

CATELLUS DEVELOPMENT CORP
Form DEF 14A
August 15, 2003
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SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

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CATELLUS DEVELOPMENT CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

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Proxy Statement/Prospectus

Dear Catellus Stockholder:

I am pleased to invite you to attend the 2003 annual meeting of stockholders of Catellus Development Corporation, a Delaware corporation, which will be held at the Palace Hotel, Ralston Room, 2 New Montgomery Street, San Francisco, California, on September 26, 2003 at 9:00 a.m., local time.

I am also pleased to report that the Catellus board of directors has unanimously approved a plan to restructure the business operations of Catellus to allow for Catellus to be taxed as a real estate investment trust, or REIT, for federal income tax purposes. We refer to this restructuring plan as the REIT conversion.

The REIT conversion will include, among other things, the merger of Catellus with and into Catellus Operating Limited Partnership, a recently formed Delaware limited partnership. Catellus Operating Limited Partnership is controlled by Catellus SubCo, Inc. (referred to as Catellus REIT), a wholly owned subsidiary of Catellus recently formed for the purposes of effecting the REIT conversion. Following the merger, Catellus REIT will be renamed Catellus Development Corporation and will hold the assets currently held by Catellus and will conduct substantially all of the existing businesses of Catellus through Catellus Operating Limited Partnership. In the merger, you will receive one share of Catellus REIT common stock for each share of Catellus common stock you own. We estimate that in the merger Catellus REIT will issue or will reserve for issuance after the assumption of outstanding options and other rights to purchase shares of Catellus common stock 97,008,879 common shares. We anticipate that the shares of Catellus REIT common stock will trade on the New York Stock Exchange under the symbol CDX.

At the annual meeting, you also will be asked to: (a) elect eleven directors; (b) approve an amendment to our 2000 Performance Award Plan; (c) approve a new incentive plan which we refer to as the 2003 Performance Award Plan; and (d) consider such other matters, including a stockholder proposal to redeem our stockholder rights plan, as may properly come before the meeting.

We cannot complete the merger unless the holders of a least a majority of the outstanding shares of Catellus common stock vote in favor of the merger agreement, which will effect the REIT conversion. After careful consideration, your board of directors has unanimously approved the REIT conversion, which contemplates the merger and the other restructuring transactions and recommends that all stockholders vote FOR the adoption of the merger agreement, which will effect the REIT conversion, FOR the election of the eleven director nominees, FOR the approval of the amendment to the 2000 Performance Award Plan, FOR the approval of the 2003 Performance Award Plan, and AGAINST the stockholder proposal.

This proxy statement/prospectus is a prospectus of Catellus REIT as well as a proxy statement for Catellus and provides you with detailed information about the REIT conversion and the annual meeting. This proxy statement/prospectus also covers up to 18,000,000 shares of Catellus REIT common stock that may be issued in the special E&P distribution as described in this proxy statement/prospectus. **We encourage you to read carefully this entire proxy statement/prospectus, including all its annexes, and we especially encourage you to read the section on**

Risk Factors beginning on page 17.

Sincerely,

Nelson C. Rising

Chairman of the Board and

Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the shares of common stock to be issued by Catellus REIT under this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated August 15, 2003, and is first being mailed to stockholders on or about August 20, 2003.

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CATELLUS DEVELOPMENT CORPORATION

201 Mission Street, Second Floor

San Francisco, California 94105

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

September 26, 2003

Catellus Development Corporation will hold its 2003 Annual Meeting of Stockholders on September 26, 2003, at 9:00 a.m., local time, at the Palace Hotel, Ralston Room, 2 New Montgomery Street, San Francisco, California, for the following purposes:

- (1) To vote upon a proposal to approve and adopt the agreement and plan of merger dated July 31, 2003 among Catellus, Catellus SubCo, Inc., a newly formed wholly owned subsidiary of Catellus, and Catellus Operating Limited Partnership, a subsidiary controlled by Catellus SubCo, Inc., which will implement the restructuring of Catellus to allow Catellus to qualify as a real estate investment trust, or REIT, for federal income tax purposes;
- (2) To elect eleven directors;
- (3) To vote upon a proposal to amend the 2000 Performance Award Plan;
- (4) To vote upon a proposal to approve the 2003 Performance Award Plan;
- (5) To vote upon a stockholder proposal to redeem our stockholder rights plan, if presented at the annual meeting; and
- (6) To transact any other business that is properly brought before the annual meeting or at any adjournments or postponements of the annual meeting.

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Catellus reserves the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders.

If you were a stockholder of record at the close of business on August 14, 2003, you are entitled to notice of, and to vote at, the annual meeting. For at least ten days before the meeting, we will make a list of our stockholders available at our offices at 201 Mission Street, Second Floor, San Francisco, California. **Your vote is important.** Even if you plan to attend the meeting, we request that you sign and date the enclosed proxy card and return it without delay in the enclosed postage-paid envelope. Alternatively, you may vote electronically using the Internet (www.proxyvote.com) or by telephone by following the instructions on the proxy card. If you attend the meeting, you may withdraw your proxy vote and vote in person on any matter properly brought before the meeting.

Please vote using one of the methods set forth above, so that your shares of stock will be represented at the meeting.

By Order of the Board of Directors,

Vanessa L. Washington

Secretary

August 15, 2003

San Francisco, California

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

Catellus Development Corporation, or Catellus, files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. You may read and copy any reports, proxy statements and other information at the SEC Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the SEC Public Reference Room. The SEC also maintains a website that contains these reports and other documents at <http://www.sec.gov>.

Catellus SubCo, Inc., or Catellus REIT, has filed a registration statement on Form S-4 to register with the SEC the Catellus REIT common stock that Catellus stockholders will receive in connection with the merger. This proxy statement/prospectus is part of the registration statement of Catellus REIT on Form S-4 and is a prospectus of Catellus REIT and a proxy statement of Catellus for its annual meeting.

This proxy statement/prospectus incorporates important business and financial information about Catellus from documents filed with the SEC that are not included in or delivered with this proxy statement/prospectus. The SEC permits us to incorporate by reference important information by referring you to another document filed separately with the SEC. This means that the information incorporated by reference is deemed to be part of this proxy statement/prospectus, unless superseded by information contained directly in this proxy statement/prospectus or by information in documents that we incorporate by reference now but do not actually file with or furnish to the SEC until later.

Specifically, this proxy statement/prospectus incorporates by reference the documents set forth below, all of which have been previously filed with the SEC.

Catellus SEC Filings (File No. 1-10622)	Period or Filing Date
Annual Report on Form 10-K, as amended	Year ended December 31, 2002
Quarterly Report on Form 10-Q	Quarter ended March 31, 2003
Quarterly Report on Form 10-Q	Quarter ended June 30, 2003
Current Report on Form 8-K	March 3, 2003
Current Report on Form 8-K	August 8, 2003

In addition, we also incorporate by reference into this proxy statement/prospectus additional information that Catellus may file with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended, between the date of this proxy statement/prospectus and the date of the annual meeting. These documents include Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

You may not have some of the documents incorporated by reference, but you can obtain any of them through the SEC as described above or from us at no cost by directing a written or oral request to us at Catellus Development Corporation, 201 Mission Street, Second Floor, San Francisco, California, 94105, Attn.: Director of Investor Relations, or by telephone at (415) 974-4649, or email at InvestorRelations@catellus.com, or at our website at www.catellus.com. Except for the documents described above, information on our website is not otherwise incorporated by reference into this proxy statement/prospectus.

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If you would like to request documents from us, please do so by September 19, 2003 in order to receive them prior to the annual meeting.

Upon consummation of the merger, Catellus REIT will be required to file annual, quarterly and special reports, proxy statements and other information with the SEC.

You should rely only on the information in or incorporated by reference into this proxy statement/prospectus. No one has been authorized to provide you with different information. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than the date on the front page. We are not making any offer to sell (or soliciting any offer to buy) any securities, or soliciting any proxy, in any state where it is unlawful to do so.

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QUESTIONS AND ANSWERS ABOUT THE REIT CONVERSION

Q: What is proposed?

A: The board of directors of Catellus has approved a plan to restructure Catellus' business operations in connection with the board's determination that it would be in the best interests of Catellus and its stockholders if Catellus were to elect to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We refer to this plan, including the related restructuring transactions, as the REIT conversion. The REIT conversion is comprised of the following key components.

A restructuring of Catellus' business operations to enable it to qualify as a REIT and the subsequent election to be taxed as a REIT for federal income tax purposes.

The payment of a regular quarterly dividend beginning for the third quarter of 2003.

The payment of a one-time special dividend in December 2003 or January or February 2004 in order to distribute earnings and profits accumulated prior to the REIT conversion.

A REIT is a company that derives most of its income from real estate, such as industrial buildings, office buildings, retail buildings, or real estate mortgages. If a corporation qualifies as a REIT, it generally will not be subject to federal corporate income taxes on income and gain that it distributes to its stockholders, thereby reducing its corporate-level taxes.

Q: What happens in the REIT conversion?

A: The REIT conversion involves several restructuring transactions:

The Merger and Formation of an UPREIT Structure (see pages 38 and 42)

The principal restructuring transactions are the merger and the formation of an umbrella partnership real estate investment trust (UPREIT) structure. In the merger, Catellus will merge with and into Catellus Operating Limited Partnership, a recently formed Delaware limited partnership, which we refer to in this proxy statement/prospectus as the Operating Partnership. Catellus SubCo, Inc., or Catellus REIT, is a wholly owned subsidiary of Catellus and owns, directly or indirectly, all of the equity interests in the Operating Partnership. The Operating Partnership will be the surviving entity in the merger and will succeed to and continue the business of Catellus.

As a consequence of the merger:

each outstanding share of common stock of Catellus will be converted into one share of common stock of Catellus REIT;

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Catellus REIT will be renamed Catellus Development Corporation and will become the publicly traded, New York Stock Exchange listed, parent company that will succeed to and continue to operate, directly or indirectly, all of the existing business of Catellus;

the existing board of directors of Catellus and the management of Catellus will be the board of directors and management, respectively, of Catellus REIT; and

the rights of the stockholders of Catellus REIT will be governed by the restated certificate of incorporation and amended and restated bylaws of Catellus REIT.

We have attached a copy of the merger agreement as Annex A and a copy of the form of restated certificate of incorporation and the form of amended and restated bylaws of Catellus REIT as Annex B-1 and Annex B-2, respectively.

We believe the merger is an essential component of the REIT conversion because it will enable Catellus REIT to operate in a structure commonly referred to as an UPREIT. An UPREIT is typically a REIT whose real properties are held by, and whose operations are conducted through, a subsidiary partnership which in our case will be the Operating Partnership. Catellus REIT will be the general partner of the Operating Partnership and

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will control the Operating Partnership. The UPREIT structure may facilitate future acquisitions of new properties by permitting sellers to exchange properties for units in the Operating Partnership while deferring inherent tax gain.

Other Important Restructuring Transactions (see page 42)

As part of the REIT conversion, the Operating Partnership will, directly or indirectly, generally hold all of Catellus' existing assets and activities associated with rental property and mortgage debt income, and investment land and industrial land on which property is slated to be developed and added to our existing rental portfolio.

Prior to the consummation of the REIT conversion, we will transfer various assets that cannot be held directly by the Operating Partnership to one or more wholly owned subsidiaries in order to comply with certain REIT qualification restrictions, or, in the case of properties held for sale to third parties, to avoid penalty taxes on the income from the sale of these properties. The transferred assets will consist primarily of land to be developed for sale to third parties and interests in development joint ventures. These subsidiaries will elect to be treated as taxable REIT subsidiaries effective upon the REIT conversion. Income from these taxable REIT subsidiaries will be either distributed to the Operating Partnership, where it will contribute to income available for distribution to our stockholders or be reinvested into Catellus' business, or be retained by the taxable REIT subsidiaries and used to fund their operations.

A taxable REIT subsidiary is a taxable corporate subsidiary of a REIT that pays corporate tax at regular rates on its taxable income. Through these taxable REIT subsidiaries, we will be able to continue certain business operations that would otherwise jeopardize our REIT qualification or, in the case of income from the sale of properties held for sale to third parties, would be subject to penalty taxes if conducted outside a taxable REIT subsidiary.

Q: Why are we proposing the REIT conversion?

A: We are proposing the REIT conversion and the related restructuring transactions primarily for the following reasons:

to reduce our corporate-level taxes. As a REIT, we will be able to eliminate corporate level taxes on most of our income, including the income we receive from our rental property portfolio;

to benefit our stockholders by paying regular cash dividends;

by becoming a dividend paying company, our stockholder base may expand to include investors attracted by yield as well as asset quality, which may improve the liquidity of our capital stock and provide a more stable stockholder base;

to make performance comparisons with our peers more meaningful. As a REIT, our stockholders will benefit from an established research community which can provide meaningful comparisons with other industrial REITs; and

the adoption of an UPREIT structure will provide a flexible structure for future acquisitions of new properties by permitting sellers to exchange properties for units in the Operating Partnership while deferring inherent tax gain. Similar tax-deferred acquisitions have been an important source of growth for many public REITs.

To review the background of and the reasons for the REIT conversion in greater detail, and the related risks associated with the restructuring, see [Proposal 1 Background of the REIT Conversion](#) beginning on page 33 and [Risk Factors](#) beginning on page 17.

Q: What will I receive in connection with the REIT conversion? When will I receive it?

A: *Shares of Catellus REIT Common Stock*

At the time of the completion of the merger, you will receive one share of the new Catellus REIT common stock in exchange for each of your

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currently outstanding shares of Catellus common stock together with the associated right issued under the Rights Agreement, dated as of December 16, 1999, between Catellus and American Stock Transfer and Trust Company.

Regular Quarterly Dividends

As a REIT, Catellus REIT will have to distribute annually at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain). If the merger, which will effect the REIT conversion, is approved by our stockholders, we expect to commence payment of a regular quarterly dividend (whether or not the merger has occurred) for the third quarter of 2003 in an amount equal to \$0.30 per existing share of Catellus common stock, although the actual amount of the dividends will be as determined and declared by our board of directors and will depend on, among other factors, our financial condition and earnings.

We estimate that we will have sufficient cash flow to pay the estimated dividend primarily from the cash flows from our rental portfolio based on our historic operating experience and the contractual nature of certain cash flows such as rents and debt service costs. This estimate is based primarily on our assumptions that our rental portfolio will perform in the future in a similar manner as it has performed in the past and that we will qualify for REIT status beginning in 2004. If our actual rental portfolio performance or debt service costs were to differ from our estimates, our actual dividend could differ from our estimate.

If you dispose of your shares before the record date for the third quarter dividend, you will not receive the third quarter dividend or any other regular quarterly dividend.

Special E&P Distribution

A REIT is not permitted to retain earnings and profits accumulated during years when the company or its predecessor was taxed as a regular C corporation. Therefore, in order to qualify as a REIT, we plan to distribute these earnings and profits by paying a one-time special dividend to stockholders payable at the election of each stockholder in cash, shares of Catellus REIT common stock, or a combination of both. We refer to this dividend as the special E&P distribution.

We expect that the special E&P distribution will be declared in the last quarter of 2003 and paid in either December 2003 or January or February 2004. We currently estimate that the aggregate value of the special E&P distribution will be approximately \$300 million, consisting of a combination of Catellus REIT common stock and cash. This may be adjusted by any amount that the board of directors may determine is appropriate to protect Catellus REIT's ability to qualify as a REIT.

Also, in the event we receive a favorable determination from the Internal Revenue Service in connection with a ruling we are currently seeking, we will limit the total amount of cash payable in the special E&P distribution to a maximum of \$100 million, with the balance of the special E&P distribution (\$200 million), to be in the form of Catellus REIT common stock. In that case, if the total amount of cash elected by our stockholders exceeds \$100 million, then the available cash will be prorated among our stockholders making cash elections. Based on the number of shares of Catellus common stock outstanding on June 30, 2003 and including the maximum number of shares of restricted stock or restricted stock units that may be issued in the stock option exchange offer, the special E&P distribution would be \$1.11 in cash and \$2.22 in Catellus REIT common stock per share. If the holders of vested options to purchase Catellus common stock were to exercise all vested options, these per share amounts would be reduced to \$1.07 in cash and \$2.14 in Catellus REIT common stock per share. Absent this limit, the total amount of cash distributed will depend upon the extent to which our stockholders elect to receive cash rather than shares of Catellus REIT common stock.

We have estimated our current and accumulated earnings and profits as of the end of 2003 using our historic tax returns through 2001 and our estimates for taxable income and taxes paid in 2002 and 2003.

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Our estimates may vary based on the actual tax return filed for 2002 and our taxable income for 2003. Our estimated 2003 taxable income is based on our current business plans and performance but will vary depending on, among other items, the timing of taxable transactions. We currently anticipate our current and accumulated earnings and profits will be less than \$300 million as of the end of 2003, but currently plan on distributing \$300 million which we estimate will be above our estimates for our actual current and accumulated earnings and profits at year end 2003.

If you dispose of your shares of Catellus REIT common stock before the record date for the special E&P distribution, you will not receive the special E&P distribution.

Q: What risks are associated with the restructuring?

A: The REIT conversion includes the merger, the formation of taxable REIT subsidiaries and the special E&P distribution. We may be unable to complete the REIT conversion effective January 1, 2004, which would delay our anticipated tax benefits. We are required to, but may not be able to, obtain certain third-party consents in order to consummate the REIT conversion. The current price of Catellus common stock may not be indicative of how the market will value Catellus REIT common stock after the REIT conversion, which may also be affected by our anticipated use of taxable REIT subsidiaries.

As a REIT, we will be unable to retain earnings as we will be required each year to distribute to our stockholders at least 90% of our net taxable income (determined without regard to the dividends paid deduction and by excluding any net capital gain). In addition, we will need to comply with the highly complicated REIT qualification regulations.

We cannot assure you that we will have access to funds to meet these distribution and other REIT qualification requirements. You should also consider the specific factors discussed in the section entitled "Risk Factors" beginning on page 17.

Q: When do we expect to complete the merger and make the REIT election?

A: We expect to complete the merger by the end of December 2003 and expect that Catellus REIT will elect REIT status effective January 1, 2004.
However, Catellus reserves the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders.

Q: Will the REIT conversion change Catellus' current diversified real estate operations?

A: Over the past few years, we have transformed our large land portfolio into predominantly industrial rental property and capital that we have reinvested back into our business. Now, we are sharpening our focus on industrial properties and capitalizing on the advantages and tax benefits that the planned REIT structure will provide. We plan to continue to manage and develop our current mixed-use development projects underway, but our long term goal is to increase our focus on industrial real estate development and management and to decrease our percentage of non-industrial rental income. We expect to grow revenues over time by strategically developing industrial properties to add to our income producing portfolio and by recycling surplus capital from our urban and residential activities into our industrial business.

Q: Am I being asked to vote on any other proposals at the annual meeting?

A: Yes. You will be asked to consider and vote upon proposals to:

elect eleven directors;

approve the 2000 Plan Amendment;

approve the 2003 Performance Award Plan; and

vote upon a stockholder proposal, if presented at the annual meeting. The proposal recommends that our stockholder rights plan

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should be redeemed and that the adoption of any stockholder rights plan in the future should be submitted to stockholder vote.

Q: What is the purpose of the 2000 Plan Amendment?

A: Early in the process of examining the desirability of converting Catellus to a REIT, the board of directors recognized that the conversion could significantly affect long-term incentives (particularly stock options) in place for our executives and key employees. The board was concerned that adjustments be made to such long-term incentives in a manner that would allow Catellus to retain management capable of guiding Catellus through the transition from C corporation to REIT. The amendment to the 2000 Performance Award Plan, which we refer to as the 2000 Plan Amendment, is designed to provide the opportunity for certain of our employees to exchange their stock options that were unvested on December 1, 2002 for replacement grants of restricted stock or restricted stock units. We refer to this exchange as the stock option exchange offer in this proxy statement/prospectus. The 2000 Plan Amendment, if approved by stockholders, will remove a limitation on the aggregate number of shares that may be issued pursuant to certain share-based awards including restricted stock or restricted stock units and enable us to go forward with the stock option exchange offer. See Proposal 3 Approval of the Amendment to the 2000 Performance Award Plan beginning on page 190.

