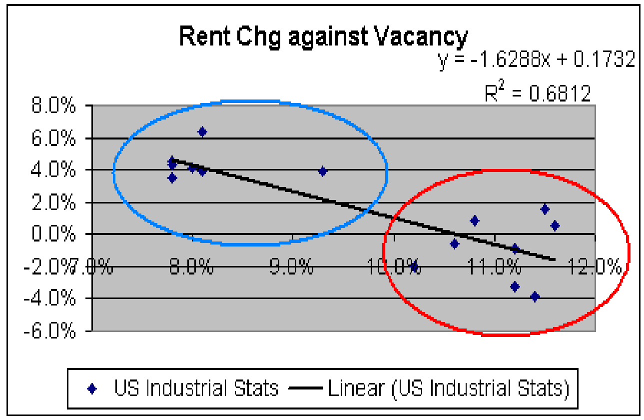
Table 6 – U.S. Industrial Effective Rent Change



Source: REIS Inc.; Bear, Steams & Co. Inc. estimates.

corr(rent chg, vacancy)	-0.83
corr(rent chg, absorption)	0.78





REIS expects effective rent growth to be 2.5% in 2005 and 2006. As shown in above, the extent of the change in effective rent through the recent downturn was much less than in the recession of the early 1990s. We expect the public industrial companies to continue to outperform the general market due to their focus on stronger markets, higher-quality assets, and the discipline imposed by the public capital markets. Along with the stronger occupancy that we are currently seeing, we expect rent growth to occur sooner and to be more pronounced than the overall market.

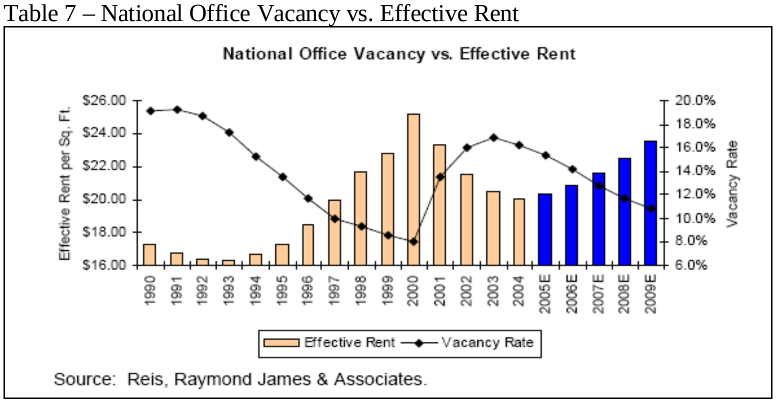
The recovery in the industrial sector ultimately depends on momentum of the broader economic recovery, but we believe the industry metrics are all pointing towards a fairly healthy recovery, earliest by 2H2005, and definitely in 2006.

Although the office and retail sectors make up a small proportion of Catellus' portfolio, we will report a brief update of our industry overview:

OFFICE SECTOR – REITERATE POSITIVE OUTLOOK

4Q2004 results showed continued positive trends in vacancy and net absorption.[8] There is industry-wide tenant improvement and lower leasing commission costs and some of the stronger markets such as NY and Chicago are seeing rent increases. These trends confirm our belief that the industry is in a recovery stage but we will continue to monitor office job growth. The average 4Q04 vacancy rate in 52 major U.S. markets showed improvement - decreasing to 16.0% from 16.3% in 3Q04 and 16.6% in 2Q04.[9] New office construction is down 41% from February 2003 and current construction starts are still 71% below their peak in November 2001.[10] These low levels of supply should benefit this sector until new building improves. The economic recovery seems to be progressing, although the 110,000 total non-farm jobs reported for March was well below consensus estimate.[11] Office REITs have traded down -6.1% year-to-date, and are on average at a 3.4% premium to NAV.[12] The group is still slightly overvalued but we are cautiously optimistic, based on the positive industry trends and broader economic recovery.

Table 7 – National Office Vacancy vs. Effective Rent



Source: Raymond James, 4/8/2005, p.8.