Q: What is the purpose of the 2003 Performance Award Plan?

A: The 2003 Performance Award Plan is designed to allow us to adequately provide future incentives to those individuals upon whose efforts we will rely for the continued success and growth of our business. If stockholders approve the 2003 Performance Award Plan, we will not grant any additional awards under our 2000 Performance Award Plan (except for certain replacement grants that may be made in connection with the stock option exchange offer and certain make-up awards and retention bonuses in connection with the REIT conversion), or under any of our other stock incentive plans, after the annual meeting.

Q: How does the board of directors recommend I vote on the proposals?

A: Your board of directors believes that the REIT conversion is advisable and in the best interests of Catellus and its stockholders. Your board of directors unanimously recommends that you vote:

FOR the adoption of the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement;

FOR the election of the eleven director nominees;

FOR the approval of the 2000 Plan Amendment;

FOR the approval of the 2003 Performance Award Plan; and

AGAINST the stockholder proposal.

Q: Can I attend the annual meeting and vote my shares in person?

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A: Yes. All stockholders are invited to attend the annual meeting. Stockholders of record on August 14, 2003 can vote in person at the annual meeting. If your shares are held by a broker, bank or other nominee, then you are not the stockholder of record and you must bring to the annual meeting appropriate documentation from your broker, bank or other nominee confirming your beneficial ownership of the shares in order to vote at the annual meeting.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will provide you with directions on voting your shares, and you should instruct your broker to vote your shares according to those instructions. Under the rules of the New York Stock Exchange, your broker is permitted to vote your shares on the election of the directors, even if the broker does not receive instructions from you. However, your broker is not permitted to vote your shares with respect to the proposal relating to the merger, the 2000 Plan Amendment, the 2003 Performance Award Plan, and the stockholder proposal without your voting instructions.

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Q: What do I need to do now?

A: You should carefully read and consider the information contained in this proxy statement/prospectus including its annexes. It contains important information about what the board of directors of Catellus considered in evaluating the REIT conversion, the merger agreement and the other proposals.

You should then complete and sign your proxy card and return it in the enclosed envelope as soon as possible so that your shares will be represented at the annual meeting, or vote your proxy by telephone or the Internet in accordance with the instructions on your proxy card.

Q: Can I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the annual meeting. You can do this by giving written notice to our corporate secretary, by filing another proxy with a later date, or by attending the meeting and voting in person. See Voting Procedures beginning on page 31.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, we will send to you instructions for exchanging your stock certificates that currently represent your existing Catellus common stock for new stock certificates representing your new Catellus REIT common stock.

Q: Where will my new Catellus REIT common stock be traded?

A: Catellus REIT has applied to list the new shares of Catellus REIT common stock on the New York Stock Exchange, or NYSE, upon consummation of the merger. We expect that the new Catellus REIT common stock will trade under our current symbol CDX. In addition, the listing of Catellus common stock on the NYSE, Chicago Stock Exchange and Pacific Exchange will be terminated at the same time.

Q: Whom should I call with questions?

A: If you have any questions about the merger, which will effect the REIT conversion, or if you would like additional copies of this proxy statement/prospectus, or a new proxy card, or if you have questions or need assistance with the completion of your proxy card, you should call Minnie Wright, our Director of Investor Relations, at (415) 974-4649.

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STRUCTURE OF THE TRANSACTION

The following diagrams summarize the corporate structure of Catellus before and after the REIT conversion, including the merger and the related restructuring transactions:

Transaction Steps

1. Catellus contributes certain assets to one or more wholly owned subsidiaries which will become taxable REIT subsidiaries following the REIT conversion.
2. Catellus merges with and into the Operating Partnership.
3. Catellus stockholders receive one share of Catellus REIT common stock for each share of Catellus common stock they own.
4. Catellus REIT distributes the special E&P distribution to its stockholders in December 2003 or January or February 2004.

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SUMMARY

*This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers in order to fully understand the REIT conversion, the merger and the other proposals. In particular, you should read the annexes attached to this proxy statement/prospectus, including the merger agreement, which is attached as Annex A. You also should read the form of restated certificate of incorporation and form of amended and restated bylaws of Catellus REIT, which are attached as Annex B-1 and Annex B-2, respectively, because they will be the certificate of incorporation and bylaws governing your rights as a stockholder of Catellus REIT following the merger. See the section entitled *Where You Can Find Additional Information* in the front part of this proxy statement/prospectus. For a discussion of the risk factors that you should carefully consider, see the section entitled *Risk Factors* beginning on page 17. Most items in this summary include a page reference directing you to a more complete description of that item.*

*The information contained in this proxy statement/prospectus, unless otherwise indicated, assumes the REIT conversion and all the transactions related to the REIT conversion, including the merger, will occur. When used in this proxy statement/prospectus, the terms *Company, Catellus, we, our and us* refer to Catellus Development Corporation and its subsidiaries with respect to the period prior to the merger and the REIT conversion, and to Catellus REIT and its subsidiaries including Catellus Operating Limited Partnership with respect to the period after the REIT conversion.*

The Companies

Catellus Development Corporation

201 Mission Street, Second Floor

San Francisco, California 94105

(415) 974-4500

www.catellus.com

Catellus Development Corporation, or Catellus, is a Delaware corporation. We are a real estate operating company with a significant portfolio of rental properties and developable land. Operations consist primarily of the management, acquisition, development, and sale of real estate. We became a publicly traded company in 1990 when we were spun off from Santa Fe Pacific Corporation in order to conduct its non-railroad real estate activities. We currently have four primary groups:

Asset Management, which provides management and leasing services for our rental portfolio;

Suburban Commercial, which acquires and develops suburban commercial business parks for our own rental portfolio and sells land and/or buildings;

Suburban Residential, which develops suburban residential communities and sells lots to homebuilders; and

Urban, which focuses on developing three large urban mixed-use projects for our own rental portfolio or for sale to third parties.

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Catellus SubCo, Inc.

201 Mission Street, Second Floor

San Francisco, California 94105

(415) 974-4500

Catellus SubCo, Inc. is a Delaware corporation and is referred to in this proxy statement/prospectus as Catellus REIT. After the merger described below, Catellus REIT will be renamed Catellus Development Corporation. Catellus REIT is a wholly owned subsidiary of Catellus and was organized in Delaware on March 28, 2003 to succeed to and continue the business of Catellus upon consummation of the merger of Catellus with and into Catellus Operating Limited Partnership, which we refer to as the Operating Partnership. Catellus REIT has conducted no business to date other than that incident to the REIT conversion. After the merger and the completion of the other restructuring transactions comprising the REIT conversion, the Company will operate in a structure commonly referred to as an umbrella partnership real estate investment trust, or UPREIT. An UPREIT is a REIT whose real properties are held by, and whose operations are conducted through, a subsidiary limited partnership. Catellus REIT, the sole general partner of the Operating Partnership, will conduct substantially all of the real estate operations currently conducted by Catellus, directly or indirectly, through the Operating Partnership.

Catellus Operating Limited Partnership

201 Mission Street, Second Floor

San Francisco, California 94105

(415) 974-4500

The Operating Partnership is a Delaware limited partnership organized on April 10, 2003. Catellus REIT is the sole general partner of the Operating Partnership and Catellus REIT, LLC, a wholly owned, direct subsidiary of Catellus REIT and a Delaware limited liability company, is the sole limited partner of the Operating Partnership. The formation of the Operating Partnership will enable Catellus REIT to operate together with the Operating Partnership in an UPREIT structure. The Operating Partnership will hold, directly or indirectly, substantially all of Catellus assets, including any taxable REIT subsidiaries. The Operating Partnership initially will be treated as a disregarded entity for federal income tax purposes.

General

The board of directors of Catellus has approved a plan, pending the approval of the stockholders of Catellus, to restructure Catellus' business operations so that Catellus REIT, as the successor to Catellus' assets and business operations following the merger, will qualify as a REIT for federal income tax purposes. We refer to the merger, the related restructuring transactions, and the election of REIT status by Catellus REIT in this proxy statement/prospectus as the REIT conversion. The REIT conversion is designed to enable Catellus REIT, as the business successor of Catellus, to reposition its assets and business operations in a manner eligible to elect to be treated as a REIT for federal income tax purposes. If Catellus REIT qualifies as a REIT, subject to certain exceptions as further discussed in Proposal 1 Other Restructuring Transactions; Formation of the Taxable REIT Subsidiaries, Catellus REIT generally will not be subject to federal corporate income taxes on that portion of its ordinary income or capital gain that is distributed to its stockholders. This treatment would substantially eliminate the federal double taxation on earnings (at the corporate and stockholder levels) that generally results from investment in a corporation. However, as explained more fully below, the third party development operations of Catellus would continue to be subject to federal corporate income taxes.

Catellus stockholders are also asked to vote upon proposals to elect eleven directors, approve an amendment to the 2000 Performance Award Plan, which we refer to as the 2000 Plan Amendment, approve the 2003 Performance Award Plan, and vote upon a stockholder proposal to redeem our stockholder rights plan, if presented at the annual meeting.

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We are distributing this proxy statement/prospectus to you as a holder of Catellus common stock in connection with the solicitation of proxies by your board of directors for your approval of a proposal to approve and adopt the merger agreement which will implement the REIT conversion including the related restructuring transactions, as well as other proposals described in this proxy statement/prospectus. A copy of the merger agreement is attached as Annex A.

Catellus reserves the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders.

We estimate that one-time transaction costs incurred in connection with the REIT conversion will be approximately \$7.5 million.

Board of Directors and Management of Catellus REIT (See page 167)

The existing board of directors of Catellus and the management of Catellus will be the board of directors and management, respectively, of Catellus REIT.

Regulatory Approvals (See page 41)

We are not aware of any federal, state or local regulatory requirements that must be complied with or approvals that must be obtained prior to consummation of the merger pursuant to the merger agreement, other than compliance with applicable federal and state securities laws, the filing of a certificate of merger as required under the Delaware General Corporation Law and various state governmental authorizations.

Comparative Stockholder Rights (See page 138)

Your rights as a Catellus stockholder are currently governed by the Delaware General Corporation Law, which we refer to as Delaware Corporate Law, Catellus' restated certificate of incorporation, as amended, and the amended and restated bylaws of Catellus. If the merger agreement is adopted by Catellus' stockholders and the merger is consummated, you will become a stockholder of Catellus REIT and your rights as a stockholder of Catellus REIT will be governed by Delaware Corporate Law, the restated certificate of incorporation of Catellus REIT and the amended and restated bylaws of Catellus REIT. Some important differences exist between your rights as a Catellus stockholder and your rights as a Catellus REIT stockholder.

The major difference is that, primarily to satisfy certain additional requirements under the Internal Revenue Code that are applicable to REITs in general and to otherwise address concerns relating to capital stock ownership, the restated certificate of incorporation of Catellus REIT prohibits any stockholder from, actually or constructively, owning more than 9.8% of the outstanding shares of Catellus REIT common stock (or any other class or series of Catellus REIT preferred stock), except look through entities, such as pension trusts, mutual funds and government plans, may actually and beneficially own up to 15% of the outstanding shares of Catellus REIT common stock (or any other class or series of Catellus REIT preferred stock). These limitations are subject to waiver or modification by Catellus REIT in certain limited circumstances.

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The forms of the restated certificate of incorporation of Catellus REIT and the amended and restated bylaws of Catellus REIT are attached as Annex B-1 and Annex B-2, respectively.

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Material Federal Income Tax Consequences of the Merger (See page 147)

Catellus has received an opinion of counsel to the effect that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(F) of the Internal Revenue Code, and accordingly:

no gain or loss will be recognized by Catellus, the Operating Partnership or Catellus REIT as a result of the merger;

you will not recognize any gain or loss upon the conversion of your shares of Catellus common stock into Catellus REIT common stock (except possibly for certain stockholders who are not considered U.S. persons for purposes of the Internal Revenue Code and who own (or have owned) in excess of 5% of Catellus outstanding common stock);

the tax basis of the shares of Catellus REIT common stock that you receive pursuant to the merger in the aggregate will be the same as your adjusted tax basis in the shares of Catellus common stock being converted in the merger (subject to any adjustment resulting from the special E&P distribution as discussed below); and

the holding period of shares of Catellus REIT common stock that you receive pursuant to the merger will include your holding period with respect to the shares of Catellus common stock being converted in the merger, assuming that your Catellus common stock was held as a capital asset at the effective time of the merger.

Tax matters are complicated and the tax consequences of the merger to you will depend on the facts of your particular circumstances. In addition, you may be subject to state, local or foreign tax laws that are not discussed in this proxy statement/prospectus. Accordingly, we strongly urge you to consult your own tax advisor for a full understanding of the tax consequences to you of the merger.

Material Federal Income Tax Consequences of the Special E&P Distribution (See page 150)

Generally, the special E&P distribution will be a taxable dividend to you to the extent that the special E&P distribution is made out of your share of the portion of the current and accumulated earnings and profits of Catellus and Catellus REIT allocable to the special E&P distribution. We currently believe that most of the special E&P distribution will be considered made out of current and accumulated earnings and profits and, therefore, will be taxable as a dividend, regardless of whether you elect to receive cash, shares of Catellus REIT common stock or a combination of both. In addition, we anticipate that a portion of the special E&P distribution will exceed our current and accumulated earnings and profits. Any distribution in excess of your portion of the current and accumulated earnings and profits of Catellus REIT allocable to the special E&P distribution will first constitute a tax free return of capital, to the extent of your basis in your shares of Catellus REIT common stock, and then as capital gain, assuming you hold your shares as capital assets.

Qualification of Catellus REIT as a REIT (See page 152)

Catellus REIT expects to qualify as a REIT for federal income tax purposes effective for its taxable year commencing January 1, 2004 and ending December 31, 2004. If it so qualifies, Catellus REIT will be permitted to deduct dividends paid to its stockholders, allowing the income represented by such dividends to avoid taxation at the entity level and to be taxed only at the stockholder level, and treat retained net capital gains in a manner so that such gains are taxed at the Catellus REIT level but effectively avoid taxation at the stockholder level. Catellus REIT,

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however, will be subject to a separate corporate income tax on any gains recognized during the ten years following the REIT conversion that are attributable to built-in gain with respect to the assets that

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Catellus REIT owns on January 1, 2004 (which tax would be paid by Catellus REIT). Catellus REIT's ability to qualify as a REIT will depend upon its continuing satisfaction following the REIT conversion of various requirements, including requirements related to the nature of its assets, the sources of its income and the distributions to its stockholders, including a requirement that Catellus REIT distribute to its stockholders at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and by excluding net capital gain. If we fail to qualify as a REIT, we will be subject to federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state and local taxes on our income and property.

Opinion of Financial Advisor (See page 45)

Morgan Stanley & Co. Incorporated, or Morgan Stanley, which acted as financial advisor to Catellus in connection with the merger and the REIT conversion, rendered its oral opinion to the board of directors of Catellus, subsequently confirmed in writing, that as of February 28, 2003, and subject to and based on the considerations set forth in its opinion, the REIT Conversion (as defined and discussed in such opinion, which takes into consideration, based on the information provided to Morgan Stanley as of February 28, 2003, the 2000 Plan Amendment and the equity compensation adjustments to be made in connection with that amendment (including the stock option exchange offer), but not the retention bonuses), if consummated, in the aggregate, is fair from a financial point of view to the holders of Catellus common stock. The full text of the opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Morgan Stanley in connection with its opinion, is attached to this proxy statement/prospectus as Annex D. We encourage you to read this opinion in its entirety. The opinion of Morgan Stanley is not a recommendation to any stockholder on how to vote on the merger which will effect the REIT conversion. Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. For example, Morgan Stanley did not separately address the fairness of each transaction that comprise the REIT Conversion, such as the fairness of the retention bonuses or the fairness of the 2000 Plan Amendment and the equity compensation adjustments to be made in connection with that amendment, but instead, based on the assumptions, procedures and limitations set forth in its opinion, considered the REIT Conversion as a whole in determining whether the REIT Conversion, if consummated, in the aggregate, is fair from a financial point of view.

Recommendation of the Board of Directors (See page 29)

Your board of directors believes that the REIT conversion is advisable for Catellus and its stockholders and unanimously recommends that you vote **FOR** the adoption of the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement. Also, your board of directors unanimously recommends that you vote **FOR** the election of the eleven director nominees, **FOR** the approval of the 2000 Plan Amendment, **FOR** the approval of the 2003 Performance Award Plan, and **AGAINST** the stockholder proposal to redeem our stockholder rights plan.

Date, Time, Place and Purpose of Annual Meeting (See page 29)

The annual meeting will be held at the Palace Hotel, Ralston Room, 2 New Montgomery Street, San Francisco, California, on September 26, 2003 at 9:00 a.m., local time, to consider and vote upon the proposals described in the notice of annual meeting of stockholders of Catellus.

Stockholders Entitled to Vote (See page 29)

The board of directors has fixed the close of business on August 14, 2003 as the record date for the determination of stockholders entitled to receive notice of, and to vote at, the annual meeting. As of the record

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date, there were 89,594,286 shares of Catellus common stock outstanding and entitled to vote and 20,857 holders of record.

Votes Required; No Dissenters Rights (See pages 30 and 41)

The affirmative vote of a majority of the shares of Catellus common stock entitled to vote at the annual meeting is required to adopt the merger agreement, which will effect the REIT conversion. Similarly, if the contribution of assets to taxable REIT subsidiaries were deemed to constitute a sale, lease or exchange of all or substantially all of the assets of Catellus under Delaware Corporate Law, the affirmative vote of a majority of the shares of Catellus common stock entitled to vote thereon would be needed to approve the contribution. If you do not vote in favor of the merger agreement, it will have the same effect as a vote against approval of the REIT conversion.

The election of the eleven director nominees requires an affirmative vote of a plurality of the shares of Catellus common stock present in person or by proxy at the annual meeting and entitled to vote.

The affirmative vote of a majority of the votes cast in person or by proxy at the annual meeting is required to approve the 2000 Plan Amendment, the 2003 Performance Award Plan and the stockholder proposal.

Under Delaware Corporate Law, you will not be entitled to dissenters rights of appraisal as a result of the merger and the REIT conversion.

In the event that the merger, which will effect the REIT conversion, is not approved by Catellus stockholders at the annual meeting, Catellus will continue to operate as a C corporation and the REIT conversion (including the special E&P distribution) will not be completed at this time.

Catellus reserves the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders.

Shares Owned by Catellus Directors and Officers (See page 184)

On August 14, 2003, the directors and executive officers of Catellus and their affiliates, as a group, owned and were entitled to vote 494,516 shares of Catellus common stock, or 0.6% of the shares outstanding on that date entitled to vote on with respect to the proposals. It is currently expected that each director and executive officer of Catellus will vote the shares of Catellus common stock beneficially owned by such director or executive officer FOR approval of the merger agreement, which will effect the REIT conversion, FOR the election of the eleven director nominees, FOR approval of the 2000 Plan Amendment, FOR approval of the 2003 Performance Award Plan, and AGAINST the stockholder proposal.

Interests of Directors and Executive Officers of Catellus Pursuant to the Merger

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In considering the recommendation of the board of directors to vote for the adoption of the merger agreement, which will effect the REIT conversion, you should be aware that some of the directors and executive officers of Catellus have interests in the merger that are different from, and in addition to, the interests of other Catellus stockholders.

The 2000 Plan Amendment allows us to implement the stock option exchange offer. You should read Proposal 3 Approval of the Amendment to the 2000 Performance Award Plan for information as to the stock option exchange offer and adjustments to the exercise price of vested options with respect to our directors and

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five most highly compensated executive officers, including information with respect to the benefits that will be received by our directors and these executive officers as a result of proposed adjustments to their equity compensation.

The board of directors has decided to grant restricted shares of Catellus common stock (or restricted stock units) to four executive officers to assure that they will remain with us through the REIT conversion process and during our initial period of operation as a REIT. We refer to these grants as retention bonuses. Mr. Beaudin, Mr. Hosler, Ms. Washington and Mr. Antenucci, if they continue to be employed by Catellus, will receive up to 54,289, 40,717, 10,858 and 62,432 shares of restricted stock (or restricted stock units), respectively, which, based on the closing price of Catellus common stock on August 14, 2003 of \$23.09, would be valued at up to \$1,253,533, \$940,156, \$250,711 and \$1,441,555, respectively. The issuance of the shares will occur after the board of directors determines that the REIT conversion has been completed (currently anticipated to be in January 2004). The number of shares is subject to adjustment for the special E&P distribution in the event they are issued after the record date for the special E&P distribution. The shares will vest ratably over three years in order to act as a retention mechanism, with vesting accelerated if Catellus terminates their employment for any reason other than for cause or if they resign for good reason. See Proposal 2 Employment Agreements.