RETAIL SECTOR – POSITIVE OUTLOOK

The retail sector has been the only sector that has actually seen some fundamental improvements in the last few years. All-time-high consumer spending and all-time-low personal savings levels in this country have contributed to strong retail performance. Mall REITs completed 2004 on a strong note and generated fourth-quarter FFO of 13.1%. The sector delivered same-center net operating income growth of 4.1% in the fourth quarter versus the full-year average of 3.2%. From prior commitments by large retailers to open new stores in 2005, this will, and has been so far a very positive year for Retail REITs. Anchor-store consolidation is likely to accelerate in the industry, especially in light of the recent Sears and Kmart merger. This will be a positive for the industry as a whole, as it will free up space at malls for renovation and give them opportunity to bring in more desirable tenants and improve customer flow at their malls.

[8] Raymond James, 4/8/2005, p.6
[9] Raymond James, 4/8/2005, p.7
[10] Citigroup 3/21/2005, p.1
[11] Yahoo Finance.
[12] KeyBanc, 4/4/2005, p.23.

CATELLUS' PORTFOLIO ANALYSIS

Geographic Analysis

Catellus has heavy exposure to the Northern California, Southern California, Illinois, and Texas markets. The current breakdown of property types and locations are listed in the table below.[13] There are several risks related to this level of geographic concentration. California, in particular, can be susceptible to earthquakes, flooding, prolonged rain (which interferes with construction), and fires.

	Commercial Developable Land sq ft
CA	26.50%
Fremont	
San Francisco East Bay	
Los Angeles County	
Orange County	
Inland Empire (San Bernardino, Riverside Counties)	
IL	23.30%
TX	15%
Other States	35.20%
Total	100.00%

Geographical Breakdown

	Total sq ft	Industrial sq ft	Office sq ft	Retail sq ft
CA (N)	15.80%	12.40%	2.00%	1.40%
CA (S)	36.80%	35.00%	1.30%	0.50%
IL	17.20%	15.70%	1.50%	0.00%
TX	10.20%	8.10%	2.10%	0.00%
CO	6.80%	5.80%	0.70%	0.30%
AZ	3.00%	2.80%	0.00%	0.20%
OH	2.40%	2.40%	0.00%	0.00%
GA	2.40%	2.40%	0.00%	0.00%
Other**	5.40%	5.20%	0.00%	0.10%
Total	100.00%	89.80%	7.60%	2.50%

** Includes Oregon, Kentucky, Maryland, Kansas, Virginia

Tenant Analysis

Catellus tenant roster is well diversified, thus is well positioned to continue performing regardless of the financial conditions of any major tenants.

Customer Name	State	Type of Product Leased	% of Total Base Rent as of December, 2004	Company Credit Rating**
The Gap	CA	Office	6.5%	BBB-/Stable
APL Logistics, Inc.	CA, IL, GA, KY, TX	Industrial	5.6%	--
Ford Motor Company	CA, CO, TX, KS, VA	Industrial	2.9%	BBB-
Exel Corporation	CA	Industrial	1.9%	--
J.C. Penney Company	TX	Office	1.9%	BB+
Kellogg's USA, Inc.	CA, IL, CO	Industrial	1.9%	A-2
Office Depot, Inc.	CA	Industrial/Retail	1.6%	BBB-/Stable
Home Depot USA, Inc.	CA	Industrial/Retail	1.6%	AA/Stable/A-1+
The Gillette Company	CA, IL	Industrial	1.4%	AA-/Watch Neg/A-1+
Spicers/LaSalle Paper	CA, OR	Industrial	1.2%	--

**Source: S&P Corporate Bond Ratings

[13] Source: Catellus 2004 10-K

New Construction

Catellus' modest growth strategy utilizes minimal debt and focuses more on expansion through capital expenditures, mainly through new construction. Catellus builds to own and does not chase required returns through borrowing and relying on interest rates to stay low. They pursue only high absolute development yields, rather than high development volume.

Catellus added 3.3MM square feet of fully leased property to its operating portfolio last year. Its total square footage owned increased 8.8% in 2004, which will provide earnings momentum over the next few years.[14] Catellus' current development pipeline has a potential increase in portfolio size of 7% in store for 2005.[15]
Another driver of Catellus' earnings is the build-to-suit market. This market is extremely competitive and management expects yields on projects to be between 7.5% and 8.3%. Management says it may now focus on build-to-suits instead of speculative projects (building without prospects of buyers or lessees) - unless leasing picks up in speculative projects they currently have under way, in order to protect themselves from too much dead inventory.