Market Prices of Catellus Common Stock

Catellus common stock is listed on the NYSE under the symbol CDX.

The following table presents the reported high and low sale prices of Catellus common stock on the NYSE for the periods presented as reported by Bloomberg Financial Markets. On February 28, 2003, the last full trading day prior to the public announcement of the proposed REIT conversion, the closing sale price of Catellus common stock on the NYSE was \$19.98 per share. On August 14, 2003, the latest practicable date before the printing of this proxy statement/prospectus, the closing sale price of Catellus common stock on the NYSE was \$23.09 per share. Catellus has not declared any cash dividends on the Catellus common stock during the two fiscal years ended December 31, 2002 and through the date hereof.

	Common Stock Price	
	High	Low
Year ended December 31, 2001		
First Quarter	\$ 18.17	\$ 15.63
Second Quarter	\$ 18.35	\$ 16.00
Third Quarter	\$ 18.80	\$ 16.11
Fourth Quarter	\$ 18.50	\$ 16.73
Year ended December 31, 2002		
First Quarter	\$ 19.67	\$ 18.02
Second Quarter	\$ 21.10	\$ 19.67
Third Quarter	\$ 20.79	\$ 17.12
Fourth Quarter	\$ 19.85	\$ 16.85
Year ending December 31, 2003		
First Quarter	\$ 21.70	\$ 18.85
Second Quarter	\$ 23.35	\$ 20.92

You should obtain a current stock price quotation for Catellus common stock.

It is expected that, upon consummation of the merger, the Catellus REIT common stock will be listed and traded on the NYSE in the same manner as shares of Catellus common stock currently trade on the NYSE. The historical trading prices of Catellus common stock are not necessarily indicative of the future trading prices of Catellus REIT common stock because, among other things, the current stock price of Catellus reflects the current market valuation of Catellus current business and assets (including the cash or stock to be distributed in

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connection with the special E&P distribution) and does not necessarily take into account the changes in Catellus' business and operations that will occur in connection with the REIT conversion. See Risk Factors. The current price of Catellus' common stock may not be indicative of the price of Catellus REIT common stock price following the REIT Conversion beginning on page 17.

Summary Unaudited Pro Forma Condensed Financial Data

The following table presents selected financial data from the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2002 and quarter ended March 31, 2003 and from the unaudited pro forma condensed balance sheet as of March 31, 2003 included in this proxy statement/prospectus. The unaudited pro forma balance sheet is presented as if the REIT conversion, including the expected special E&P distribution, and the stock option exchange offer had occurred on March 31, 2003. The unaudited pro forma condensed consolidated statement of operations presents the effects of the anticipated transactions as though they occurred on January 1, 2002, but calculated as they are expected to occur based on actual data as of March 31, 2003. The unaudited pro forma condensed financial data are based on the estimates and assumptions set forth in the notes to such statements, which are preliminary and have been made solely for the purposes of developing such pro forma information. The unaudited pro forma condensed financial data are not necessarily indicative of the financial position or operating results that would have been achieved had the REIT conversion, including the expected special E&P distribution, and the stock option exchange offer been consummated as of the dates indicated, nor are they necessarily indicative of future financial position or operating results. This information should be read in conjunction with the unaudited pro forma condensed consolidated financial statements and related notes and the historical financial statements and related notes of Catellus included in or incorporated by reference into this proxy statement/prospectus.

The assumptions used in the following pro forma consolidated financial data are described under Proposal 1 Pro Forma Financial Information beginning on page 81.

	Pro forma			Pro forma		
	For the year ended			For the quarter ended		
	December 31, 2002			March 31, 2003		
	Range of results			Range of results		
	All Stock	All Cash	Expected	All Stock	All Cash	Expected
Statement of Operations						
Rental revenue	\$ 266,951	\$ 266,951	\$ 266,951	\$ 74,137	\$ 74,137	\$ 74,137
Property operating costs	\$ (71,559)	\$ (71,559)	\$ (71,559)	\$ (19,446)	\$ (19,446)	\$ (19,446)
Sales revenue	\$ 139,604	\$ 139,604	\$ 139,604	\$ 8,010	\$ 8,010	\$ 8,010
Cost of sales	\$ (89,661)	\$ (89,661)	\$ (89,661)	\$ (2,972)	\$ (2,972)	\$ (2,972)
Interest expense	\$ (60,188)	\$ (66,308)	\$ (60,188)	\$ (16,807)	\$ (18,337)	\$ (16,807)
Income tax expense	\$ (25,242)	\$ (25,242)	\$ (25,242)	\$ (3,883)	\$ (3,883)	\$ (3,883)
Income from continuing operations	\$ 106,487	\$ 96,987	\$ 104,797	\$ 26,093	\$ 23,938	\$ 25,780
				March 31, 2003		
				All Stock	All Cash	Expected

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Balance Sheet			
Properties, net of accumulated depreciation	\$ 2,063,255	\$ 2,063,255	\$ 2,063,255
Cash and cash equivalents	\$ 201,499	\$ 1,499	\$ 101,499
Total Assets	\$ 2,639,320	\$ 2,439,320	\$ 2,539,320
Mortgage and other debt	\$ 1,498,321	\$ 1,598,321	\$ 1,498,321
Stockholders' equity	\$ 805,713	\$ 505,713	\$ 705,713
Total liabilities and stockholders' equity	\$ 2,639,320	\$ 2,439,320	\$ 2,539,320

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Comparative Historical and Pro Forma Per Share Data

The following tables set forth selected historical per share data for Catellus and selected unaudited pro forma per share data after giving effect to the REIT conversion, including the expected special E&P distribution, and the stock option exchange offer. You should read this information in conjunction with the selected historical financial information included elsewhere in this proxy statement/prospectus and the historical financial statements and related notes that are incorporated in this proxy statement/prospectus by reference. The pro forma per share amounts have been computed using the assumptions described on page 81 under Pro Forma Financial Information. The unaudited pro forma consolidated financial data are presented for informational purposes only. You should not rely on the pro forma financial data as an indication of the financial position or results of operations of future periods or the results that actually would have been realized had the REIT conversion and the stock option exchange offer occurred prior to the period presented.

Historical Data Per Share

The historical book value per share data presented below is computed by dividing total stockholder's equity of \$571,713,000 by 90,274,000, the number of diluted shares outstanding on March 31, 2003.

	As of or for the Year Ended December 31, 2002	As of or for the Quarter Ended March 31, 2003
Income from continuing operations per share:		
Basic	\$1.00	\$0.24
Diluted	\$0.97	\$0.23
Dividends	None	None
Book value per share		\$6.33

Unaudited Pro Forma Per Share Data

The range of pro forma book value per share data is computed by dividing pro forma total stockholders' equity of \$571,713,000 and \$271,713,000 by 106,847,000 and 89,821,000, respectively, the range of pro forma diluted shares which would have been outstanding on March 31, 2003.

Year ended December 31, 2002			As of or for the Quarter ended March 31, 2003		
Pro forma range			Pro forma range		
All stock	All cash	Expected	All stock	All cash	Expected
Income from continuing operations per share:					

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Basic	\$ 1.05	\$ 1.11	\$ 1.09	\$ 0.26	\$ 0.27	\$ 0.27
Diluted	\$ 1.03	\$ 1.09	\$ 1.06	\$ 0.25	\$ 0.27	\$ 0.26
Dividends(1)	None	None	None	None	None	None
Book value per share	n/a	n/a	n/a	\$ 7.73	\$ 5.63	\$ 7.10

(1) Pro forma results exclude calculation of dividends that would be required for a REIT.

2003 Second Quarter Results

On August 5, 2003, we reported earnings per share for the second quarter of 2003 of \$0.21, compared to \$0.37 for the same period in 2002. Earnings per share for the six months ended June 30, 2003, was \$0.47, compared to \$0.73 for the same period in 2002. Net income for the second quarter of 2003 was \$19.3 million, compared to \$33.6 million for the same period in 2002. Net income for the six months ended June 30, 2003, was \$42.7 million, compared to \$65.1 million for the same period in 2002. The decline in net income for the second quarter of 2003 is attributed to, in part, the acceleration of residential sales activity into the first half of last year, in combination with a desert land sale in the second quarter of 2002, partially offset by an increase in management fee income in the second quarter of 2003 and the growth of the core rental portfolio. For more information about our 2003 second quarter results, please see our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.

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RISK FACTORS

In addition to the other information in this proxy statement/prospectus, you should carefully consider the following risk factors relating to the proposed REIT conversion in determining whether or not to vote for adoption of the merger agreement and the transactions contemplated by the merger agreement. You should carefully consider the additional risks described in Catellus' annual, quarterly and current reports, including those identified in Catellus' annual report on Form 10-K for the year ended December 31, 2002. See the section entitled "Where You Can Find Additional Information." This section includes or refers to certain forward looking statements. You should refer to the explanation of the qualifications and limitations on these forward looking statements on page 28.

Risks and Effects of the Merger and the REIT Conversion

The current price of Catellus common stock may not be indicative of the price of Catellus REIT common stock following the REIT conversion.

Catellus' current stock price may not be indicative of how the market will value Catellus REIT common stock following the REIT conversion, because of the effect of the distribution of stock and cash in connection with the special E&P distribution and the change in Catellus' organization from a taxable corporation to a REIT. Also, the current stock price of Catellus reflects the current market valuation of Catellus' current business and assets (including the cash and stock that may be distributed in connection with the special E&P distribution) and does not necessarily take into account the changes in Catellus' business and operations that will occur in connection with the REIT conversion. Catellus' current stock price also is affected by general market conditions and the economic and market perception of REIT stocks.

More of the special E&P distribution that you receive could be taxable as ordinary income if the special E&P distribution is recharacterized.

The special E&P distribution will constitute a dividend to you, and therefore be taxable as ordinary dividend income (eligible to be taxed at preferential tax rates for individual stockholders), to the extent of your share of our current and accumulated earnings and profits represented by the special E&P distribution. Any excess will first constitute a tax free return of capital, to the extent of your basis in your shares of Catellus common stock, and then as capital gain, assuming you hold your shares as capital assets.

We currently believe and intend that the special E&P distribution will exceed our current and accumulated earnings and profits allocable to the special E&P distribution by an amount to be determined by the board of directors taking into account a number of factors, and that therefore a portion of the special E&P distribution will constitute either a return of capital or capital gain to you. The determination of these earnings and profits is complicated and depends upon facts with respect to which we may have less than complete information or the application of the law governing the determination of earnings and profits which is subject to differing interpretations, or both.

There can be no assurance that the Internal Revenue Service will agree with our determination of Catellus REIT's non-REIT earnings and profits, and there are uncertainties regarding the amount of these earnings and profits. These uncertainties include the possibility that the Internal Revenue Service could upon audit increase the taxable income of Catellus, which would increase the non-REIT earnings and profits of Catellus REIT. In this regard, we received notice from the Internal Revenue Service on March 24, 2003 that it intends to audit the 1999 income tax return of Catellus. The Internal Revenue Service has also advised us that it intends to audit the 1999 income tax return of a mortgage REIT subsidiary of Catellus. Any increase in the non-REIT earnings and profits of Catellus REIT would increase the amount of the special E&P distribution constituting a dividend and decrease the amount constituting a return of capital or capital gain. Moreover, an Internal Revenue Service audit

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could increase the taxable income of Catellus such that the special E&P distribution does not result in the distribution of all non-REIT earnings and profits requiring Catellus REIT to make an additional special distribution of non-REIT earnings and profits in the future.

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You must hold the Catellus REIT common stock that you receive in the merger for a period of time after the merger is completed in order to receive the special E&P distribution.

If the merger is approved and completed, the shares of Catellus REIT common stock that you receive in the merger must be held until the record date for the special E&P distribution. We currently anticipate the record date for the special E&P distribution will be in the fourth quarter of 2003. During the period from the consummation of the merger until the record date, the shares of Catellus REIT common stock will be subject to market risks and other risks inherent in holding equity securities, including the risk that the market price of Catellus REIT common stock may decline. In the event you dispose of the Catellus REIT common stock you receive in connection with the merger prior to the record date for the special E&P distribution, you will not receive the special E&P distribution.

If the total cash payable to stockholders in the special E&P distribution is limited, your receipt of cash is dependent on the election of others.

In the event we receive a favorable determination from the Internal Revenue Service in connection with a ruling we are currently seeking, we will limit the total amount of cash payable in the special E&P distribution to a maximum of \$100 million. We presently do not expect to limit the total amount of cash available for distribution if we do not receive a favorable ruling. Absent this limit, the total amount of cash distributed will depend upon the extent to which our stockholders elect to receive cash rather than shares of Catellus REIT common stock. If there is a limit and the total amount of cash elected by our stockholders exceeds the maximum cash available in the special E&P distribution, then the available cash will be prorated among our stockholders making cash elections. Therefore, you may not receive exactly the dividend that you elect and may receive a pro rata amount of the available cash and shares of Catellus REIT common stock.

Our use of taxable REIT subsidiaries is limited.

For tax years beginning after December 31, 2000, a REIT is permitted to own one or more taxable REIT subsidiaries. The introduction of taxable REIT subsidiaries broadens the scope of activities in which a REIT and its consolidated subsidiaries can engage without disqualifying the REIT because income from a taxable REIT subsidiary is not treated as impermissible income. Our use of taxable REIT subsidiaries will enable us to engage in the development of land for sale to third parties. However, under the Internal Revenue Code, no more than 20% of the value of the assets of a REIT may be represented by securities of one or more taxable REIT subsidiaries. This limitation may affect our ability to add to our land inventory or to increase the size of our third party development operations.

Our use of taxable REIT subsidiaries may affect the price of Catellus REIT common stock relative to the stock price of other REITs.

Following our election to be taxed as a REIT, we will hold a significant portion of our land assets, and conduct a substantial portion of our development activities, through one or more taxable REIT subsidiaries. Taxable REIT subsidiaries are corporations subject to corporate-level tax. Prior to 2001, the Internal Revenue Code substantially limited a REIT's ability to operate through corporate subsidiaries. However, recent changes to the REIT rules allow us to hold the land that we develop for sale to third parties, including urban and residential land, as well as residential and mixed-use development joint ventures, in one or more taxable REIT subsidiaries. This REIT/taxable REIT subsidiary structure may cause the market to value our common stock differently than the stock of other publicly traded REITs, which may not use taxable REIT subsidiaries as extensively as we plan to following our election to be taxed as a REIT.

Inability to obtain third party consents may have a material adverse effect.

There are third-party consents which are required to be obtained in order to consummate the REIT conversion. These include consents of lenders, debt holders, and joint venture partners of Catellus and its

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affiliates. The inability of Catellus, the Operating Partnership or Catellus REIT to obtain one or more such consents could cause a default under cross-default provisions of Catellus principal credit facilities. Although Catellus will not consummate the REIT conversion unless it believes that the inability of Catellus, the Operating Partnership or Catellus REIT to obtain one or more consents would not reasonably be expected to have a material adverse effect on our business, financial condition or results of operations, there can be no assurance that such a material adverse effect will not occur, which could reduce the value of Catellus REIT common stock.

We cannot assure you that we will have access to funds to meet our distribution and tax obligations.

In order to qualify as a REIT, we will be required each year to distribute to our stockholders at least 90% of our net taxable income (determined without regard to the dividends paid deduction and by excluding any net capital gain). As discussed in Proposal 1 Material United States Federal Income Tax Consequences of the Merger and Related REIT Conversion Federal Income Taxation of Catellus REIT Following the Merger, to qualify as a REIT, we also will have to distribute to our stockholders no later than the end of our first full taxable year as a REIT an amount equal to the earnings and profits accumulated by Catellus and Catellus REIT prior to January 1, 2004. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions made by us with respect to the calendar year are less than the sum of (i) 85% of our ordinary income, (ii) 95% of our capital gain net income for that year, and (iii) any undistributed taxable income from prior periods. We intend to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid the nondeductible excise tax. However, differences in timing between taxable income and cash available for distribution could require us to borrow funds or to issue additional equity to enable us to meet the 90% distribution requirement (and therefore to maintain our REIT status) and to avoid the nondeductible excise tax. We also could be required to pay taxes and liabilities attributable to periods and events prior to the REIT conversion and additional taxes in the event we were to fail to qualify as a REIT. In addition, our inability to retain earnings (resulting from our 90% and other distribution requirements) will generally require us to refinance debt that matures with additional debt or equity. There can be no assurance that any of these sources of funds, if available at all, would be available to meet our distribution and tax obligations.

Because the timing of the REIT conversion is not certain we may not realize the anticipated tax benefits from the REIT conversion effective January 1, 2004.

We will complete the merger of Catellus with and into the Operating Partnership after the annual meeting and the satisfaction or waiver of the other conditions to the merger. In addition, the timing of the merger will depend on our ability to conform the operations of Catellus to the requirements for qualification as a REIT. Once we have conformed our operations, we will effect the merger. We anticipate that the merger will occur no later than December 31, 2003, although we cannot assure you that the merger will not be delayed. If the merger and the other restructuring transactions contemplated by the merger agreement were significantly delayed, we may not be qualified to elect REIT status effective January 1, 2004. In that case, Catellus REIT would not elect REIT status effective January 1, 2004. Consequently, the federal income tax benefits attributable to our status as a REIT, including our ability to reduce our corporate-level federal income tax, would not commence January 1, 2004, which would result in us paying substantial corporate level income taxes in 2004.

Catellus REIT will be required to distribute at least 90% of its REIT taxable income to its stockholders as taxable dividends.

Catellus has never declared or paid any cash dividends on its common stock. Following approval of the REIT conversion by our stockholders, we expect to commence the payment of dividends beginning for the third quarter of 2003. In addition, to qualify as a REIT, we will be required to distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding any net capital gain). While our corporate tax liability will generally be eliminated as long as we qualify as a REIT, our taxable stockholders will be subject to tax on a portion of our dividends which are taxed for income tax purposes as a dividend (based on our earnings and profits). The Tax Relief and Reconciliation Act of 2003,

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which we refer to as the Jobs and Growth Tax Act, reduces the maximum tax rate on both dividends and long-term capital gains for individuals to 15% until 2008; however this reduced tax rate only applies to a portion of REIT dividends. Accordingly, our stockholders who are individuals will be taxed on most of our taxable dividends at the higher federal income tax rates applicable to ordinary income which currently can be as high as 35%.

Risks Related to Real Estate Investments

We depend on tenants to generate lease revenues.

We are subject to the risk that, upon the expiration of leases for space located in our properties, leases may not be renewed by existing tenants, the space may not be re-leased to new tenants or the terms of renewal or releasing (including the cost of required renovations or concessions to tenants) may be less favorable to us than current lease terms. A tenant may experience a down-turn in its business which may cause the loss of the tenant or may weaken its financial condition, and result in the tenant's failure to make rental payments when due, result in a reduction in percentage rent receivable with respect to retail tenants or require a restructuring that might reduce cash flow from the lease. In addition, a tenant of any of our properties may seek the protection of bankruptcy, insolvency, or similar laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in our available cash flow. Although we have not experienced material losses from tenant bankruptcies, no assurance can be given that tenants will not file for bankruptcy or similar protection in the future or, if any tenants file, that they will affirm their leases or continue to make rental payments in a timely manner.

Our real estate development strategies may not be successful.

Any of our existing or future development activities will entail certain risks, including:

the expenditure of funds on and devotion of management's time to projects which may not come to fruition;

the risk that development or redevelopment costs of a project may exceed original estimates, possibly making the project uneconomic;

the risk that occupancy rates and rents at a completed project will be less than anticipated or that there will be vacant space at the project;

the risk that expenses at a completed development will be higher than anticipated; and

the risk that permits and other governmental approvals will not be obtained. Because of the discretionary nature of these approvals and concerns which may be raised by various governmental officials, public interest groups and other interested parties during both the approval and development process, our ability to develop properties and realize income from our projects could be delayed, reduced or eliminated.

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In addition, our real estate development activities require significant capital expenditures. We incur considerable infrastructure costs in connection with our commercial, urban, and residential projects. We will be required to obtain funds for our capital expenditures and operating activities through cash flow from operations, property sales or financings. There can be no assurances that funds available from cash flow, property sales and financings will be sufficient to fund our required or desired capital expenditures for development. If we were unable to obtain sufficient funds, we might have to defer or otherwise limit certain development activities. In addition, any new development or any rehabilitation of older projects can require compliance with new building codes and other regulations.

General economic conditions in the areas in which our properties are geographically concentrated may impact financial results.

We currently conduct the majority of our business in California. Consequently, we are exposed to changes in the real estate market or in general economic conditions in California. Any changes may result in higher

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vacancy rates for commercial property and lower prevailing rents, lower sales prices or slower sales, lower absorption rates, and more tenant defaults and bankruptcies, which would negatively impact our financial performance.

We have significant holdings in California, Illinois, Texas, Colorado and Arizona. Of our rental properties, which are comprised of commercial buildings, ground leases, and interests in several joint ventures, approximately 35%, by square footage, are located in Southern California, 19% in Northern California, 18% in Illinois, 11% in Texas, 7% in Colorado, 3% in Arizona, 3% in Ohio, with the remaining 4% in five other states. Further, approximately 67% of our total commercial developable land by square footage is located in California: San Francisco, Silicon Valley, San Francisco's East Bay, Los Angeles County, Orange County, the Inland Empire (San Bernardino and Riverside counties), and the City of San Diego; approximately 14% in Texas; approximately 11% in Illinois; with the remaining 8% in four other states. Approximately 77% of the residential land for potential development (based on number of lots) is located in California, with approximately 59% in North California, 18% in Southern California, and 23% in Colorado. To the extent that weak economic conditions or other factors affect these regions more severely than other areas of the country, our financial performance could be negatively impacted.

Exposure of our assets to damage from natural occurrences such as earthquakes, and weather conditions that affect the progress of construction may impact financial results.

Natural disasters, such as earthquakes, floods or fires, or unexpected climactic conditions, such as unusually heavy or prolonged rain, particularly in California, where our assets are concentrated, may have an adverse impact on our ability to develop our properties and realize income from our projects.

Illiquidity of real estate and reinvestment risk may reduce economic returns to investors.

Real estate investments are relatively illiquid and, therefore, our ability to vary our portfolio quickly in response to changes in economic or other conditions is limited. Additionally, the Internal Revenue Code places certain limits on the number of properties a REIT may sell without adverse tax consequences. Further, certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the real property is producing any income.

Other Risks Affecting Our Business and Operations

We are dependent on external sources of capital.

To qualify as a REIT under the Internal Revenue Code, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income determined without regard to net capital gains and the dividends paid deduction. We may be required to borrow funds on a short-term basis or liquidate investments to meet the distribution requirements that are necessary to qualify as a REIT, even if management believes that it is not in our best interests to do so.

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We may have to rely on third party sources of capital in order to repay our debt, fund capital expenditures, make acquisitions, and otherwise pursue our strategic objectives. These external sources of capital may or may not be available on favorable terms or at all. Our access to third party sources of capital depends upon a number of factors, including general market conditions, the market's perception of our growth potential and risk characteristics of our underlying business operations, our current and potential future earnings and cash flow and the market price of our securities. Moreover, additional equity offerings may result in the substantial dilution of our stockholders' interests and additional debt financing may further leverage us. In the event we are unable to access third party sources of capital on terms favorable to us, we may be delayed in implementing capital improvements or in pursuing our growth strategy which could reduce our revenue or operating income.

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We have substantial amount of debt.

As of March 31, 2003, we had approximately \$1.5 billion of debt. This amount of debt could have important consequences for our investors and for us, some of which include:

our ability to obtain additional financing may be impaired, both currently and in the future;

a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on this indebtedness, thereby reducing the funds available for other purposes;

our cash flow may be insufficient to meet required payments of principal, interest or future dividends;

we may be substantially more leveraged than our competitors, putting us at a competitive disadvantage; and

our flexibility to adjust to market conditions is limited, leaving us vulnerable in a downturn in general economic conditions or in our business.

Our current indebtedness bears interest at both fixed and floating interest rates. For future financings, we intend to seek the most attractive financing arrangements available at the time, which may involve either fixed or floating interest rates. With respect to floating rate indebtedness, increases in interest rates may adversely affect our cash flow from operations, funds available for distribution, and ability to meet our debt service obligations.

Competition in the real estate industry.

The real estate industry is generally fragmented and characterized by significant competition. Numerous developers, owners of industrial, office and retail properties and managers compete with us in seeking properties for acquisition, development and management opportunities, tenants, and purchasers for homes and for non-strategic assets. There are competitors, such as other REITs, as well as private real estate companies and financial buyers in each area in which we operate, which have greater capital resources than we do. These competitive advantages, the number of competitors and the number of competitive commercial properties in a particular area could have a material adverse effect on the rents we can charge, our ability to lease space in our existing properties or at newly acquired or developed properties and the prices we have to pay for developable land. Accordingly, there can be no assurance that the existence of such competition will not have a material adverse effect on our business, operations and cash flow.

There is no limitation on debt in our organizational documents.

Our organizational documents do not contain any limitation on the amount or percentage of indebtedness we may incur. Accordingly, we could become more highly leveraged, resulting in an increase in debt service that could adversely affect our ability to make expected distributions to stockholders and in an increased risk of default on our obligations.

We may change our policies in ways that adversely affect our financial condition or results of operations.

Our investment and financing policies and our policies with respect to other activities, including our growth, debt capitalization, distributions, REIT status and operating policies are determined by our board of directors. Our board of directors may change these policies at any time without a vote of our stockholders. A change in these policies might adversely affect our financial condition or results of operations.

Our holding company structure makes us dependent on operating partnership distributions.

Because we will conduct our operations generally through the Operating Partnership, our ability to service our debt obligations and our ability to pay dividends on our common stock are strictly dependent upon the earnings and cash flows of the Operating Partnership and the ability of the Operating Partnership to make

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intercompany distributions to us. Under the Delaware Revised Uniform Limited Partnership Act, the Operating Partnership is prohibited from making any distribution to us to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the Operating Partnership (other than some nonrecourse liabilities and some liabilities to the partners) exceed the fair value of the assets of the Operating Partnership.

We are dependent on key personnel.

Our future success depends, to a significant extent, upon the continued services of Nelson C. Rising, our Chairman and Chief Executive Officer, and the management team of our primary business groups. Although we have an employment agreement with Mr. Rising through December 31, 2006, there is no guarantee that Mr. Rising will remain employed with us, and we generally do not have employment agreements with other members of our management team that impose a specific term of employment. Our ability to retain our management team or to attract suitable replacements should any members of the management team leave is dependent on the competitive nature of the employment market. While we believe we can find replacements for these key personnel, the loss of services of one or more members of our management team, particularly Mr. Rising, could have a significant adverse effect on our business and operations. Further, such a loss could be negatively perceived in the capital markets.

Labor shortages and costs could impact our projects.

Labor shortages and costs could significantly influence the success of projects by causing delays or cost overruns at our current mixed use development projects.

Possible environmental liabilities could adversely affect us.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in that real property. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances. Because we own (or our corporate predecessors owned) properties in urban and industrial areas, and have historically leased many of our properties to commercial and industrial tenants whose activities may have resulted in discharges onto such properties, we incur ongoing environmental remediation costs and are subject from time to time to environmental actions by governmental entities and private parties. While we or outside consultants have evaluated the environmental liabilities associated with most of our properties, any evaluation is necessarily based upon then prevailing law, site conditions and the use of sampling methodologies.

The costs of investigation, removal or remediation of hazardous or toxic substances may be substantial. In addition, the presence of hazardous or toxic substances, or the failure to remedy environmental hazards properly, may adversely affect the owner's or operator's ability to sell or rent affected real property or to borrow money using affected real property as collateral. Future environmental costs are difficult to estimate because of such factors as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions that may be required, the determination of our potential liability in proportion to that of other potentially responsible parties, and the extent to which such costs are recoverable from insurance.

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At March 31, 2003, we estimate that future costs for remediation of environmental contamination on operating properties and properties previously sold approximate \$9.0 million, and have provided a reserve for that amount. It is anticipated that such costs will be incurred over the next several years. We also estimate approximately \$12.4 million of similar costs relating to our properties to be developed or sold. Catellus is currently under investigation by the Department of Toxics and Substance Control of the State of California concerning the Mission Bay Project. The investigation, which is ongoing, focuses on whether individuals and companies hauling soil within and from Mission Bay satisfied certain hazardous waste license/certification hauling requirements. Catellus does not anticipate that this investigation or any proceeding that may result from this investigation will have a material adverse impact on the Mission Bay Project. See [Business and Properties](#) [Other Items](#) [Legal Proceedings](#).

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Uninsured losses could adversely affect our financial condition.

We typically purchase commercial general liability, all-risk property (including earthquake and flood coverage) and rental loss insurance for our properties and development projects, with limits customarily carried for similar properties. Some types of losses, such as losses from earthquakes, terrorism, environmental hazards or toxic mold may be either uninsurable or too expensive to justify insuring against. In renewing our policies over the last several years, we were able to essentially obtain all of our historical levels and types of insurance (although at a higher cost and, in certain instances, with higher deductibles and/or more restrictive conditions), except: (1) liability coverage for our residential business, which now has a higher deductible and a much lower policy limit and (2) terrorism insurance, which was initially excluded from our property coverage placed on October 1, 2002. However, under the United States Terrorism Risk Insurance Act of 2002, carriers are now required to offer us terrorism coverage and are allowed to charge an incremental premium for such coverage. We have obtained coverage that matches the risk profile for our portfolio of properties, primarily consisting of distribution/warehouse and suburban office and retail that we consider to be relatively low-risk. We have placed a stand-alone terrorism policy for a single asset located near downtown San Francisco and expect that we may place additional, similar stand-alone policies if circumstances warrant. There can be no assurance that significant losses in excess of insurance proceeds will not occur. Also, we and our predecessors have owned some of the properties in our portfolio for many years and acquired properties in a variety of ways, including by railroad land grants. We have not obtained title insurance on all of the properties in our portfolio, and some properties may be subject to limitations on or challenges to our title.

If an uninsured loss or a loss in excess of insured limits occurs, the Operating Partnership could lose its capital invested in the property, as well as the anticipated future revenue from the property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. An uninsured loss or loss in excess of insured limits may negatively impact our financial condition. As the general partner of the Operating Partnership, Catellus REIT is generally liable for any of their unsatisfied obligations other than non-recourse obligations.

The costs of compliance with regulatory requirements could adversely affect our business.

Our facilities are subject to various federal, state and local regulatory requirements, such as the Americans with Disabilities Act and state and local fire and life safety requirements. Failure to comply with these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. We believe that our facilities are currently in material compliance with such regulatory requirements. However, there can be no assurance that these requirements will not be changed or that new requirements will not be imposed, a result that could require significant unanticipated expenditures by us and could have an adverse effect on our cash flow.

We face risks due to our investments through partnerships or joint ventures.

Instead of purchasing properties directly, we have and may continue to invest as a co-venturer. Joint venturers often have shared control over the operation of the joint venture assets. Therefore, these investments may, under certain circumstances, involve risks such as the possibility that the co-venturer in an investment might become bankrupt, or have economic or business interests or goals that are inconsistent with our business interests or goals, or be in a position to take action contrary to our instructions or requests or our policies or objectives. Consequently, actions by a co-venturer might result in subjecting properties owned by the joint venture to additional risk. Although we generally will seek to maintain sufficient control of any joint venture to permit our objectives to be achieved, we may be unable to take action without the approval of our joint venture partners or our joint venture partners could take actions binding on the joint venture without our consent. Additionally, should a joint venture partner become bankrupt, we could become liable for that partner's share of joint venture liabilities.

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The supply and price of electrical power could affect our rental and sales activities.

Shortages in and higher prices for electrical power could negatively affect our ability to rent or sell properties.

Catellus REIT will face the risks associated with the hospitality industry because it will own two hotel properties.

Catellus currently owns, indirectly through joint ventures, interests in two hotel properties. For REIT qualification purposes, these hotels will be leased to newly formed partnerships of which one or more of Catellus REIT's taxable REIT subsidiaries will be a partner. Catellus REIT, as the (indirect) lessor, will be entitled to a percentage of the gross receipts of the hotels. While the taxable REIT subsidiary structure allows the economic benefits of ownership to flow to Catellus REIT, the taxable REIT subsidiary will be subject to tax on its allocable share of income from the operations of the hotels at the federal and state level. In addition changes in applicable tax laws may require Catellus REIT to modify the structure for owning the hotel properties, and such changes may adversely affect the cash flows from our hotels.

An ownership limit and certain anti-takeover defenses could inhibit a change of control of our Company or reduce the value of our stock.

Upon completion of the merger, the restated certificate of incorporation of Catellus REIT and its amended and restated bylaws will contain provisions which may have an anti-takeover effect. The following provisions of these governing documents could have the effect of making it more difficult for a third party to acquire control of our Company, including certain acquisitions that our stockholders may deem to be in their best interests:

the amended and restated bylaws do not permit stockholders to call a special meeting of stockholders;

the restated certificate of incorporation contains restrictions on the number of shares that may be owned by any stockholder;

the restated certificate of incorporation permits the issuance of one or more series of a new class of preferred stock with rights and preferences to be determined by the board of directors;

the restated certificate of incorporation restricts certain business combinations with interested stockholders; and

the amended and restated bylaws require advance notice of stockholder proposals and director nominations.

Federal Income Tax Risks Relating to REIT Qualification

If we fail to qualify as a REIT or fail to remain qualified as a REIT, we will have reduced funds available for distribution to our stockholders and our income will be subject to taxation at regular corporate rates.

We intend to operate so as to qualify as a REIT under the Internal Revenue Code commencing January 1, 2004. As a REIT, we generally will not pay corporate level tax on income we currently distribute to our stockholders as long as we distribute currently at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain). We cannot assure you, however, that we will so qualify or be able to remain so qualified or that new legislation, Treasury Regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of such qualification. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The complexity of these provisions and of the applicable income tax regulations is greater in the case of a REIT such as ours that holds its assets in partnership form. Further, the determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT.

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If in any taxable year we fail to qualify as a REIT, we will suffer the following negative results:

we will not be allowed a deduction for distributions to stockholders in computing our taxable income; and

we will be subject to federal income tax on our taxable income at regular corporate rates.

In addition, we will be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost, unless we were entitled to relief under statutory provisions. As a result, net income and the funds available for distribution to our stockholders will be reduced for five years. See Proposal 1 Material United States Federal Income Tax Consequences of the Merger and Related REIT Conversion.

Goodwin Procter LLP has rendered to us an opinion to the effect that Catellus REIT's intended form of organization and its intended structure, ownership and operations, commencing with the first full taxable year for which it files a REIT election, will allow it to satisfy the requirements for qualification as a REIT under the Internal Revenue Code for the taxable year ended December 31, 2004, and for subsequent years. This opinion is conditioned upon implementation of the merger prior to January 1, 2004, and completion of certain restructuring transactions and upon certain representations made by us as to factual matters relating to the organization and operation of Catellus REIT and its subsidiary partnerships, corporations and other entities. An opinion of counsel does not bind the Internal Revenue Service or the courts, and no assurance can be provided that such opinion will not be challenged by the Internal Revenue Service or will be sustained by a court if so challenged.

Changes in the tax laws could make investments in REITs less attractive, and could reduce the tax benefits of our REIT conversion.

The federal income tax laws governing REITs and the administrative interpretations of those laws may be amended or changed at any time. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or you as a stockholder. The recently enacted Jobs and Growth Tax Act reduces the maximum tax rate on both dividends and long-term capital gains for individuals to 15% until 2008. This reduced tax rate generally does not apply to REIT dividends of ordinary income, most of which will continue to be taxed at the higher federal income tax rates applicable to ordinary income. The Jobs and Growth Tax Act could cause shares in non-REIT corporations to be a more attractive investment to individual investors than they have been, and could have an adverse effect on the market price of our shares of common stock.

There are uncertainties relating to the estimate of our earnings and profits attributable to C corporation taxable years.

In order to qualify as a REIT, we cannot have at the end of any REIT taxable year any undistributed earnings and profits that are attributable to a C corporation taxable year. A REIT has until the close of its first full taxable year as a REIT in which it has non-REIT earnings and profits to distribute these accumulated earnings and profits. We will be required to distribute these earnings and profits prior to the end of our first taxable year as a REIT, which we expect will be 2004. Failure to do so would result in our disqualification as a REIT. The determination of these earnings and profits is complicated and depends upon facts with respect to which we may have less than complete information or the application of the law governing earnings and profits which is subject to differing interpretations, or both. We currently believe and intend that the special E&P distribution will exceed the amount required to be distributed in order to satisfy the requirement that Catellus REIT not have accumulated earnings and profits attributable to a C corporation taxable year by an amount to be determined by the board of directors. Consequently, we believe that the special E&P distribution will be sufficient to distribute all of Catellus REIT's non-REIT earnings and profits by the close of our first taxable year as a REIT. There are, however, substantial uncertainties relating to the estimate of our non-REIT earnings and profits and, thus, we cannot assure you that this requirement will be met. These uncertainties include the possibility that the Internal Revenue Service could upon

audit increase the taxable income of Catellus, which would increase the non-REIT

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earnings and profits of Catellus REIT. In this regard, we received notice from the Internal Revenue Service on March 24, 2003 that it intends to audit the 1999 income tax return of Catellus. The Internal Revenue Service has also advised us that it intends to audit the 1999 income tax return of a mortgage REIT subsidiary of Catellus. Goodwin Procter LLP has not provided and will not provide any opinion as to the amount of Catellus undistributed earnings and profits and relied, for purposes of its opinion as to our qualification as a REIT, upon a representation from us that we will not have any undistributed non-REIT earnings and profits as of the end of the year for which we first file our REIT election. Thus, we cannot assure you that we will satisfy the requirement that we distribute all of our non-REIT earnings and profits by the close of our first taxable year as a REIT. See Proposal 1 Material United States Federal Income Tax Consequences of the Restructuring and Related REIT Conversion Federal Income Taxation of Catellus REIT Following the Merger Requirements for Qualification as a REIT.

There can be no assurance that the Internal Revenue Service will agree with our determination of Catellus REIT's non-REIT earnings and profits, and there are uncertainties regarding the amount of such earning and profits.

Our third party development business is potentially subject to prohibited transactions tax.

We will continue to conduct third-party land sales as part of our third-party development business after the REIT conversion. As a REIT, we will be subject to a 100% tax on our net income from prohibited transactions. In general, prohibited transactions are sales or other dispositions of property to customers in the ordinary course of business. Sales by us of property in the course of our third-party development business will generally constitute prohibited transactions.

We intend to avoid the 100% prohibited transactions tax by conducting our third-party land sales through one or more taxable REIT subsidiaries. We may not, however, always be able to identify properties that will become part of our third-party development business at the time we acquire such properties. Additionally, properties we initially acquire and hold for investment purposes may become third-party development properties as circumstances change. Therefore, we face the potential of being subject to the 100% prohibited transactions tax on the sale of properties acquired by us and not through a taxable REIT subsidiary which we incorrectly identify as property not held for sale to customers in the ordinary case of business or which subsequently becomes property held for sale to customers in the ordinary course of business.

There are potential deferred and contingent tax liabilities.

We will be subject to a federal corporate level tax at the highest regular corporate rate (currently 35%) on any gain recognized from a sale of any assets occurring within ten years of the REIT conversion which we hold at the effective time of our election to be a REIT but only to the extent of the built-in-gain based on the fair market value of those assets on the effective date of the REIT election. If we elect REIT status effective January 1, 2004, such tax will be based on the fair market value of our assets as of January 1, 2004. Gain from a sale of an asset occurring more than 10 years after the REIT conversion will not be subject to this corporate-level tax. We currently do not expect to sell any asset if such a sale would result in the imposition of a material tax liability. We cannot, however, assure you that we will not change our plans in this regard.