Jersey Land Purchase

In March, 2004, Catellus purchased a land parcel entitled for approximately one million square feet of industrial space in Elizabeth, New Jersey, located one mile from the Newark Liberty International Airport and immediately adjacent to the Port of Elizabeth. This area is particularly attractive because of the historical short supply of new plots of land for industrial building, resulting in high occupancy and high rent increases. Construction has already commenced, with the first building (a 600,000 square foot distribution warehouse facility) expected to be completed in the second half of 2006.

Victoria-by-the-Bay

The Brownfield Cleanup Act of 2002 provides $200MM in Aid and liability protection for developers. Catellus is taking full advantage of this act by undertaking Victoria-by-the-Bay, a 206-acre residential development in Hercules, CA. This former oil refinery site will host 748 single-family homes, 132 multi-family, and 30 acres of parks. Cash flow from tax increment is expected to total $3.5 million annually by 2008, at full build-out, and grow annually through 2044, as property assessments increase. The total expected cash flow from tax increment at Victoria-by-the-Bay is $154.4 million as of December 31, 2004. Additionally, management expects to receive approximately $5 million from profit participation as homes are sold over the next several years.[16]

[14] Citibank, 3/1/2005, page 2.
[15] Morgan Stanley, 3/5/2005, page2
[16] 10-K, 3/4/2005.

RATIO ANALYSIS

The tables below reflect Catellus' current financial and operating ratios relative to industry averages.

Industrial Sector Comparables

Ticker	Company	Price (4/14/05)	Price Chg (ytd)	Mkt Cap (MM)	1-Yr Rev Change	2004 Rev (MM)	04 Gross Margin	04 Op. Margins	04 Net Margin
CNT	Centerpoint Property	41.59	-9.0%	2034	-1.0%	159.8	55.8%	5.8%	6.4%
AMB	AMB Property	37.53	-6.2%	3151	8.2%	665.7	74.5%	41.7%	25.0%
PLD	ProLogis Trust	37.30	-11.6%	7018	-18.5%	559.5	76.0%	46.3%	7.6%
EGP	Eastgroup Property	36.65	-1.1%	784	5.8%	114.7	71.8%	18.8%	18.8%
FPO	First Potomac	22.30	0.1%	319	129.3%	42.1	82.0%	28.1%	1.5%
FR	First Industrial	38.05	-3.9%	1634	-6.3%	319.7	72.6%	-6.2%	-0.7%
Average			-5.6%	2661	19.6%	310.3	72%	22%	10%
CDX	Catellus	26.9	-10.5%	2795	59.1%	814.5	40.3%	24.6%	18.0%

Source: Yahoo! Finance and WSJ.com

Ticker	FFO Growth (04/03)	FFO/Share (05E)	P/FFO (05E)	P/S*	P/B*	EV/Rev*	EV/EBITDA*	04 Div	04 Div Yield	D/Total Cap	Int (EBITDA) Coverage	Fixed Chrg Coverage
CNT	13.0%	2.57	16.2	12.73	3.29	18.11	34.89	1.71	4.19%	0.59	5.9	5.6
AMB	4.0%	2.57	14.6	4.75	2.00	9.64	14.70	1.76	4.67%	0.66	3.0	2.4
PLD	0.8%	2.62	14.2	11.61	2.52	17.49	28.92	1.38	3.96%	0.52	4.4	3.8
EGP	5.1%	2.66	13.8	6.87	2.46	10.54	16.04	1.94	5.19%	0.53	3.8	3.4
FPO	N/A	1.67	13.4	7.53	1.78	14.56	24.33	1.04	4.66%	0.63	2.3	2.3
FR	-2.0%	3.49	10.9	5.10	1.93	10.01	18.14	2.78	7.32%	0.65	3.4	3.1
Average	4.2%	2.60	13.8	8.70	2.33	13.39	22.84	1.77	5.00%	0.60	3.8	3.4
CDX	6.5%	1.61	17.20	3.48	3.78	4.94	14.69	1.52	5.06%	0.52	4.9	3.0
Source: Yahoo! Finance and WSJ.com							Debt covenants requirements =			max 0.65		min 1.3

Revenue Growth - Revenue growth in 2004 was an explosive 59% - faster than the past five years combined – driven by sales of non-core assets. However, we are also aware that the company now has a smaller and more concentrated land portfolio, thus expect more gradual future asset sale to slow down the company's overall growth prospects.