We intend to conduct a substantial portion of our development business, consisting of our third-party development business, through one or more taxable REIT subsidiaries. Taxable REIT subsidiaries are subject to regular corporate-level tax, and cannot avail themselves of the dividends paid deduction available to REITs. Consequently, income from our third-party development business, and any other income earned by taxable REIT subsidiaries of ours, will be subject to corporate-level tax.

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Certain deferred gains on assets owned by Catellus REIT are subject to special gain recognition rules as the result of prior asset transfers between members of the Catellus consolidated group in pre-REIT years. The

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maximum deferred gains associated with these assets is currently estimated to be \$40 million. Certain of these assets will be held by Catellus REIT with the remainder held by the Operating Partnership. The special gain recognition rules require Catellus REIT to include in taxable income the previously deferred gain on assets upon the occurrence of certain events. These gains would be taxable, for example, if the assets were contributed to a taxable REIT subsidiary or sold, or if the Operating Partnership admits a new partner and therefore becomes a separate entity for federal income tax purposes.

In addition, the Internal Revenue Service may assert liabilities against us for corporate income taxes for taxable years of Catellus prior to the time we qualify as a REIT, in which case we will owe these taxes plus interest and penalties, if any. Moreover, any increase in taxable income will result in an increase in accumulated earnings and profits which could either increase the taxable portion of the special E&P distribution to our stockholders or cause us to pay an additional taxable distribution to our stockholders within 90 days of the relevant determination.

Forward-Looking Statements

This proxy statement/prospectus may contain or incorporate statements that constitute forward-looking statements, and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements.

In some cases you can identify forward-looking statements by terms such as anticipate, project, may, intend, might, will, could, would, believe, estimate, potential, by the negative of these terms, and by similar expressions. These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties, many of which are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. These forward-looking statements present our estimates and assumptions only as of the date of this proxy statement/prospectus.

Important factors that could cause actual results to differ materially and adversely from those expressed or implied by the forward-looking statements include:

those identified under Risk Factors from pages 17 through 28;

those identified from time to time in Catellus public filings with the SEC;

general industry, economic and business conditions (which will, among other things, affect availability and creditworthiness of current and prospective tenants, tenant bankruptcies, lease rates and terms, availability and cost of financing, interest rate fluctuations and operating expenses);

adverse changes in the real estate markets, including, among other things, competition with other companies and risks of real estate development, acquisitions and dispositions;

governmental actions and initiatives (including legislative and regulatory changes);

other risks inherent in the real estate business; and

acts of war, other geopolitical events, and terrorist activities that could adversely affect any of the above factors.

The above list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative but by no means exhaustive. Therefore, all forward-looking statements should be evaluated with the understanding of their inherent risk and uncertainty. Except for our ongoing obligation to disclose material information as required by federal securities laws, we do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this proxy statement/prospectus.

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VOTING AND PROXIES

This proxy statement/prospectus is being furnished to you in connection with the solicitation of proxies by Catellus board of directors for use at the annual meeting for the purposes described in this proxy statement/prospectus and in the accompanying notice of annual meeting of stockholders of Catellus.

Date, Time and Place of the Annual Meeting

The annual meeting will be held on September 26, 2003, at 9:00 a.m., local time, at the Palace Hotel, Ralston Room, 2 New Montgomery Street, San Francisco, California.

Purpose of the Annual Meeting

At the annual meeting, holders of Catellus common stock of record as of the record date will be eligible to vote upon the following proposals:

Proposal 1: To vote upon a proposal to adopt the agreement and plan of merger dated July 31, 2003 among Catellus, Catellus REIT and the Operating Partnership pursuant to which the REIT conversion will be effected;

Proposal 2: To elect eleven directors;

Proposal 3: To approve an amendment to the 2000 Performance Award Plan, which we refer to as the 2000 Plan Amendment;

Proposal 4: To approve the 2003 Performance Award Plan;

Proposal 5: To vote upon a stockholder proposal to redeem our stockholder rights plan, if presented at the meeting; and

To transact any other business that is properly brought before the annual meeting or at any adjournments or postponements of the annual meeting.

Recommendation of the Board of Directors

Our board of directors has unanimously approved the merger agreement, the REIT conversion and the other transactions contemplated by the merger agreement and has determined that these actions are advisable and in the best interests of Catellus and its stockholders. Our board of directors unanimously recommends that you vote:

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FOR the adoption of the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement;

FOR the election of the eleven director nominees;

FOR the approval of the 2000 Plan Amendment;

FOR the approval of the 2003 Performance Award Plan; and

AGAINST the stockholder proposal to redeem our stockholder rights plan.

Record Date and Share Information

Our board of directors has fixed the close of business on August 14, 2003 as the record date for the determination of stockholders entitled to receive notice of, and to vote at, the annual meeting. As of the record date, there were 89,594,286 shares of Catellus common stock outstanding and entitled to vote and 20,857 holders of record. Each share of Catellus common stock has one vote on any matter properly brought before the meeting or at any adjournments or postponements of the annual meeting.

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Quorum; Vote Required for Each Proposal

We must have a quorum at the annual meeting to transact any business. This means that a majority of our outstanding shares of common stock must be represented in person or by proxy at the annual meeting. Proxies marked as abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum at the annual meeting. An abstention on any proposal will have the effect of a vote cast against such proposal. A broker non-vote on Proposal 1 will have the effect of a vote cast against Proposal 1. Broker non-votes will not be treated as votes cast and therefore will have no effect on the election of directors, the 2000 Plan Amendment, the 2003 Performance Award Plan, or the stockholder proposal vote.

Proposal 1: The adoption of the merger agreement requires an affirmative vote of the holders of a majority of the shares of Catellus common stock entitled to vote at the annual meeting. A vote for the adoption of the merger agreement has the effect of approving the REIT conversion and the related transactions contemplated by the merger agreement. Similarly, if the contribution of assets to taxable REIT subsidiaries were deemed to constitute a sale, lease or exchange of all or substantially all of the assets of Catellus under Delaware Corporate Law, the affirmative vote of a majority of the shares of Catellus common stock entitled to vote thereon would be needed to approve the contribution. We have attached a copy of the merger agreement as Annex A.

Proposal 2: The election of the eleven director nominees requires an affirmative vote of a plurality of the shares of Catellus common stock present in person or by proxy at the annual meeting and entitled to vote. Accordingly, the eleven nominees who receive the greatest number of FOR votes will be elected as directors of Catellus.

Proposal 3: The approval of the 2000 Plan Amendment requires an affirmative vote of a majority of the votes cast in person or by proxy at the annual meeting. We have attached a copy of the amendment to the 2000 Performance Award Plan as Annex F.

Proposal 4: The approval of the 2003 Performance Award Plan requires an affirmative vote of a majority of the votes cast in person or by proxy at the annual meeting. We have attached a copy of the 2003 Performance Award Plan as Annex G.

Proposal 5: The approval of the stockholder proposal to redeem our stockholder rights plan if presented at the annual meeting requires an affirmative vote of a majority of the votes cast in person or by proxy at the annual meeting.

Catellus reserves the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders.

Under Delaware Corporate Law, you will not be entitled to dissenters' rights of appraisal as a result of the merger and REIT conversion. See Proposal 1 Terms of the Merger Absence of Dissenters' Rights.

Shares Owned by Catellus Directors and Officers

On August 14, 2003, the directors and executive officers of Catellus and their affiliates owned and were entitled to vote 494,516 shares of Catellus common stock, or 0.6% of the shares outstanding on that date entitled to vote on with respect to the each of the proposals. We currently expect that each director and executive officer of Catellus will vote the shares of Catellus common stock beneficially owned by such director or executive officer FOR adoption of the merger agreement, which will effect the REIT conversion, FOR the election of the eleven director nominees, FOR the approval of the 2000 Plan Amendment, FOR the approval of the 2003 Performance Award Plan, and AGAINST the stockholder proposal. See Proposal 2 Security Ownership of Directors and Executive Officers.

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Voting Procedures

Whether or not you expect to attend the annual meeting in person, we urge you to vote your shares by phone, via the Internet or by signing, dating and returning the enclosed proxy card at your earliest convenience. This will ensure the presence of a quorum at the meeting. Submitting your proxy now will not prevent you from voting your stock at the meeting if you desire to do so, as your vote by proxy is revocable at your option.

Voting by the Internet or telephone is fast, convenient, and your vote is immediately confirmed and tabulated. Most importantly, by using the Internet or telephone, you help Catellus reduce postage and proxy tabulation costs.

VOTE BY INTERNET

<http://www.proxyvote.com>

24 hours a day / 7 days a week

INSTRUCTIONS

Read the accompanying proxy statement/prospectus.

Have available your 12-digit control number located on your proxy card.(1)

Point your browser to:

<http://www.proxyvote.com>

Then follow the instructions to cast your vote.

You may vote via Internet or telephone until 11:59 p.m. Eastern Time the day before the meeting date.

If you vote by Internet or telephone, there is no need to mail back your proxy card.

VOTE BY TELEPHONE

800-690-6903

Toll free 24 hours a day / 7 days a week

INSTRUCTIONS

Read the accompanying proxy statement/ prospectus.

After you dial the toll-free number, you will be asked to enter your 12-digit control number located on your proxy card.(1)

Then follow the simple instructions the Vote Voice provides you.

-
- (1) The law of Delaware, where we are incorporated, allows a proxy to be sent electronically, so long as it includes or is accompanied by information that allows the inspector of elections to determine that it has been authorized by the stockholder or proxy holder.

If you sign and return the proxy card at or before the annual meeting, your shares will be voted as you specify on the proxy card. If you sign and return the proxy card but do not specify a vote, your shares will be voted FOR Proposal 1, FOR Proposal 2, FOR Proposal 3, FOR Proposal 4, and AGAINST Proposal 5.

We will appoint an inspector of elections to count the votes cast in person or by proxy at the meeting. If you mark your proxy to abstain from voting on any matter, your shares will be counted for purposes of determining whether there is a quorum but will not be voted on that matter. Similarly, if a broker or nominee indicates on its proxy that it does not have discretionary authority to vote on a particular matter as to certain shares and has not received voting instructions from the beneficial owner, those shares will be counted for purposes of determining whether there is a quorum but will not be voted on that matter.

Under the rules of the New York Stock Exchange, if you hold your shares through a bank or broker, your bank or broker is permitted to vote your shares on the election of the directors (Proposal 2), even if the bank or broker does not receive voting instructions from you. Your bank or broker, however, is not permitted to vote your shares on the adoption of the merger agreement (Proposal 1), the approval of the 2000 Plan Amendment (Proposal 3), the approval of the 2003 Performance Award Plan (Proposal 4), and the stockholder proposal (Proposal 5) without

your instructions. **If your shares are held in the name of a bank or broker, please follow the instructions on your proxy card to ensure that your shares are properly voted at the annual meeting.**

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You may revoke your proxy at any time after you have sent in your proxy card and before your proxy is voted at the annual meeting by:

giving written notice to our corporate secretary at 201 Mission Street, Second Floor, San Francisco, California 94105 that you revoke your proxy;

filing another proxy with a later date; or

by attending the meeting and voting in person, although attendance at the annual meeting will not by itself revoke a proxy.

If you have instructed a bank or broker to vote your shares, you must follow the directions you receive from your bank or broker to change your vote. You may request to receive and view future proxy mailings and other stockholder communications online. For more information, please see the insert included with your proxy materials.

We are not aware of any matter that will be brought before the annual meeting other than those described in this proxy statement/prospectus. If any other matter is properly brought before the meeting, the persons named as your proxies will be authorized by the proxy card to vote the shares represented by that proxy card in accordance with their best judgment.

Solicitation of Proxies and Expenses

We will bear the cost of this proxy solicitation. Brokers and nominees should forward soliciting materials to the beneficial owners of the stock that they hold of record. We will reimburse brokers and nominees for their reasonable forwarding expenses. Our directors, officers, and regular employees may also solicit proxies in person or by telephone or other means. These individuals will not receive additional compensation for these efforts, but may be paid for reasonable out-of-pocket expenses in connection with the solicitation.

You should not send any stock certificates with your proxy cards. A letter of transmittal containing instructions for the surrender of stock certificates will be mailed to stockholders of Catellus as soon as reasonably practicable after the completion of the merger.

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PROPOSAL 1

ADOPTION OF THE MERGER AGREEMENT

PURSUANT TO WHICH THE REIT CONVERSION WILL BE EFFECTED

BACKGROUND OF THE REIT CONVERSION

Introduction

Annually, the board of directors of Catellus holds a retreat to consider Catellus' long-term plans and strategic alternatives. Among the alternatives discussed prior to 2002 was the conversion of Catellus to a REIT. While a substantial majority of public real estate operating companies are REITs, the conversion to a REIT was not attractive to Catellus because the Internal Revenue Code imposed limitations on the ability of REITs to conduct development activities of the type and scope historically conducted by Catellus. However, an amendment to the Internal Revenue Code which became effective in 2001 permitted REITs to establish taxable REIT subsidiaries which could conduct development activities subject to fewer limitations.

In 2002, the possible conversion of Catellus to a REIT appeared to be more attractive for several reasons. First, Catellus' business mix had changed as its portfolio of owned real estate had increased in importance in relation to its development activities. This portfolio of owned real estate provided a stream of income that could allow the payment of dividends on a consistent basis, which a REIT structure would permit Catellus to do more efficiently. As a result of the change in business mix and the 2001 amendment to the Internal Revenue Code, Catellus would be able to continue much of its remaining development business if it were to convert to a REIT. Further, management believed that in the current environment it was more difficult for Catellus to reinvest cash flow in its existing businesses at attractive risk-adjusted rates of return. In addition, management projected that Catellus' effective tax rate would rise in 2002 and beyond making the tax advantages of a REIT structure more attractive. Finally, most public real estate companies are REITs and, by converting to a REIT, Catellus would benefit from greater comparability to a larger universe of companies.

The 2002 Board of Directors Retreat and Retention of a Financial Advisor

In the spring of 2002, as part of its preparation for the 2002 annual board of directors retreat to consider Catellus' long term operating plan and strategic alternatives, management, with the assistance of PricewaterhouseCoopers LLP, Catellus' independent accountants, and O Melveny & Myers LLP (O Melveny), its corporate counsel, began to analyze the issues that would be involved in the conversion of Catellus to a REIT. In July, Catellus retained Goodwin Procter LLP (Goodwin) to assist it and its advisers in the analysis of such a conversion.

The board of directors held its annual retreat from July 30 through August 1. At the retreat, management discussed the current business environment of Catellus. As described above, the change in business mix in favor of owned real estate and the projected increase in Catellus' effective tax rate required Catellus to select a new corporate strategy. Management presented several strategic alternatives for the company. The alternatives were: (1) to convert Catellus from a C corporation to a REIT; (2) to remain a C corporation and use cash flow generated by Catellus' businesses to repurchase its common stock; and (3) to remain a C corporation and invest that cash flow in acquisitions of commercial real estate properties. After discussion of these and other strategic alternatives, the board concluded that it should retain an investment banking firm to

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advise it on strategic alternatives. After evaluating several firms, the board selected Morgan Stanley & Co. Incorporated (Morgan Stanley) on August 22.

Board of Directors Meetings on October 8 and 9

The next meeting of the board of directors was on October 8 and 9. Several representatives of Morgan Stanley attended the meeting, as did a representative of O Melveny.

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Morgan Stanley advised the board that Catellus faced several issues that might contribute to its then current trading valuation relative to its estimated net asset value: (1) as a C corporation, Catellus' marginal tax rate was high, especially in comparison to industrial REITs that might be considered competitors, making its cost of capital higher relative to its competitors assuming all other factors were equal; (2) Catellus' complexity given its asset mix and business model (rental property owner with significant non-income producing land holdings) made it difficult for the market to value, because (a) there were few comparables, (b) the land assets were intrinsically subject to a wider valuation range than income-producing assets and would show greater variance over time, and (c) the income-producing assets were a mix of Class A industrial and other assets and income types; and (3) as a result of the reduction over time of Catellus' land bank, its growth was slowing due to the difficulty of reinvesting its earnings at historic rates of return.

Morgan Stanley advised the board that it had explored several strategic alternatives for Catellus. It had considered and recommended eliminating the following alternatives: (1) modification of Catellus' capital structure by using cash flow to repurchase its stock (would not meet corporate objectives regarding tax efficiency and public market valuation and any earnings improvements would be achieved in large part through increased risk (financial leverage)); (2) a levered recapitalization by borrowing aggressively against Catellus' assets (would not meet corporate objectives regarding tax efficiency and public market valuation and would negatively impact the ability to carry out a capital-intensive development strategy); (3) a change in the business mix through an acquisition strategy using cash or stock (did not appear feasible because Catellus' common stock was trading at a discount to estimated net asset value, real estate assets generally were expensive by historical standards and there were a lack of attractive acquisition targets); and (4) splitting Catellus into two or more public companies, one of which might be a REIT (did not appear advantageous because a C corporation owning only land would likely trade poorly and might not be viable without the cash generated from the income-producing properties).

Morgan Stanley advised the board that four of the strategic alternatives it had explored did not generally have the shortcomings identified above and, therefore, merited further consideration by the board: (1) conversion of Catellus to a REIT as described in this proxy statement/prospectus; (2) the sale or merger of Catellus to or with a REIT in which stockholders of Catellus would receive shares of stock of the REIT; (3) Catellus remaining a C corporation and increasing its focus on land and development activities; and (4) the sale of Catellus' shares to a buyer or group of buyers for cash.

Morgan Stanley then outlined the advantages and disadvantages of each of these alternatives. The conversion to a REIT would be the easiest strategy to execute (no significant third party involvement relative to other alternatives) and might result in an increase in the price of Catellus stock, moreover, it should be enhanced by greater focus on the ownership, management and development of industrial properties. The sale of Catellus for stock of a REIT might be more difficult to execute than a REIT conversion because one or more potential buyers would have to be convinced to make a satisfactory proposal (which would be made more difficult by the large non-income producing land holding which would in all likelihood be inconsistent with their portfolios and business strategies) and, given the current valuation of Catellus' stock and that of the potential buyers, there might be constraints on an achievable price. Focusing on land and development activities could produce the highest future value to stockholders, but at greater risk which could result in a lower multiple. A sale for cash would be the easiest of the four alternatives to value because the consideration would not include publicly traded stock, but it might be difficult to execute given the size of Catellus and its mix of assets and, if pursued broadly, confidentiality would be hard to maintain. The board asked Morgan Stanley various questions regarding the alternatives presented, Morgan Stanley's assumptions and the current market's impact on the various alternatives. In particular, Morgan Stanley was asked to provide additional information with respect to previous conversions of C corporations to REITS, changes in the composition of a company's stockholder base as a result of a REIT conversion, and the effects of a REIT conversion on the price of a company's stock.

At the meeting, Mr. Rising advised the board that in September he had been contacted informally by the chief executive officer of a REIT (X Company) about a possible strategic transaction between Catellus and X Company. Mr. Rising had advised the chief executive officer that he could not engage in such a discussion

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without the approval of his board and the execution and delivery of an appropriate confidentiality agreement. The board authorized Mr. Rising to enter into a confidentiality agreement with X Company and to enter into preliminary discussions with the chief executive officer of X Company. On October 28, Catellus and X Company signed a confidentiality agreement.

Board of Directors Meeting on October 29 and Activities in November

The next meeting of the board was on October 29. Several representatives of Morgan Stanley and a representative of O Melveny were present.

Morgan Stanley began with a discussion of the recent decline in REIT stock prices generally and in the stock prices of REITs focused on industrial properties in particular. Morgan Stanley's presentation included estimated ranges of values based on varying assumptions for Catellus common stock in the case of a REIT conversion and in the case of a sale or merger for the stock of another REIT. Morgan Stanley advised the board that the highest values might be achieved through a combination of strategies in which Catellus pursued conversion to a REIT and subsequently entered into a sale or merger transaction with another REIT.

Morgan Stanley's analysis included comparisons of Catellus with other companies, all of which were REITs. With respect to the REIT conversion analysis, it included four scenarios: (1) conversion to a REIT without a significant change in the business model; (2) conversion to a REIT combined with the sale of a significant amount of unimproved land; (3) conversion to a REIT combined with placing a significant amount of unimproved land in a 50/50 joint venture; and (4) conversion to a REIT combined with a share repurchase plan. With respect to the sale or merger analysis Morgan Stanley: (1) analyzed the price that various companies could pay without the transaction being dilutive, with or without land sales or a 50/50 joint venture; and (2) set forth premiums paid in selected REIT mergers and acquisitions. Morgan Stanley's analysis also included information with respect to the returns to stockholders following conversions to REITs by six other C corporations; their distribution policies following the conversions; and the changes in the composition of Catellus' stockholder base that might result from a REIT conversion. Finally, it included comparable company analyses (1) between selected industrial and diversified REITs, and (2) between selected REITs it judged active (larger development pipeline, higher levels of sales activity, substantial net operating income derived from fees and higher levels of asset acquisition) and selected REITs it judged passive.

Following Morgan Stanley's presentation, the board requested that management, working with Catellus' advisers, provide further information regarding Catellus' corporate strategy and structure if it were to convert to a REIT, including differences in pre- and post- conversion operating activities and an analysis of the attendant human resource implications.

In November and December, Mr. Rising, Mr. Beaudin and Mr. Hosler met with executives of X Company, principally to share information about the assets and businesses of the two companies.

Board of Directors Meetings on December 10 and 11 and Other Activities in December and January

The board had a two-day meeting on December 10 and 11. Representatives of Morgan Stanley, O Melveny and Goodwin were present.

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At the meeting management advised the board that it had concluded that Catellus should convert to a REIT if a number of open issues could be resolved. The conversion would be effective as of January 1, 2004. The conclusion was premised on the belief that greater value would be created for Catellus stockholders if Catellus reduced its business complexity over time and paid a dividend that would be enhanced by the tax efficiencies of the REIT structure.

Management presented an analysis that summarized the proposed operating strategy, corporate structure, approach to a special E&P distribution, manner of calculation and reporting funds from operations and

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distribution policy of Catellus if it were to convert to a REIT. It also proposed an operating plan for Catellus for the transition year of 2003. Mr. Rising also reported on the status of discussions with X Company and also reported that he had had a conversation in November with the chief executive officer of another REIT (Y Company) who had expressed interest in a possible strategic transaction between Catellus and Y Company.

Mr. Kahane, chair of Catellus Compensation and Benefits Committee (the Compensation Committee), reported on certain compensation issues that had arisen in connection with the Compensation Committee's analysis of a REIT conversion. He reported that FPL Associates L.P. (FPL), Catellus compensation consultant in connection with a possible REIT conversion, had analyzed the effect of such a conversion on outstanding stock options and had concluded that there could be a diminution in value of certain of the options. Mr. Kahane advised the board that the Compensation Committee had concluded that no decision on a possible REIT conversion should be made until the Compensation Committee and the board had determined the appropriate treatment of outstanding stock options.

Following discussion, the board directed management, working with Catellus advisers, to continue to refine its analysis of a possible REIT conversion. The board also authorized Mr. Rising and Morgan Stanley to contact Y Company to discuss entering into an appropriate confidentiality agreement so that there might be an exchange of information and discussions about a possible strategic transaction between Catellus and Y Company. The board's view was that, prior to making a decision to convert Catellus to a REIT or to continue as a C corporation, it should learn the nature of any proposals for strategic transactions that X Company or Y Company might make.

On December 16, Mr. Rising contacted the chief executive officer of Y Company and a confidentiality agreement was signed on December 18. Mr. Rising and Mr. Hosler met with executives of Y Company later in December to exchange information.

During January there were periodic discussions between Mr. Rising, Mr. Beaudin, Mr. Hosler and others at Catellus and executives of X Company and Y Company, respectively, with respect to the assets and business of Catellus and the respective assets and businesses of X Company and Y Company. In late January, Y Company advised Catellus that it had decided not to proceed further with the discussions.

Board of Directors Meeting on January 27 and Activities in February

The next meeting of the board was on January 27. Several representatives of Morgan Stanley and a representative of O Melveny were present.

Morgan Stanley reported on the decline in REIT stock prices since early December and on the status of discussions with X Company and Y Company. Morgan Stanley also provided its thoughts on the potential impact of President Bush's dividend tax proposal on REITs generally and on Catellus if it were to proceed with conversion to a REIT. Mr. Kahane reported that the Compensation Committee was continuing its analysis of the appropriate treatment of outstanding stock options.

Following discussion the board directed management, working with Morgan Stanley and Catellus other advisers, to continue the analysis of the possible conversion of Catellus to a REIT and to report to the board at its February meeting. The directors also directed management and Morgan Stanley to advise X Company of the desirability of determining in the near future whether their discussions were likely to be productive. In early February, X Company advised Catellus that it wished to terminate the discussions.

Board of Directors Meeting on February 28

The next meeting of the board was on February 28. Representatives of Morgan Stanley, O Melveny and Goodwin were present.

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Morgan Stanley led the REIT conversion discussion. It outlined the key steps required for Catellus to qualify as a REIT as of January 1, 2004; the rationale for Catellus to convert to a REIT (including, reducing corporate-level taxes, creating a yield-oriented common stock, benefiting from having a public peer group (i.e., other industrial REITs) and utilization of an UPREIT structure for future acquisitions); and various analyses undertaken to value Catellus under its current structure and as a REIT. Mr. Kahane reported that the Compensation Committee was generally in agreement with the treatment of outstanding stock options recommended by FPL that would offer holders of unvested options the opportunity to exchange them for restricted stock and adjust vested options in accordance with their terms. Morgan Stanley then delivered its fairness opinion to the board (see Opinion of Financial Advisor). Following Morgan Stanley's presentation, the board discussed the advantages, disadvantages and logistics of converting Catellus to a REIT. After discussion, the board unanimously directed management to proceed with the REIT conversion, subject to stockholder and final board approval.

OUR REASONS FOR THE REIT CONVERSION

The Catellus board of directors has unanimously determined that the merger, which will effect the REIT conversion, and the related restructuring transactions are fair to, and in the best interests of, Catellus and its stockholders. In reaching its determination, the board of directors consulted with Morgan Stanley with respect to the financial aspects and fairness of the merger and the REIT conversion, as well as with management and its legal advisors. The factors considered by the board of directors included, but were not limited to, the following:

to reduce our corporate-level taxes. As a REIT, we will be able to eliminate corporate level taxes on most of our income, including the income we receive from our rental property portfolio;

to benefit our stockholders by paying regular cash dividends;

by becoming a dividend paying company, our stockholder base may expand to include investors attracted by yield as well as asset quality, which may improve the liquidity of our capital stock and provide a more stable stockholder base;

to make performance comparisons with our peers more meaningful. As a REIT, our stockholders will benefit from an established research community dedicated to the coverage of REITs which can provide meaningful comparisons with other industrial REITs; and

the adoption of an UPREIT structure will provide a flexible structure for future acquisitions of new properties by permitting sellers to exchange properties for UPREIT equity while deferring inherent tax gain. Similar tax-deferred acquisitions have been an important source of growth for many public REITs.

The board of directors weighed the advantages against the potential risks of the REIT conversion including that as a REIT we will be unable to retain earnings as we will be required each year to distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding any net capital gain) and that we will need to comply with the highly complicated REIT qualification provisions. In addition, the board of directors considered the potential risks discussed in Risk Factors Risks and Effects of the Merger and the REIT Conversion beginning on page 17.

The foregoing discussion does not include all of the information and factors considered by the board of directors. The board of directors did not quantify or otherwise assign relative weights to the particular factors considered, but conducted an overall analysis of the information presented to and considered by it in reaching its determination.

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TERMS OF THE MERGER

The following is a summary of the material terms of the merger agreement. For a complete description of all of the terms of the merger, you should refer to the copy of the merger agreement that is attached to this proxy statement/prospectus as Annex A and incorporated herein by reference. This summary is not complete and is qualified in its entirety by reference to the merger agreement. You should read carefully the merger agreement in its entirety as it is the legal document that governs the merger.

Structure and Completion of the Merger

Catellus REIT is presently a wholly owned subsidiary of Catellus. Catellus REIT recently formed the Operating Partnership, of which Catellus REIT is the sole general partner, and directly or indirectly owns all of the limited partnership interests in the Operating Partnership. The merger agreement provides that Catellus will merge with and into the Operating Partnership, whereupon the separate corporate existence of Catellus will cease and the Operating Partnership will be the surviving entity of the merger. Upon the effectiveness of the merger, each outstanding share of common stock of Catellus, along with the associated right issued under the Rights Agreement dated as of December 16, 1999 between Catellus and American Stock Transfer and Trust Company (the "Catellus Rights Agreement"), will be converted into one share of common stock of Catellus REIT. In connection with the merger, Catellus REIT will change its name to "Catellus Development Corporation" and will succeed to and continue to operate all of the existing business of Catellus, directly or indirectly, through the Operating Partnership.

Following the merger, the Operating Partnership and its subsidiaries will directly or indirectly own most of the assets of Catellus and its subsidiaries, and Catellus REIT, directly and indirectly, will own all of the interests in the Operating Partnership. This structure will enable Catellus REIT, following the merger, to operate together with the Operating Partnership in an umbrella partnership REIT, or UPREIT, structure, through which Catellus REIT will continue to conduct all business activities currently conducted by Catellus.

The board of directors of Catellus, the board of directors of Catellus REIT and the general partner of the Operating Partnership have approved the merger agreement, subject to stockholder approval. The merger will become effective at the time the certificate of merger is accepted for filing by the Secretary of State of Delaware in accordance with Delaware Corporate Law, or later if so specified in the certificate of merger. We anticipate that the merger will be implemented by no later than December 31, 2003, following the approval of our stockholders to adopt the merger agreement at the annual meeting and the satisfaction or waiver of the other conditions to the merger as described below under "Conditions to Completion of the Merger." However, Catellus reserves the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders.

Exchange of Stock Certificates

Surrender of Shares. American Stock Transfer and Trust Company will act as exchange agent for the merger. As soon as reasonably practicable after the completion of the merger, American Stock Transfer and Trust will mail to each registered holder of a certificate of Catellus common stock a letter of transmittal containing instructions for surrendering their certificates. Holders who properly surrender their certificates will receive certificates representing their shares of Catellus REIT common stock. The surrendered certificates will be cancelled. Upon the effectiveness of the merger, each certificate representing shares of common stock of Catellus will be deemed for all purposes to evidence the same number of shares of common stock of Catellus REIT until such certificate is exchanged for a certificate representing shares of common stock of Catellus REIT.

Lost Certificates. If any Catellus certificate is lost, stolen or destroyed, the owner of the certificate must provide an appropriate affidavit of that fact and, if required by Catellus REIT, post a reasonable bond as indemnity against any claim that may be made against Catellus REIT with respect to such certificate.

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Stock Transfer Books. At the completion of the merger, Catellus will close its stock transfer books, and no subsequent transfers of Catellus common stock will be recorded on its books.

Other Effects of the Merger

We expect the following to occur in connection with the merger:

Charter Documents of Catellus REIT. The certificate of incorporation and bylaws of Catellus REIT will be amended in connection with the merger. A copy of the form of the restated certificate and amended and restated bylaws of Catellus REIT is set forth in Annex B-1 and Annex B-2, respectively, of this proxy statement/prospectus. See also Description of Catellus REIT Capital Stock.

Partnership Agreement. The partnership agreement of the Operating Partnership will be amended and restated in connection with the merger. A copy of the form of the amended and restated limited partnership agreement is set forth in Annex C to this proxy statement/prospectus. See also Description of the Partnership Agreement.

Directors and Officers. The directors and officers of Catellus immediately before the merger will be the directors and officers, respectively, of Catellus REIT immediately after the merger.

Stock Incentive Plans. Catellus REIT will assume all Catellus stock incentive plans and all rights of participants to acquire shares of common stock of Catellus under any Catellus stock incentive plan will be converted into rights to acquire shares of common stock of Catellus REIT in accordance with the terms of the plans.

Dividends. Catellus obligations with respect to any dividends or other distributions to the stockholders of Catellus that have been declared by Catellus but not paid prior to the completion of the merger will be assumed by Catellus REIT.

Listing of Catellus REIT Common Stock. We expect that the new Catellus REIT common stock will trade on the NYSE under our current symbol CDX following the completion of the merger.

Conditions to Completion of the Merger

Catellus has the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders. The respective obligations of Catellus, Catellus REIT and the Operating Partnership to complete the merger require the satisfaction or, where permitted, waiver, of the following conditions:

adoption of the merger agreement (a) by the requisite vote of the stockholders of Catellus and Catellus REIT and (b) by Catellus REIT, in its capacity as the general partner of the Operating Partnership;

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determination by the board of directors of Catellus that the transactions constituting the REIT conversion which impact Catellus REIT's status as a REIT for federal income tax purposes have occurred or are reasonably likely to occur;

receipt by Catellus from Goodwin Procter LLP of an opinion to the effect that the merger qualifies as a tax-free reorganization within the meaning of Section 368(a)(1)(F) of the Internal Revenue Code;

the amendment and restatement of the certificate of incorporation and bylaws of Catellus REIT to read in the forms set forth in the merger agreement and as attached as Annex B-1 and Annex B-2, respectively, to this proxy statement/prospectus;

the amendment and restatement of the agreement of limited partnership of the Operating Partnership to read in the form set forth in the merger agreement and attached as Annex C to this proxy statement/prospectus;

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the directors and officers of Catellus immediately before the merger will be the directors and officers, respectively, of Catellus REIT after the merger;

approval for listing on the New York Stock Exchange of Catellus REIT common stock, subject to official notice of issuance;

the effectiveness of the registration statement, of which this proxy statement/prospectus is a part, without the issuance of a stop order or initiation of any proceeding seeking a stop order by the SEC;

the determination by Catellus, in its sole discretion, that no legislation or proposed legislation with a reasonable possibility of being enacted would have the effect of substantially (a) impairing the ability of Catellus REIT to qualify as a REIT, (b) increasing the federal tax liabilities of Catellus REIT resulting from the REIT conversion, or (c) reducing the expected benefits to Catellus REIT resulting from the REIT conversion; and

receipt of all governmental and third party consents to the merger, except for consents as would not reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of Catellus REIT, the Operating Partnership and their subsidiaries taken as a whole.

Termination of the Merger Agreement

The merger agreement provides that it may be terminated and the merger abandoned at any time prior to its completion, before or after approval of the merger agreement by the stockholders of Catellus, by either:

the mutual written consent of the board of directors of Catellus and the board of directors of Catellus REIT, on behalf of Catellus REIT and the Operating Partnership, or

the board of directors of Catellus in its sole discretion.

We have no current intention of abandoning the merger subsequent to the annual meeting if stockholder approval is obtained and the other conditions to the merger are satisfied or waived. However, Catellus reserves the right to cancel or defer the merger or the REIT conversion even if stockholders of Catellus vote to adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of Catellus and its stockholders.

Interests of Directors and Executive Officers of Catellus Pursuant to the Merger

In considering the recommendation of the board of directors to vote for the adoption of the merger agreement, which will effect the REIT conversion, you should be aware that some of the directors and executive officers of Catellus have interests in the merger that are different from, and in addition to, the interests of other Catellus stockholders.

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The 2000 Plan Amendment allows us to implement the stock option exchange offer. See Proposal 3 Approval of the Amendment to the 2000 Performance Award Plan for information as to the stock option exchange offer with respect to our employee director and five most highly compensated executive officers, including information with respect to the benefits that will be received by them as a result of proposed adjustments to their equity compensation. The stock option exchange offer will provide holders of unvested options, including our employee director and executive officers, with the opportunity to exchange their unvested stock options for shares of restricted stock, which will enable them to receive the special E&P distribution and future distributions that they would not otherwise be entitled to receive as holders of unvested options. Our non-employee directors are not participating in the stock option exchange offer.

The board of directors has decided to grant up to 168,296 shares of restricted stock of Catellus common stock (or restricted stock units) to four executive officers to assure that they will remain with us through the REIT conversion process and during our initial period of operation as a REIT. Mr. Beaudin, Mr. Hosler, Ms. Washington and Mr. Antenucci, if they continue to be employed by Catellus, will receive up to 54,289, 40,717, 10,858 and 62,432 shares of restricted stock (or restricted stock units), respectively, which, based on the

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closing price of Catellus common stock on August 14, 2003 of \$23.09, would be valued at up to \$1,253,533, \$940,156, \$250,711 and \$1,441,555 respectively. The issuance of the shares will occur after the board of directors determines that the REIT conversion has been completed (currently anticipated to be in January 2004). The number of shares is subject to adjustment for the special E&P distribution in the event they are issued after the record date for the special E&P distribution. The shares will vest ratably over three years in order to act as a retention mechanism, with vesting accelerated if Catellus terminates their employment for any reason other than for cause or if they resign for good reason. See Proposal 2 Employment Agreements below.

Regulatory Approvals

We are not aware of any federal, state or local regulatory requirements that must be complied with or approvals that must be obtained prior to consummation of the merger pursuant to the merger agreement, other than compliance with applicable federal and state securities laws, the filing of a certificate of merger as required under the Delaware Corporate Law and various state governmental authorizations.

Absence of Dissenters' Rights

Pursuant to Section 262(b)(1) of the Delaware Corporate Law, the stockholders of Catellus will not be entitled to dissenters' rights of appraisal as a result of the merger and the REIT conversion.

Restrictions on Sales of Catellus REIT Common Stock Issued Pursuant to the Merger

All shares of Catellus REIT common stock that current Catellus stockholders will receive pursuant to the merger will be freely transferable, except for shares received by persons deemed to be affiliates of Catellus or Catellus REIT under the Securities Act of 1933, which we refer to as the Securities Act, at the time of the annual meeting. These affiliates may not sell their shares of Catellus REIT common stock received in connection with the merger unless the sale, transfer or other disposition is:

made in conformity with the requirements of Rule 145(d) under the Securities Act;

made pursuant to an effective registration statement under the Securities Act; or

otherwise exempt from registration under the Securities Act.

Persons who may be deemed affiliates for this purpose generally include individuals or entities that control, are controlled by, or are under common control with, either Catellus or Catellus REIT and may include some of each company's respective officers and directors, as well as some of each company's respective principal stockholders. The registration statement of which this proxy statement/prospectus forms a part does not cover the resale of shares of Catellus REIT common stock to be received by affiliates in the merger.

Accounting Treatment of the Merger

For accounting purposes, the merger and related transactions will be treated as a recapitalization of Catellus with Catellus as the acquirer (reverse acquisition). The accounting basis used to initially record the assets and liabilities in the Operating Partnership is the carryover basis of Catellus. Stockholder's equity of the Operating Partnership will be that carried over from Catellus, after giving effect to the earnings and profits distributions required under Internal Revenue Code section 857 and the replacement awards as described in Proposal 3 Approval of the Amendment to the 2000 Performance Award Plan. The grant of restricted stock awards to be issued in the stock option exchange offer as replacement awards for unvested employee stock options, as described in Proposal 3, will be accounted for in accordance with FASB Interpretation No. 44, or FIN 44, 11(b), paragraphs 50 and 51. FIN 44 requires that the value of the replacement awards on the measurement date will be amortized on a straight-line basis over the associated vesting period of three years. Because the number of shares issued as replacement awards will be significantly lower than the number of stock options cancelled, any further stock options issued within six months of the cancellation date will be subject to the look-back provisions of paragraph 11(a) of FIN 44. There are not expected to be any options granted six months prior to the cancellation date, and therefore the cancellation will not be subject to the look-forward provisions of the same paragraph. With respect to adjustments to the remaining outstanding options, Catellus considers the REIT conversion to be

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an equity restructuring and accordingly, Catellus expects to reduce the exercise price of the vested stock options and issue a small number of incremental options in order to offset the decline in stock price resulting from the special E&P distribution. The reduction in the exercise price is not expected to have any accounting ramifications pursuant to FIN 44, question 11.c. The pricing of the replacement stock options will be computed considering the following: (i) the aggregate intrinsic value of the award immediately after the change is not greater than the aggregate intrinsic value of the award immediately before the change, and (ii) the ratio of the exercise price per share to the market value per share is not reduced. See Proposal 3 Approval of the Amendment to the 2000 Performance Award Plan.