On the other hand, we see earnings growth pick up better in the second half of the year, as industrial market growth is expected to accelerate. With Catellus' current occupancy rate well above 90%, we believe it is well-positioned to see rent improvement in 2005. The management is less bullish in same store comparables because they don't see rental increase in markets outside of southern California. Most markets continued to face rent pressures – although this is a situation that we expect to be reversed in late 2005 or early 2006, as explained in the industrial market analysis.

FFO Growth – Driven by active sales of non-core assets, FFO growth was a healthy 6.5%, well above its peers. Again, we expect it to slow down in 2005 for reasons mentioned.

Catellus has been exceptionally profitable thanks to higher tax savings and accelerated sales of less-desirable land. We expect modest profits in the future as property net operating income declines with lower rental revenues.

Dividends – Catellus' current payout ratio is conservative at 73% of FFO, and even issued a special dividend (of $0.45 per share) in January 18, 2005 due to the extraordinary earnings from land sales. Although the management does not expect another special dividend in the near future[17], we believe the dividend will have steady and meaningful growth, on top of the stock's potential upside capital gain.

Financial Ratios – The leverage and coverage ratios are very healthy and show strong dividend security. Its debt leverage is low relative to the industry, although its floating debt/total debt ratio is 22% *(Industry's ratios range from 15-30%).* This floating debt has a weighted average maturity of 2.9 years and a weighted average coupon rate of 3.98% . Catellus' sensitivity to interest rate moves is as follows; if the coupon interest rate increased 100 bps, then the annual short-term effect would be approximately $ 0.5 million dollars and the interest income from their variable notes receivable would increase by $ 0.4 million annually. Currently, 77.4% of Catellus' debt is set to fixed rates with a weighted average maturity of 5.6 years and a weighted average coupon rate of 6.68%.[18]

MULTIPLES ANALYSIS

Several multiple analyses methods were used in determining the predicted price per share of Catellus' stock. We incorporated EV/EBITDA, NAV/share, P/FFO, and the DCF analyses into our prediction. These individual estimates were combined using a weighted method, each variation weighted by what we determined as its specific relevance to the REIT industry and how well they have historically reflected REIT values. The weightings are consistent with our previous company report, except that the P/B ratio is not used this time, because we thought the NAV/share would be a more appropriate substitute. We believe the NAV/share estimate is especially relevant to the Industrial sector REITs, thus have placed a slightly higher rating than we did previously for the P/B ratio. Our overall valuation was determined to be $29.8 share, which is a 10.7% upside in capital gain from the stock price on April 15, 2005.

EV/EBITDA		*Weight*	**P/FFO**		*Weight*
Mean	22.00		Mean	13.84	
Median	18.82		Median	14.01	
Harmonic Mean	19.94		Harmonic Mean	13.65	
EBITDA 2005E (MM)	258		FFO per share 2005E	1.64	
EBITDA Forecast * P/EBITDA Ratios			**FFO Forcast * P/FFO Ratios**		
Predicted (Mean)	41.09		Predicted (Mean)	22.70	
Predicted (Median)	33.13		Predicted (Median)	22.97	
Predicted (Harmonic Mean)	**35.93**	*10%*	**Predicted (Harmonic Mean)**	**22.38**	*30%*
NAV Estimates			**DCF Estimates**		
Predicted	**32.19**	*20%*	**Predicted**	**25.07**	*40%*
			Estimated share price:	29.8	

[17] CDX Earnings conference call, February 25, 2005
[18] Source: Catellus 2004 10-K

NET ASSET VALUE (NAV) ESTIMATE

The NAV estimate is based on FFO, capital expenditures relating to property improvements[19], the book value of undeveloped land, and real estate property capitalization rates.[20] The FFO used is from both Core and URO (Urban, Residential, and Other) properties. The URO property FFO is included because Catellus will realize wealth creation either through continued operations or through the sale of these assets. The geographic breakdown and weighted capitalization rates are shown in the appendix.

NAV Calculation	
Total FFO	222,447,000
Total Cap Ex	273,591,000
Total Developed Inflows and Outflows for Capitalization	496,038,000
Weighted Cap Rate	9.31%
AV (Dev) = Total Inflow & Outflow/Wt CR	5,329,381,012
Total Liabilities	1,964,753,000
Total NAV = AV - Total Liabilities	3,364,628,012
NAV/Shares Outstanding	32.65
NAV/Diluted Shares Outstanding	32.19

NAV/Shares Outstanding	44.87	**Capex cap rate at 70% of estimate.
NAV/Diluted Shares Outstanding	44.24	
NAV/Shares Outstanding	0.00	**Capex cap rate at 130% of estimate.
NAV/Diluted Shares Outstanding	0.00	

The above sensitivity analysis was done on the capitalization rate of capital expenditures. The capital expenditures rate is the one attribute most susceptible to variations, particularly if land is not sold or leased upon completion of construction. The sensitivity was calculated by adjusting the capitalization rate up by 130% (the market value for the properties is lower than expected) and adjusting it down by 70% (the market value for the properties is higher than expected.) While this NAV estimate of $32.19 per share is substantially above the current market price of $26.90 (April 15, 2005) for Catellus common stock, it is still considered a conservative estimate. Our estimate of NAV does not include income or assets from partial ownership relating to joint ventures or other unconsolidated projects such as Farallon or Victoria-by-the-Bay.

[19] See Appendix for detailed information on Capital Expeditures.
[20] PriceWaterhouseCoopers, Korpacz Real Estate Investor Survey, Q3 2003.

DCF CALCULATION

Estimate of CDX's Unlevered Beta	
CDX Equity Beta	0.69
Estimated Tax Rate	0.0%
Market Capitalization	2,780
Book Value of Debt	1,441
Debt to Equity Ratio	51.8%
Yield on Debt	6.7%
Yield on US Treasury Bond	4.4%
Spread	2.3%
Estimated Market Risk Premium [1]	5.37%
Estimated Debt Beta	0.42
Unlevered Beta	0.60

CDX Estimated WACC	
Cost of Equity	
Risk Free Rate	4.40%
Estimated Beta	0.21
Market Risk Premium	5.37%
Cost of Equity	5.53%
Cost of Debt	6.03%

Estimate of Levered Beta	
Unlevered Beta	0.60
CDX Tax Rate	0.0%
Market Capitalization	2,780
Book Value of Debt [2]	1,441
Debt to Equity Ratio	51.8%
Estimated Debt Beta [3]	0.27
Estimated Equity Beta	0.91

WACC Calculation	
Market Capitalization	2,780
Book Value of Debt	1,441
Total Capitalization	4,221
Cost of Equity	5.53%
Equity to Total Capitalization	65.86%
Cost of Equity in WACC	3.64%
Cost of Debt	6.03%
Debt to Total Capitalization	34.14%
Cost of Debt in WACC	2.06%
WACC	**5.70%**

Discounted Cash Flow Analysis

Free Cash Flow Statement

($ millions)	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBIT	182	186	211	228	247	268	281	295	310	326	342
Taxes on EBIT [1]	0	0	0	0	0	0	0	0	0	0	0
Increase in Deferred Taxes	0	0	0	0	0	0	0	0	0	0	0
NOPLAT	182	186	211	228	247	268	281	295	310	326	342
Depreciation	73	72	76	75	70	70	70	70	70	70	70
Change in Working Capital	91	40	20	20	0	0	0	0	0	0	0
Capital Expenditures	(274)	(221)	(143)	(154)	(169)	(186)	(205)	(225)	(248)	(272)	(300)
Free Cash Flow	72	77	164	170	148	152	146	140	132	123	112

DCF Valuation

($ millions unless otherwise noted)	**Low**	**Mid**	**High**
Discount Rate	5.00%	5.70%	6.40%
Terminal Free Cash Flow Growth Rate	3.1%	3.1%	3.1%
Present Value of Free Cash Flow	1,075	1,035	997
Present Value of Terminal Value	4,323	3,015	2,269
Enterprise Value	5,398	4,050	3,265
Less: Debt	1,441	1,441	1,441
Equity Value	3,957	2,609	1,824
Current Shares Outstanding	104	104	104
Implied Price Per Share	**$38.02**	**$25.07**	**$17.53**