FORMATION OF AN UPREIT STRUCTURE

We plan to operate Catellus REIT as a traditional umbrella partnership REIT or UPREIT, which means that substantially all of Catellus REIT's assets will be held by, and operations will be conducted through, the Operating Partnership. It is customary to use a limited partnership as the operating partnership and have the limited partnership interests of the operating partnership be represented by units, with each unit having the economic equivalent of one share of the REIT's common stock. In order to utilize this structure without any future need to transfer or restructure the assets and business activities of Catellus, Catellus REIT recently formed a wholly owned subsidiary, Catellus REIT, LLC, as a single member Delaware limited liability company, and Catellus REIT and Catellus REIT, LLC jointly formed the Operating Partnership as a Delaware limited partnership. Catellus REIT is the sole general partner of the Operating Partnership and Catellus REIT, LLC is the sole limited partner of the Operating Partnership. The formation of the Operating Partnership will enable Catellus REIT to operate together with the Operating Partnership in an UPREIT structure. An UPREIT structure may enable us to acquire additional properties on favorable terms. Specifically, under certain circumstances, limited partnership units of the Operating Partnership could be issued to acquire properties in transactions while deferring inherent tax gain for the sellers. Accordingly, the UPREIT structure may enable Catellus REIT to acquire properties in the future which otherwise might not be available for sale, because of the tax advantages to some sellers of receiving limited partnership units of the Operating Partnership as consideration.

OTHER RESTRUCTURING TRANSACTIONS;

FORMATION OF THE TAXABLE REIT SUBSIDIARIES

We will effect certain structural changes prior to, or substantially concurrent with, the proposed merger. These restructuring transactions are designed to ensure, following consummation of the merger, Catellus REIT's eligibility to elect REIT status and to improve Catellus REIT's tax efficiency. We have commenced the pre-merger restructuring transactions, and will continue to pursue these transactions unless the merger agreement, which will effect the REIT conversion, is not approved by the stockholders at the annual meeting.

The Internal Revenue Code imposes certain restrictions on the activities of REITs. Income derived from Catellus' existing development for sale activities would be subject to a 100% confiscatory tax, if such activities were conducted by a REIT. Additionally, the tax rules limit a REIT's ability to conduct third-party development for fee activities. However, a recently enacted tax law change permits a taxable REIT subsidiary owned by a REIT to conduct such restricted activities without incurring the 100% confiscatory tax or causing the REIT to lose its qualification as a REIT. However, income and gains of a taxable REIT subsidiary are subject to full corporate-level taxes. We currently intend to continue to conduct development for sale and third-party development activities although we will de-emphasize these activities and sharpen our focus on industrial property management and development to hold for our own account. As a result, some of our subsidiaries will elect to be treated as a taxable REIT subsidiary following the REIT conversion. Additionally, we will transfer and consolidate some of our assets related to development for sale and/or third-party development activities into newly formed subsidiaries that will also elect to be treated as a taxable REIT subsidiary following the REIT conversion. Although income and gains of a taxable REIT subsidiary will be taxed at the corporate level, the use of a taxable REIT subsidiary enables Catellus REIT to continue to hold interests in development for sale and third-party development activities without being subject to the 100% confiscatory tax or losing its REIT status. Dividends of ordinary income paid by us, to the extent attributable to dividends received from a taxable REIT subsidiary, will be eligible to be taxed at the preferential reduced rates applicable to individuals on income from corporate dividends enacted by the Jobs and Growth Tax Act.

Table of Contents**DIVIDEND AND DISTRIBUTION POLICY**

If the merger, which will effect the REIT conversion, is approved by stockholders, we expect to declare a regular quarterly dividend (whether or not the merger has occurred) for the third quarter of 2003, payable to holders of Catellus common stock or Catellus REIT common stock, as applicable, in an amount equal to \$0.30 per existing share of Catellus common stock. The first payment is currently expected to be paid in October 2003 for the dividends declared for the third quarter. Dividends declared and paid prior to January 1, 2004 will be taxable to eligible individuals at a reduced rate of 15% as a result of the recently enacted Jobs and Growth Tax Act. The actual amount of the dividends, however, will be as determined and declared by the board of directors and will depend on our financial condition, earnings, and other factors, many of which are beyond the control of Catellus REIT. In order to maintain its qualification as a REIT under the Internal Revenue Code, Catellus REIT is required to distribute (within a certain period after the end of each year) at least 90% of its REIT taxable income for such year (determined without regard to the dividends paid deduction and by excluding net capital gain). However, Catellus REIT currently expects to distribute at least 100% of its REIT taxable income each year. Catellus REIT anticipates that distributions will be paid during January, April, July and October of each year for the preceding quarter. Catellus REIT anticipates that distributions generally will be paid from cash available for distribution (generally equal to cash from operations less capital expenditures and principal amortization on indebtedness); however, to the extent that cash available for distribution is insufficient to make such distributions, Catellus REIT intends to borrow funds in order to make distributions consistent with this policy.

THE SPECIAL E&P DISTRIBUTION

Catellus has operated as a taxable C corporation for federal tax purposes since its incorporation. As a C corporation, Catellus generates taxable income. To the extent Catellus taxable income (with certain adjustments) in any given year is not distributed to Catellus stockholders or otherwise reduced by losses, it becomes accumulated earnings and profits. After the merger, Catellus REIT will succeed to Catellus current and accumulated earnings and profits. Because a REIT is not permitted to retain earnings and profits accumulated during the years when the company or its predecessor was taxed as a C corporation, we will pay a one-time special dividend, the special E&P distribution, in order to distribute all of the C corporation earnings and profits of Catellus.

We estimate that the aggregate value of the special E&P distribution will be \$300 million, consisting of approximately \$200 million in Catellus REIT common stock, and \$100 million in cash. Based on the number of shares of Catellus common stock outstanding on June 30, 2003 and including the maximum number of shares of restricted stock or restricted stock units that may be issued in the stock option exchange offer, the special E&P distribution would be \$1.11 in cash and \$2.22 in Catellus REIT common stock per share. If the holders of vested options to purchase Catellus common stock were to exercise all vested options, these per share amounts would be reduced to \$1.07 in cash and \$2.14 in Catellus REIT common stock per share. This estimated amount is dependent, in part, upon the results of Catellus operations in 2003, and may be adjusted by any amount that the board of directors may determine is appropriate to protect Catellus ability to qualify as a REIT. See Risk Factors Risks and Effects of the Merger and the REIT Conversion.

The special E&P distribution will be payable to stockholders, at each stockholder's election, in the form of cash, shares of Catellus REIT common stock, or a combination of both. We currently contemplate that the special E&P distribution will be declared in the fourth quarter of 2003 and paid in December 2003 or January or February 2004. The actual timing of the payment of the special E&P distribution will be determined by the board of directors. However, we anticipate paying the special E&P distribution in January or February 2004 only if we conclude (as a result of the recently enacted Jobs and Growth Tax Act) that the special E&P distribution will be taxable to eligible individuals at the reduced rate of 15% if paid in January or February 2004, as would be the case if we paid the special E&P distribution in 2003. We expect to provide stockholders of record on the record

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date for the special E&P distribution approximately 20 days to decide whether to elect cash, shares of Catellus REIT common stock, or a combination of both, in payment of such special dividend.

We have filed a request for a private letter ruling with the Internal Revenue Service seeking guidance as to whether the amount of cash consideration used to pay the special E&P distribution can be limited for the purpose of distributing out accumulated earnings and profits to qualify Catellus REIT as a REIT. The receipt of a favorable ruling from the Internal Revenue Service cannot be assured. If we receive a favorable response to this ruling request, we will limit the maximum amount of cash distributed in connection with the special E&P distribution to \$100 million. In that case, if the total amount of cash elected by our stockholders exceeds the maximum cash available in the special E&P distribution, then the available cash will be prorated among our stockholders making cash elections. We presently do not expect to limit the total amount of cash available for distribution if we do not receive a favorable response to the ruling request, and in that case, the amount of cash distributed in connection with the special dividend will depend solely upon the number of stockholders who elect to receive cash.

We expect that the election will be available on a per-share basis and that, once made, stockholders' elections will be irrevocable. Stockholders entitled to the special E&P distribution who fail to make a timely election will receive shares of Catellus REIT common stock in payment of the special E&P distribution, subject to the ownership limit under Catellus REIT's restated certificate of incorporation. In any event, cash will be paid in lieu of fractional shares, and the special E&P distribution will be paid in December 2003 or January or February 2004. To the extent that the special E&P distribution and the regular quarterly dividends are not sufficient to eliminate the estimated accumulated earnings and profits of Catellus and Catellus REIT, Catellus REIT will make one or more additional taxable distributions to its stockholders (in the form of cash or securities) prior to the last day of Catellus REIT's first full taxable year as a REIT (currently expected to be December 31, 2004) in an amount intended to be sufficient to eliminate such earnings and profits.

The amount of the special E&P distribution is calculated on a tax basis and will not bear a correlation to book basis retained earnings (the accumulated earnings shown in our March 31, 2003 balance sheet) because of significant differences that exist between tax and book income. For example, certain sales of real estate properties for GAAP purposes may not constitute taxable income for tax purposes due to provisions in the tax code that allow for the income on such sales to be deferred. In such cases, both income and a deferred tax liability are realized for GAAP purposes, but no taxable income was generated for tax purposes, and hence no earnings and profits for purposes of the special E&P distribution were created. The REIT conversion would create a one-time reversal of net deferred tax liabilities for assets no longer subject to income taxes at the REIT level. The amount is currently estimated to be \$234 million as of January 1, 2004, the projected date of actual REIT election, but will vary depending on the actual assets within the taxable REIT subsidiary at year end. This reversal has no effect on the calculation of the special E&P distribution, as this is a book entry and the special E&P distribution is calculated based on a tax basis.

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OPINION OF FINANCIAL ADVISOR

Opinion of Morgan Stanley

Catellus retained Morgan Stanley to provide financial advisory services and a financial fairness opinion in connection with the merger and REIT conversion. The board of directors selected Morgan Stanley to act as Catellus' financial advisor based on Morgan Stanley's qualifications, expertise, reputation and its knowledge of the business and affairs of Catellus. At the meeting of the board of directors on February 28, 2003, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that as of February 28, 2003, and subject to and based on the considerations in its opinion, the REIT Conversion (as defined in Morgan Stanley's opinion, which takes into consideration, based on the information provided to Morgan Stanley as of February 28, 2003, the 2000 Plan Amendment and the equity compensation adjustments to be made in connection with that amendment (including the stock option exchange offer), but not the retention bonuses), if consummated, in the aggregate, is fair from a financial point of view to holders of Catellus common stock.

The full text of Morgan Stanley's opinion, dated as of February 28, 2003, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Morgan Stanley, is attached as Annex D to this proxy statement/prospectus. We urge you to read this opinion carefully and in its entirety. Morgan Stanley's opinion is directed to the board of directors of Catellus, addresses only the fairness from a financial point of view of the REIT Conversion, if consummated, in the aggregate, and does not address any other aspect of the REIT Conversion nor does it constitute a recommendation to any person as to how to vote with respect to the merger which will effect the REIT Conversion at the annual meeting. This summary should be read together with the full text of the opinion.

In connection with rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other business and financial information of Catellus and certain of its subsidiaries;

reviewed certain internal financial statements and other financial and operating data concerning Catellus prepared by the management of Catellus;

analyzed certain internal financial forecasts prepared by the management of Catellus;

reviewed information relating to certain strategic financial and operational benefits anticipated from the REIT Conversion;

discussed the past and current operations and financial condition and the prospects of Catellus and certain of its subsidiaries, including information relating to certain strategic, financial and operational benefits anticipated from the REIT Conversion, with senior executives of Catellus;

reviewed the pro forma impact of the REIT Conversion on Catellus' earnings, cash flow, consolidated capitalization and financial ratios;

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reviewed the reported prices and trading activity for Catellus common stock;

discussed with management of Catellus the rationale for and anticipated benefits of implementing the REIT Conversion;

compared the financial performance of Catellus and the historical market prices and trading activity of Catellus common stock with that of certain other publicly-traded companies that Morgan Stanley deemed relevant or comparable with Catellus, both currently and pro forma (after giving effect to the REIT Conversion), and their securities;

reviewed and discussed with management of Catellus the proposed earnings and profits distribution and the proposed dividend policy of Catellus;

participated in discussions among representatives of Catellus and its financial, tax and legal advisors;

reviewed information provided by Catellus concerning certain tax attributes and tax matters relating to the REIT Conversion;

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discussed with management of Catellus the proposed division of the assets of Catellus between the REIT and those of its subsidiaries that Catellus plans to elect to be taxable REIT subsidiaries;

reviewed the board of directors presentation dated December 10, 2002, the draft board of directors resolution for REIT Conversion dated February 18, 2003, the draft investor presentation dated February 25, 2003, the draft proxy statement dated December 20, 2002, and certain related documents;

reviewed such other corporate, industry and financial market information as Morgan Stanley deemed appropriate; and

considered such other factors and performed such other analyses as Morgan Stanley deemed appropriate.

Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information supplied or otherwise made available to Morgan Stanley by Catellus for the purposes of its financial fairness opinion. With respect to the internal financial forecasts, including information relating to certain strategic, financial and operational benefits anticipated from the REIT Conversion, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of Catellus. In addition, Morgan Stanley assumed that the REIT Conversion will be implemented as contemplated and described to it by the management of Catellus, and in the board of directors presentation reviewed by Morgan Stanley dated December 10, 2002, and as further disclosed in this proxy statement/prospectus, a draft of which was reviewed by Morgan Stanley dated December 20, 2002, and Catellus' investor presentation, a draft of which was reviewed by Morgan Stanley dated February 25, 2003, under the circumstances and with the effects described to Morgan Stanley, and that all conditions precedent would be satisfied or waived. Morgan Stanley assumed that the REIT Conversion will take place in a manner that will permit Catellus to qualify as a REIT in accordance with Sections 856 through 859 of the Internal Revenue Code of 1986, as amended (the REIT Rules) and that Catellus, after the REIT Conversion, will operate in accordance with the REIT Rules. Morgan Stanley also assumed that all material federal, state, local and other approvals and consents required in connection with the REIT Conversion will be obtained and that in connection with obtaining any necessary federal, state, local and other approvals and consents, or any amendments, modifications or waivers to any agreements, instruments or orders to which Catellus is a party or is subject or by which it is bound, no limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would have a material adverse effect on Catellus. Furthermore, Morgan Stanley is not an expert in accounting, legal or tax matters and made no representations nor did it opine upon the advice to be rendered by Catellus' accountants, legal counsel or tax advisors with respect to the REIT Conversion.

Morgan Stanley was not furnished with any third-party independent valuations or appraisals of the assets or liabilities of Catellus. The opinion of Morgan Stanley is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Morgan Stanley as of, February 28, 2003. Morgan Stanley also assumed that upon consummation of the REIT Conversion, Catellus will qualify for treatment as a REIT under the REIT Rules no later than the full year beginning January 1, 2004.

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with its oral opinion and the preparation of its written opinion. These summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

Morgan Stanley employed a variety of approaches to estimate the value of Catellus under its current corporate structure, and pro forma for the proposed REIT Conversion. Additionally, Morgan Stanley estimated the incremental tax savings that would result from the proposed REIT structure.

Table of Contents**Current Corporate Structure Valuations**

Historical Share Price Performance. Morgan Stanley reviewed the historical trading prices for the common stock of Catellus, including the twelve months ended February 26, 2003 and the period from October 1, 2002 (the first date of the month in which equity research analysts published reports discussing Catellus possible conversion to REIT status) through February 26, 2003. The table below presents share prices during these periods.

<u>Metric</u>	<u>Period or Date</u>	<u>Catellus Share Price</u>
Price on October 1, 2002	10/1/2002	\$ 18.58
Price on February 26, 2003	2/26/2003	19.80
Last Twelve Month High	2/27/2002- 2/26/2003	21.35
Last Twelve Month Low	2/27/2002- 2/26/2003	16.35

Wall Street Analyst Price Targets and Net Asset Valuations. Morgan Stanley reviewed the most recently published estimates by Wall Street equity research analysts. Price targets in these equity research analyst reports ranged from \$19.50 to \$24.00 per share. Net asset value estimates from these equity research analyst reports ranged from \$19.45 to \$22.26. The following table summarizes the estimates of net asset value and target prices for Catellus common stock from each of those reports, where available:

<u>Firm</u>	<u>Date of Report</u>	<u>NAV Estimate</u>	<u>Price Target</u>
Lehman Brothers	1/16/2003	\$ 20.00	\$ 20.00
Salomon Smith Barney	1/8/2003	NA	22.00
RBC Capital Markets	11/6/2002	20.53	21.00
Morgan Stanley	11/1/2002	NA	23.50
Merrill Lynch	10/31/2002	22.26	21.50
Wachovia Securities	10/31/2002	NA	24.00
Green Street Advisors	10/3/2002	19.45	19.50
Mean		20.56	21.64
Median		20.27	21.50

Net Asset Valuation Analysis. Using Catellus management's projections of net operating income on a property by property basis for the year 2002 and asset and liability balances as of December 31, 2002, Morgan Stanley calculated the net asset value per share for Catellus under its current corporate structure. Morgan Stanley applied a range of capitalization rates of 7.75% to 9.50% to estimated 2003 net operating income for the income-producing properties, which assumed 2% growth from Catellus management's 2002 projections. The analysis assumed no additional net operating income from future acquisitions. Additionally, Morgan Stanley valued Catellus Construction in Progress at 100.0% of its December 31, 2002 book values. Catellus operating joint ventures were valued either by applying capitalization rates of 8.00% to 9.00% or EBITDA multiples of 7.5x to 8.5x to projected 2003 net operating income and EBITDA, respectively. Other miscellaneous assets were generally valued using discounted cash flow analyses based on discount rates of 13.0% to 15.0% for the Gap building at Mission Bay, 8.0% to 9.0% for ground leases, and 9.0% to 10.0% for the Cisco Systems purchase option at Pacific Commons as well as for interim income at Los Angeles Union Station and Mission Bay. Morgan Stanley calculated the value for the land portfolio by deriving asset by asset cash flows assuming absorption rates, costs to complete, and sales proceeds over time and then using the discounted cash flow method by applying discount rates of 18.0% to 25.0% for Pacific Commons and of 15.0% to 25.0% for other commercial and residential land (including Mission Bay, Los Angeles

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Union Station, and Santa Fe Depot). The ANT assets, which include various easements and land parcels, were valued based upon Catellus management estimates.

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Other miscellaneous land parcels were valued at 100% of book value. The total resulting real estate value ranged from \$3.2 to \$3.7 billion.

Catellus' cash balance as of December 31, 2002 was added to the gross real estate value along with an adjustment for net other liabilities. The resulting gross asset value of \$3.6 to \$4.0 billion was reduced by outstanding debt as of December 31, 2002 and a present value estimate of Catellus' deferred tax liability to arrive at an equity net asset value. The equity net asset value per share was calculated by dividing the equity net asset value by the number of shares of Catellus common stock on a fully diluted basis. This analysis indicated a net asset value range of between \$21.65 and \$26.24 per existing share of Catellus common stock.

Valuation Pro Forma for REIT Conversion

Net Asset Valuation Analysis. After giving effect to the proposed REIT Conversion, Morgan Stanley increased the net asset valuation estimated under the current corporate structure by the estimated reduction to the present value of Catellus' deferred tax liability as a result of the proposed REIT structure. Additionally, the diluted share count was reduced to account for the exchange of approximately 3.6 million unvested options for approximately 1.6 million unvested, restricted shares at the completion of the proposed REIT Conversion (such adjustment being the Share Adjustment and the new diluted share count the Adjusted Shares). This analysis indicated positive adjustments to the net asset value per share of between \$1.08 and \$1.10, for a total range of between \$22.75 and \$27.32 per share.