APPENDIX

Competitors' Profiles

Ticker	Company Name	Description
CNT	**Centerpoint Property**	industrial properties in the metropolitan Chicago, Illinois area. CenterPoint seeks to create share value through customer-driven management, investment, development, and redevelopment of warehouse, distribution, light manufacturing, airfreight and rail-related facilities. The Company also develops multi-facility industrial parks that are strategically located near highways, airports and railroads. At December 31, 2003, the Company's investment portfolio of operating warehouse and other industrial properties consisted of 187 properties, totaling approximately 34.4 million square feet, with a diverse base of approximately 284 tenants engaged in a variety of businesses. At December 31, 2003, CenterPoint had accumulated control of a large land portfolio exceeding 3000 acres upon which
AMB	**AMB Property**	AMB Property Corporation is a fully integrated real investment company engaged in the acquisition, development, management and operation of industrial properties in key distribution markets throughout North America, Europe and Asia. The Company, operating as a real estate investment trust, conducts its business principally through its subsidiary, AMB Property L.P., a limited partnership (the Operating Partnership), wherein it owns an approximate 94.6% general partnership interest, excluding preferred units. AMB is the sole general partner of the Operating Partnership. The Company targets customers whose businesses are tied to global trade. Its target markets are characterized by large population densities, and typically offer substantial consumer bases, proximity to large clusters
PLD	**ProLogis Trust**	ProLogis is a real estate investment trust (REIT) that operates a global network of industrial distribution properties. The Company's business is organized into two operating segments, property operations and the corporate distribution facilities services (CDFS) business. The property operations segment represents the long-term ownership, management and leasing of industrial distribution properties. ProLogis develops distribution properties in its other operating segment, the CDFS business segment, with the intent to contribute the properties to property funds or to sell the properties to third parties. The Company manages its business by utilizing the ProLogis Operating System, an organizational structure and service delivery system that ProLogis built around its customers. In August 2004, the
EGP	**Eastgroup Property**	acquisition and operation of industrial properties in Sunbelt markets throughout the United States. EastGroup owned 171 industrial properties and one office building at December 31, 2004. These properties are located throughout the United States, primarily in the Sunbelt states of Arizona, California, Florida and Texas. EastGroup is focused on providing functional and flexible business distribution space for location-sensitive tenants, primarily in the 5,000 to 50,000-square-foot range. The Company's focus is the ownership of business distribution space (75% of the total portfolio) with the remainder in bulk distribution space (20%) and business service space (5%). Business distribution space properties are typically multi-tenant buildings with a building depth of 200 feet or less, clear height of 20-24
FPO	**First Potomac**	First Potomac Realty Trust is a self-managed, self-administered Maryland real estate investment trust (REIT). The Company owns and operates industrial and flex properties in the Washington, D.C. metropolitan area, as well as other markets in Virginia and Maryland, which are collectively referred to as the southern Mid-Atlantic region. The Company was formed to be the successor general partner to First Potomac Realty Investment Trust, Inc., the general partner of First Potomac Realty Investment Limited Partnership, the Company's operating partnership (the Operating Partnership). The Company owns all of its properties and conducts its business through the Operating Partnership, and is the sole general partner of, and owns an 86.1% interest in, the Operating Partnership. At December 31, 2003,
FR	**First Industrial**	First Industrial Realty Trust, Inc. is a self-administered real estate investment trust and a fully integrated real estate company that owns, manages, acquires, sells and develops industrial real estate in the United States. As of December 31, 2003, the Company's portfolio consisted of 423 light industrial properties, 163 research and development/flex properties, 123 bulk warehouse properties, 92 regional warehouse properties and 33 manufacturing properties containing approximately 57.9 million square feet of gross leasable area located in 22 states. First Industrial's properties have a diverse base of more than 2,400 tenants engaged in a variety of businesses, including manufacturing, retail, wholesale trade, distribution and professional services. The properties are generally located in business parks that have convenient access to interstate highways and/or rail and air transportation. The weighted

Source: Yahoo! Finance

Views from The Street

Current Analyst Summary			1 Week Ago	1 Month Ago	2 Months Ago	3 Months Ago
Strong Buy	2	20%	2	2	2	2
Moderate Buy	1	10%	1	1	1	1
Hold	6	60%	6	6	6	6
Moderate Sell	1	10%	1	1	1	1
Strong Sell	0		0	0	0	0

Capital Expenditures		
Capital expenditures reflected in the statement of cash flows include the following:		
Year Ended December 31		2004
(In thousands)		
Capital Expenditures from Operating Activities(1)		
Capital expenditures for development properties		5,290
Predevelopment	--	
Infrastructure and other		35,586
Property acquisitions	--	
Other property acquisitions		9,713
Capitalized interest and property tax		3,622
Total capital expenditures in operating activities		54,211
Capital Expenditures from Investing Activities(2)		
Capital expenditures for investment properties		95,311
Rental properties—building improvements		4,208
Predevelopment		2,960
Infrastructure and other		79,019
Commercial property acquisitions(3)		32,268
Other property acquisitions		114
Tenant improvements		5,755
Capitalized interest and property tax		17,597
Capital expenditures for investment properties		273,232
Contribution to joint ventures		3,367
Total capital expenditures in investing activities		240,599
Total capital expenditures(4)		294,810

(1) This category includes capital expenditures for properties we intend to build and sell.
(2) This category includes capital expenditures for properties we intend to hold for our own account.
(3) In January 2003, we acquired a 10% minority interest in a subsidiary for cash of $60.7 million. The
acquisition was accounted for using the purchase method of accounting.
(4) Total capital expenditures include capitalized general and administrative expenses, net of reimbursements,
of $11.7 million, $12.1 million, and $14.7 million for the years ended December 31, 2004, 2003, and 2002,
respectively.

FFO (NAREIT Definition)	
Core	155,136,000
URO	67,311,000
Total FFO	222,447,000
Shares Outstanding	103,064,000
Diluted Shares Outstanding	104,520,000
Capital Expenditures for Investment Property (pp 70 shows -199,209,000 in cap ex)	
Cap Ex for TRS, taxed at 37.5%, does not include interest and prop. Tax	50,589,000
Cap Ex for CDX, taxed at ~0%, does not include interest and prop. Tax	223,002,000
Total Cap Ex	273,591,000

	Total		**Industrial**			**Office**			**Retail**	
	sq ft	**sq ft**	**Cap Rate***	**Wt CR**	**sq ft**	**Cap Rate***	**Wt CR**	**sq ft**	**Cap Rate***	**Wt CR**
CA (N)	15.80%	12.40%	9.28%	1.15%	2.00%	9.56%	0.19%	1.40%	9.69%	0.14%
CA (S)	36.80%	35.00%	9.28%	3.25%	1.30%	9.39%	0.12%	0.50%	9.69%	0.05%
IL	17.20%	15.70%	9.28%	1.46%	1.50%	9.36%	0.14%	0.00%	9.69%	0.00%
TX	10.20%	8.10%	9.28%	0.75%	2.10%	9.96%	0.21%	0.00%	9.69%	0.00%
CO	6.80%	5.80%	9.28%	0.54%	0.70%	9.87%	0.07%	0.30%	9.69%	0.03%
AZ	3.00%	2.80%	9.28%	0.26%	0.00%	9.87%	0.00%	0.20%	9.69%	0.02%
OH	2.40%	2.40%	9.28%	0.22%	0.00%	9.87%	0.00%	0.00%	9.69%	0.00%
GA	2.40%	2.40%	9.28%	0.22%	0.00%	9.87%	0.00%	0.00%	9.69%	0.00%
Other**	5.40%	5.20%	9.28%	0.48%	0.00%	9.87%	0.00%	0.10%	9.69%	0.01%
Total	100.00%	89.80%		8.33%	7.60%		0.73%	2.50%		0.24%
Total Wt CR	9.31%									

* Source: Korpacz Real Estate Investor Survey, PriceWaterhouseCoopers, 3Q 2003.
** Includes Oregon, Kentucky, Maryland, Kansas, Virginia

DCF Assumptions

We have used the following assumptions in the DCF model to value CDX.

1. CDX will experience 8.27% EBIT growth over the next five years which is our figure based on street estimates and our conversations with management. The Five Year Stability growth rate is 36.88(Source, Bloomberg). However we are not using this because it is a historical rate and is not forward looking. From 2010 to 2015 the revenue growth will flatten out and remain constant at 5%. The terminal value after year 10 is 3.1%. This figure is our estimate of the long term growth rate of the US economy and the Real Estate industry's profitability growth.
2. Revenue sources are forested at different rates based on assumptions made from our research.
3. Expenses and depreciation are projected at a percentage of Revenues.
4. Expenses as a percentage of Revenues are based on historical margins.
5. The levered beta for the REIT industry is .688 relative to the S&P 500 index.
6. The risk free rate is 4.4%, which is the ten-year Treasury yield.[21]
7. The market risk premium is 5.37%, calculated on a home risk free basis using bottom up analysis.[22] This is the current market risk premium and thus, we fell it is a more accurate measure than historical market risk premium.
8. The cost of debt is 6.7%.[23]

[21] Source: 3/8/2005 Yahoo Finance bond data provided by ValuBond.
[22] Source: Bloomberg
[23] Source: Bloomberg--based on figures from Bank of America of 173 bps spread over a 10-year treasury.

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