Dividend Discount Model. Morgan Stanley performed a discounted cash flow analysis, calculated as of December 31, 2003, of the cash flows to equity holders of Catellus for the period from 2004 to 2008 after giving effect to the proposed REIT Conversion. Funds from operations and dividends per pro forma share (pro forma for the special E&P distribution) for 2004 to 2006 were based upon estimates provided by Catellus management from preliminary projections developed to help determine dividend policies after the REIT Conversion. 2007 and 2008 funds from operations and dividends per pro forma share were arrived at by applying growth rates of 9.4% and 4.0%, respectively. Morgan Stanley employed terminal forward 12-month funds from operations multiples to projected 2008 funds from operations per share ranging from 9.0x to 11.0x. To the terminal multiple of funds from operations, Morgan Stanley added an estimate of the value of the remaining land assets as of December 31, 2008 of \$3.03 per pro forma share based upon 90% of then net book value. The annual equity cash flows per pro forma share were then converted into cash flows per existing share reduced by the Share Adjustment. Morgan Stanley then employed discount rates reflecting an equity cost of capital ranging from 13.0% to 15.0% to determine a present value per share. Finally, the value of the proposed 2003 dividend distributions and the cash earnings and profits distribution were added to obtain an equity valuation per share. Based upon the projections of cash flows to equity for the years 2004 through 2008, the range of present values per share of Catellus common stock was as follows:

Discount Rates	Terminal Forward 12-Month Funds From Operations Multiples				
	9.0x	9.5x	10.0x	10.5x	11.0x
13.0%	\$ 19.84	\$ 20.48	\$ 21.12	\$ 21.76	\$ 22.40
13.5%	19.50	20.12	20.75	21.38	22.01
14.0%	19.16	19.78	20.39	21.01	21.62
14.5%	18.84	19.44	20.04	20.64	21.24
15.0%	18.53	19.11	19.70	20.29	20.88

Sum-of-the-Parts Valuation. Morgan Stanley also employed a sum-of-the-parts valuation analysis to determine the value per share of Catellus common stock. Morgan Stanley valued the non-land assets and the land holdings separately and then made adjustments for the earnings and profits distribution and proposed cash dividend distributions in 2003. To value the non-land assets, Morgan Stanley determined, based upon

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estimates provided by Catellus management, the estimated 2004 funds from operations for the non-land assets, to be \$1.34

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per pro forma share. Morgan Stanley arrived at a range of comparable company multiples from the following companies, whose property portfolios share similar characteristics with Catellus' non-land assets. These companies included:

AMB Property Corporation;

CenterPoint Properties Trust;

Duke Realty Corporation;

First Industrial Realty Trust, Inc.; and

ProLogis Trust.

Morgan Stanley arrived at its range of comparable company multiples by dividing the share prices (using closing share prices as of February 26, 2003) by consensus forward twelve months funds from operations per share estimates from First Call. Morgan Stanley's calculations resulted in a selected range of price/forward twelve months funds from operations multiples from 9.0x to 11.0x with a midpoint of 10.0x. These multiples were applied to Catellus management projections to determine an implied trading value of the non-land assets per pro forma share of Catellus common stock. To determine an implied trading value for Catellus pro forma for the REIT Conversion, Morgan Stanley added to the range of implied pro forma trading values for the non-land assets the estimated land asset value as of December 31, 2003. The estimate of land asset value as of December 31, 2003, based on 90% of estimated December 31, 2003 book value, was determined to be \$427.4 million, or \$4.23 per pro forma share. Morgan Stanley thereby determined an implied trading value per pro forma share of Catellus common stock of \$16.27 to \$18.95. To determine an implied trading value per existing share of Catellus common stock reduced by the Share Adjustment, Morgan Stanley estimated, based upon the proposed \$200 million stock distribution of accumulated earnings and profits and an assumed trading price of \$19.84 per existing share, that 11.3 million new shares would be issued implying 1.127 pro forma shares per Adjusted Share of Catellus common stock. Morgan Stanley thereby determined an implied trading value per share of Catellus common stock of \$18.33 to \$21.35. To arrive at a total value per share of Catellus common stock, before the planned earnings and profits and other distributions, Morgan Stanley added the value of the proposed cash earnings and profits distribution and 2003 dividend distributions. The results of each of the steps described above are summarized in the following table:

	<u>Low Case</u>	<u>Middle Case</u>	<u>High Case</u>
Estimated 2004 Funds from Operations for Non-Land Assets per Pro Forma Share	\$1.34	\$1.34	\$1.34
Multiple to Forward Twelve Months Funds from Operations	9.0x	10.0x	11.0x
Implied Trading Value of Non-Land Assets per Pro Forma Share as of 1/1/04	\$12.05	\$13.39	\$14.72
Estimated Land Asset Value as of 12/31/03 (90% of Book Value)	\$4.23	\$4.23	\$4.23
Implied Trading Value of Catellus Common Stock per Pro Forma Share as of 1/1/04	\$16.27	\$17.61	\$18.95
Ratio of Pro Forma Shares to Adjusted Shares	1.127x	1.127x	1.127x
Implied Trading Value of Catellus Common Stock per Adjusted Share as of 1/1/04	\$18.33	\$19.84	\$21.35
Estimated Earnings and Profits Cash Distribution per Adjusted Share	\$1.14	\$1.14	\$1.14
Estimated 2003 Dividend Distributions per Adjusted Share	\$0.57	\$0.57	\$0.57

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Total Value of Catellus Common Stock per Adjusted Share, Before Planned Distributions	\$20.04	\$21.55	\$23.06
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Premiums Observed in Precedent REIT Conversions Analysis. Morgan Stanley used publicly available information from several precedent transactions and analyzed the trading impacts (relative to a related market index) observed at both the announcement and conclusion of these transactions.

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Morgan Stanley selected the following REIT Conversion transactions:

Capital Trust, Inc.;

Getty Realty Corp.;

Host Marriott Corporation;

Rouse Company;

Station Casinos, Inc.;

Lexford Residential Trust; and

Vornado Realty Trust.

The table below provides, for the precedent transactions, the selected high and low premiums to the current price (closing stock price immediately before the announcement of the transaction) relative to the selected market index both on the announcement date and through the date of REIT Conversion:

	Relative Return	
	Announcement Date	Through Conversion
Low	5.2%	17.6%
High	11.5%	26.2%

Based upon Catellus common stock closing price on February 26, 2003 of \$19.80 per share and a three-month volume-weighted average trading price of \$19.21, these premiums implied a valuation range as follows:

Implied Share Price Based Upon Relative Return Precedents	
Based on Current Price	Based on 3-month Average Price

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	<u>Announcement Date</u>	<u>Through Conversion</u>	<u>Announcement Date</u>	<u>Through Conversion</u>
Low	\$ 20.83	\$ 23.28	\$ 20.21	\$ 22.60
High	\$ 22.08	\$ 24.99	\$ 21.42	\$ 24.25

Table of Contents**Incremental Valuation of Income Tax Savings**

Based on estimates of pre-tax earnings from 2004 to 2008 both under the existing corporate structure as well as under the proposed REIT structure (including estimates for the taxable REIT subsidiaries), Morgan Stanley estimated the cash corporate income taxes that would be due over the same period under both corporate structures. The estimates were based on preliminary projections of pre-tax earnings for 2004 to 2006 provided by Catellus management that were developed to help determine dividend policies after the REIT Conversion. Morgan Stanley estimated the pre-tax earnings for 2007 and 2008 would grow 5% annually. A corporate income tax rate of 40% was assumed. A terminal value of taxes payable after 2008 was determined by assuming that future taxes would grow at 3% annually. Additionally, based upon the assumption of a 100% payout ratio of after-tax earnings under both the existing and REIT corporate structures, Morgan Stanley estimated the annual income taxes that would be due at the investor level assuming a blended average investor income tax rate. After applying a range of discount rates (between 13% and 17%) to both the estimated corporate and investor-level taxes and a range of blended average investor income tax rates (between 0% and 40%), the net sum of the present value of both corporate and total (corporate and investor-level) income taxes was determined. The positive difference in the net results under the proposed REIT structure versus the current corporate structure were quantified as follows:

Corporate Income Tax Savings Per Adjusted Share

	Discount Rate				
	13.0%	14.0%	15.0%	16.0%	17.0%
	\$ 3.62	\$ 3.30	\$ 3.02	\$ 2.79	\$ 2.60

Total Income Tax Savings Per Adjusted Share

Investor Tax Rate	Discount Rate				
	13.0%	14.0%	15.0%	16.0%	17.0%
0.0%	\$ 3.62	\$ 3.30	\$ 3.02	\$ 2.79	\$ 2.60
10.0%	3.15	2.87	2.63	2.43	2.26
20.0%	2.68	2.44	2.24	2.07	1.92
30.0%	2.20	2.00	1.84	1.70	1.58
40.0%	1.73	1.57	1.45	1.34	1.25

In connection with the review of the proposed REIT Conversion by Catellus' board of directors, Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting portions of these analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuations resulting from any particular analysis described above should therefore not be taken to be Morgan Stanley's view of the actual value of Catellus. For example, Morgan Stanley did not separately address the fairness of each transaction that comprise the REIT Conversion, such as the fairness of the retention bonuses or the fairness of the 2000 Plan Amendment and the equity compensation adjustments to be made in connection with that amendment, but instead, based on the assumptions, procedures and limitations set forth in its opinion, considered the REIT Conversion as a whole in determining whether the REIT Conversion, if consummated, in the aggregate, is fair from a financial point of view.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Catellus. Any estimates contained in Morgan Stanley's analysis are not necessarily indicative of future results

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or actual values, which may be significantly more or less favorable than those suggested by these estimates. The analyses performed were prepared solely as a part of Morgan Stanley's analysis of the fairness from a financial point of view of the REIT Conversion, if consummated, in the aggregate, and were conducted in connection with the delivery by Morgan Stanley of its opinion dated February 28, 2003 to the board of directors of Catellus. Morgan Stanley's analyses do not purport to be appraisals or to reflect the prices at which shares of common stock of Catellus might actually trade following the consummation of the merger and REIT Conversion, and Morgan Stanley expresses no opinion or recommendation as to how the stockholders of Catellus should vote at the stockholders' meetings held in connection with the merger and REIT Conversion.

Morgan Stanley's opinion was one of the many factors taken into consideration by the Catellus board of directors in making its determination to approve the REIT Conversion. Morgan Stanley's analyses summarized above should not be viewed as determinative of the opinion of the Catellus board of directors with respect to the value of Catellus. Furthermore, Morgan Stanley's opinion does not address the relative merits of the underlying decision by Catellus to implement the REIT Conversion compared to other business strategies being considered by, or available to, Catellus' board of directors, nor does it address the board's decision to proceed with the adoption of the REIT Conversion.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking and financial advisory business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services to Catellus and have received customary fees for the rendering of these services. Furthermore, Morgan Stanley may in the future provide financial advisory and financing services to Catellus, for which it expects to receive customary fees for the rendering of these services. In the ordinary course of business, Morgan Stanley may from time to time trade in the securities of or indebtedness of Catellus for its own account, the accounts of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and, accordingly, may at any time hold a long or short position in these securities or indebtedness.

Pursuant to an engagement letter dated August 26, 2002, as modified on February 19, 2003, Catellus has agreed to pay Morgan Stanley a \$500,000 opinion fee that was paid February 28, 2003, and a \$2.4 million transaction fee, contingent upon Catellus' election to be taxed as a REIT, \$900,000 of which was paid upon the announcement of the REIT Conversion with the remaining portion payable in installments through November 2003. Catellus has also agreed to reimburse Morgan Stanley for its expenses incurred in performing its services and to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under federal securities laws, related to or arising out of Morgan Stanley's engagement and any related transactions.

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BUSINESS AND PROPERTIES

General

Catellus REIT, a wholly owned subsidiary of Catellus, was organized in Delaware on March 28, 2003 to succeed to and continue the business of Catellus upon consummation of the REIT conversion and merger of Catellus with and into the Operating Partnership. After the merger and the completion of the other restructuring transactions comprising the REIT conversion, Catellus REIT will operate as an UPREIT with wholly owned taxable REIT subsidiaries that will continue the development, ownership, and management of predominantly industrial real estate currently conducted by Catellus. Our rental properties provide us with a relatively consistent source of earnings. Our development activities provide cash flow through the sales of land or the conversion of our developable land to property that is either added to our rental portfolio or sold to tenants, developers, investors, or others. We invest in new land to ensure our potential for growth.

Catellus was formed to conduct the non-railroad real estate activities of the Santa Fe Pacific Corporation and was spun off to stockholders effective in 1990. Our railroad heritage has given us a diverse base of developable properties located near transportation corridors in major western United States markets. This land has proven suitable for the development of a variety of product types, including industrial, retail, office, and residential. Over time, we have expanded our business by acquiring land suitable for primarily industrial development in many of the same suburban locations where we have an established presence.

We currently have four primary groups:

Asset Management, which provides management and leasing services for our rental portfolio;

Suburban Commercial, which acquires and develops suburban commercial business parks for our own rental portfolio and sells land and/or buildings;

Suburban Residential, which develops suburban residential communities and sells lots to homebuilders; and

Urban, which focuses on developing three large urban mixed-use projects for our own rental portfolio or for sale to third parties.

Our objective is to enhance stockholder value by implementing a focused business strategy that will provide stable cash flow and growth opportunities by:

increasing our focus on lower-risk, higher-return industrial property development and management;

emphasizing the strength and stability of cash flows generated from our newly developed industrial rental portfolio with the long term goal of increasing the percentage of revenues from industrial rents and de-emphasizing development sales and non-industrial rentals;

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acquiring and developing industrial properties by utilizing our proven development skills;

reinvesting capital from our existing urban and residential properties into the industrial business, in part by accelerating suburban residential sales in our Suburban Residential Development group to take advantage of current market conditions in the residential real estate market; and

leveraging our skills in land development outside the industrial business by seeking opportunistic land development.

Our industrial rental portfolio is geographically diverse and located in major transportation corridors and distribution centers such as Southern California, Chicago and Dallas. Over 60% of the portfolio has been built since 1995. The properties are leased to diverse, high quality tenants through long-term leases with staggered expirations. Approximately 88% of the portfolio is classified as bulk warehouse.

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In anticipation of the REIT conversion, we will take steps during 2003 to better position our businesses for operation as a REIT. This will include looking for ways to operate more efficiently, consistent with a focus of new development on industrial product. We plan to continue our Urban Group mixed-use projects that are underway, but do not plan to seek new ones. Since the Urban Group will no longer be pursuing new activities, and given the considerable progress made on existing projects, it is also anticipated that the scope of activities will be reduced, resulting in a reduction in work force over 2003 and 2004. It is anticipated that Doug Gardner, President, and Mark Schuh, Executive Vice President, both of the Urban Group, will continue to lead their group during the transition for the balance of 2003, after which they will leave Catellus. The Urban Group currently reports to the Chief Executive Officer of Catellus and this reporting relationship will continue.

The Urban Group projects will be operated in a taxable REIT subsidiary and we expect to recycle surplus capital from the Urban Group projects through continuing development with greater emphasis on third party parcel sales, land leases, and joint ventures. During 2003, the Suburban Residential Group projects will be positioned for sale and any remaining assets will be operated in a taxable REIT subsidiary.

Unless the context otherwise suggests, the following discussion assumes the merger and the restructuring transactions comprising the REIT conversion have occurred.

Property Portfolio**Rental Portfolio**

Our income-producing portfolio is comprised of commercial rental property, ground leases and other properties, and interests in several joint ventures. As of December 31, 2002, we owned 37 million square feet of commercial rental property of which 89.1% was industrial, 8.6% was office, and 2.3% was retail. Since the end of 1995, our portfolio has expanded by more than 22.9 million square feet (163%), primarily through our development activities. As of December 31, 2002, approximately 35% of the rental property, by square footage, was located in Southern California, 19% in Northern California, 18% in Illinois, 11% in Texas, 7% in Colorado, 3% in Arizona, and 3% in Ohio, with the remaining 4% located in five other states. As of December 31, 2002, we also owned approximately 8,000 acres of land subject to ground leases, approximately 755,000 square feet of other rent generating properties that are located at our urban development projects, the majority of which is projected to be converted to future redevelopment opportunities, and joint ventures interests in two hotels and two office buildings.

The following table provides information on our income-producing portfolio:

	Number of			Square Feet Owned			Net Book Value		
	Buildings								
	December 31,			December 31,			December 31,		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(In thousands)						(In thousands)		
Rental Portfolio									
Industrial	196	187	198	32,944	27,594	26,251	\$ 1,134,890	\$ 943,340	\$ 874,168

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Office	32	27	24	3,164	2,442	1,625	409,339	297,707	205,179
Retail	22	19	21	868	864	880	100,882	96,263	94,085
Ground leases and other properties							139,886	138,708	79,950
Operating joint ventures ventures							(10,920)	(13,026)	(16,092)
Subtotal	<u>250</u>	<u>233</u>	<u>243</u>	<u>36,976</u>	<u>30,900</u>	<u>28,756</u>	<u>1,774,077</u>	<u>1,462,992</u>	<u>1,237,290</u>
Accumulated depreciation							(366,772)	(325,130)	(287,039)
Total							<u>\$ 1,407,305</u>	<u>\$ 1,137,862</u>	<u>\$ 950,251</u>

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We have developable land capable of supporting up to an estimated 38.1 million square feet of commercial development and approximately 9,300 units of residential development as of December 31, 2002. Substantially all of our commercial and residential developable land is entitled. Approximately 67% of the total commercial development potential by square footage is located in California: San Francisco, Silicon Valley, San Francisco's East Bay area, Los Angeles County, Orange County, the Inland Empire (San Bernardino and Riverside counties), and the City of San Diego; approximately 14% in Texas; approximately 11% in Illinois; with the remaining 8% located in four other states. In terms of residential lots, approximately 59% of the residential land for potential development is located in Northern California, 18% is in Southern California, and 23% is in Colorado.

The following table summarizes the estimated development potential of our land inventory as of December 31, 2002:

	<u>Commercial</u>	<u>Residential</u>	<u>Hotel</u>
	(Square feet)	(Lots or units)	(Rooms)
Commercial	25,907,000		
Residential		5,789	
Urban	12,226,000	3,548	500
Total	38,133,000	9,337	500
Entitled	36,806,800	9,223	500
Entitlements/approvals in progress	1,327,000	114	

The following table shows the net book value of our developable land inventory for the years presented:

	<u>Net Book Value</u>		
	<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(In thousands)		
Commercial	\$ 171,924	\$ 188,527	\$ 174,329
Residential	52,850	52,108	64,479
Residential Joint Ventures	37,919	74,721	46,245
Urban	279,495	258,504	366,136
Subtotal	542,187	573,860	651,189
Accumulated depreciation	(10,699)	(9,888)	(15,819)
Total	\$ 531,488	\$ 563,972	\$ 635,370

Asset Management Group

The Asset Management Group manages our rental portfolio of industrial, office, retail, ground lease properties, and operating joint ventures. The group provides the following services: (1) leasing and management services; (2) acquisition of properties for, and sale of certain rental properties from, our portfolio; and (3) management and disposition services for our other land holdings. The Asset Management Group provided ground lease management services for a third party before the contract expired in 2000.

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The following table summarizes our rental portfolio property operating income by property type for the years presented:

	Property Operating Income(1)		
	Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Rental Portfolio			
Industrial	\$ 125,744	\$ 111,409	\$ 98,831
Office	31,650	24,362	20,228
Retail	10,725	9,778	10,511
Ground leases	21,271	20,237	14,724
Other properties	6,488	6,432	7,196
Property-operating income	195,878	172,218	151,490
Equity in earnings of operating joint ventures	8,277	8,833	9,809
Subtotal	204,155	181,051	161,299
Less: Discontinued operations	(486)	(1,816)	(2,267)
Total property operating income	\$ 203,669	\$ 179,235	\$ 159,032

(1) Property operating income is rental revenue less property operating costs plus equity in earnings of operating joint ventures.

Building Portfolio

The following table summarizes our building portfolio, by year built, as of December 31, 2002:

	City	State	Rentable Square Feet	Year Built	Major Tenant	RSF Occupied	YR End Vacancy	Year End Occ.
Industrial Property:								
1	Minooka	IL	1,034,200	2002	Kellogg's USA, Inc.	1,034,200		100%
2	Ontario	CA	830,000	2002	Exel, Inc.	830,000		100%
3	Manteca	CA	608,860	2002	Ford Motor Company	608,860		100%
4	Ontario	CA	607,320	2002	Specialty Merchandise Corporation	607,320		100%
5	Rancho Cucamonga	CA	449,370	2002	Ford Motor Company	449,370		100%