CAPITAL TRUST INC
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:

[ ]Preliminary Proxy Statement
[ ]Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X]Definitive Proxy Statement
[ ]Definitive Additional Materials
[ ]Soliciting Material Pursuant to ss.240.14a-12

CAPITAL TRUST, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):
[X] No fee required
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1) Title of each class of securities to which transaction applies: _______
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3) Filing Party: ______
4) Date Filed: ______

CAPITAL TRUST, INC.
410 Park Avenue
14th Floor
New York, New York 10022

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To be held on April 2, 2003

To our Shareholders:

We hereby notify you that we are holding a special meeting of shareholders at the offices of Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, New York 10022, on April 2, 2003, at 10:00 a.m., New York City time, for the following purposes:

(1) To consider and vote upon a proposal to amend and restate our charter to make the amendments we determined are necessary in connection with our election to be taxed as a real estate investment trust and to simplify our capital structure by eliminating from our charter the authorized but unissued class B common stock, as described more fully in the attached proxy statement and set forth in appendix A thereto.

(2) To consider and vote upon a proposal to further amend our charter to effect a one (1) for three (3) reverse stock split and a corresponding reduction in our stated capital, as described more fully in the attached proxy statement and set forth in appendix B thereto.

(3) To consider and act upon such other business and matters or proposals as may properly come before the special meeting and any adjournment or postponement thereof.

You can vote your shares of class A common stock if our records show that you owned the shares on February 14, 2003, the record date for the shareholder meeting.

By Order of the Board of Directors

/s/ Samuel Zell

Samuel Zell
Chairman of the Board

DATE: March 3, 2003

To assure your representation at the shareholders meeting, please vote. Whether or not you plan to attend the meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. We have enclosed a return envelope for that purpose, which requires no postage if mailed in the United States. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of the proposals to amend our charter. If you fail to return your card, your vote will not be counted, unless you attend the meeting and vote

in person.

CAPITAL TRUST, INC.

PROXY STATEMENT

FOR SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON APRIL 2, 2003

INTRODUCTION

We are asking you to approve amendments to our charter that we have determined are necessary in light of our election to be taxed as a real estate investment trust, or REIT, under federal income tax law. The amendments would also, as a means of simplifying our capital structure, eliminate from our charter the authorized but unissued class B common stock and effect a one (1) for three (3) reverse stock split.

We have scheduled a special meeting of shareholders to vote on the proposals to approve the charter amendments. The date, time and place of the meeting is:

Date: April 2, 2003

Time: 10:00 a.m. New York City time

Place: The Law Offices of Paul, Hastings, Janofsky & Walker LLP 75 East 55th Street New York, New York 10022

The record date for shareholders entitled to notice of and to vote at the special meeting is February 14, 2003. If you were a shareholder at that time, you may vote at the meeting.

See Risk Factors section beginning on page 4 for certain information that should be considered by shareholders regarding our election to be taxed as a REIT and the related amendments to our charter.

Our officers and directors and shareholders indirectly controlled by trusts for the benefit of the family of Samuel Zell, chairman of our board of directors, who collectively own or control the vote over 7,694,181 shares of common stock in total, or approximately 46.6% of the 16,515,132 voting shares outstanding as of the record date, have advised us that they intend to vote all of the shares of common stock owned by them in favor of the proposals.

Our board of directors has unanimously approved the charter amendments, and believes that our REIT election, the simplification of our capital structure and the reverse stock split are in our company's best interest. Our board of directors unanimously recommends a vote in favor of approval of the proposals.

This proxy statement is dated March 3, 2003 and was first mailed to our shareholders on or about March 3, 2003.

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FORWARD-LOOKING STATEMENTS

This proxy statement contains statements that plan for or anticipate the future. Forward-looking statements include statements about our future operations as a REIT, the effects of our reverse stock split, our business plans and strategies, and most other statements that are not historical in nature. When used in this proxy statement, the words "anticipate," "plan," "intend," "believe," "estimate," and the like are generally considered forward-looking. Because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. For example, a few of the uncertainties that could affect the ultimate accuracy of the forward-looking statements, besides the specific factors identified in the Risk Factors section on page 3, include:

- changes in the real estate market;
- changes in real estate capital markets;
- changes in our business strategies;
- fluctuations in prevailing interest rates and credit spreads; and
- changes in federal tax laws.

SUMMARY

This summary highlights selected information contained in this document and may not contain all of the information that is important to you. To better understand the proposals to amend our charter, you should read carefully this

entire document. We refer in the proxy statement to our class A common stock as common stock, the only class of stock currently outstanding, which is listed and traded on the New York Stock Exchange.

The Company

We are an investment management and real estate finance company that pursues lending and investment opportunities in commercial real estate and related assets.

In December 2002, our board of directors authorized our election to be taxed as a REIT for the 2003 tax year. The decision to authorize the REIT election resulted from a review of other strategic alternatives by our board of directors. Our board determined that the REIT election was superior to the other alternatives considered.

We are not undergoing any fundamental change in our business; we are only changing how we are taxed for federal income tax purposes. We will continue to make, for our own account and as investment manager for the account of funds under management, loans and debt related investments in various types of commercial real estate and related assets, and, to the extent necessary, will modify our current investment program to originate or acquire loans and investments to produce a portfolio of such assets that meets the asset and income tests necessary to maintain our qualification as a REIT.

Our principal executive offices are located at:

Capital Trust, Inc.
410 Park Avenue, 14th Floor,
New York, New York 10022

Reasons for our REIT election

We believe our REIT election represents a strategic alternative that best positions us to increase shareholder value. The key reasons for our board's approval of our REIT election and related business plan were:

- The determination that our existing portfolios could produce an attractive dividend yield if our net income could be distributed without corporate-level income tax; and

- The belief that our investment management business was in an early phase of development and would continue to grow and become more valuable in the REIT format.

Our board also considered the following developments in our business and the regulatory environment in which REITs operate:

- With the development of our investment management business, we reduced the need to retain earnings as a primary source of capital to support our lending business;

- Recent IRS private letter rulings treat mezzanine loans as qualifying assets that result in qualifying income; and

- New REIT laws provide us with the flexibility to invest in and manage a portfolio of assets as well as to operate our investment management business in a taxable REIT subsidiary.

Our board also considered the following benefits from a capital markets and valuation perspective:

- The effective elimination of corporate-level income tax will allow us to produce consistent dividend distributions;

- The potential for stock price appreciation with an attractive dividend yield;

- The increased likelihood of attracting equity research analysis of our business as our performance can be measured against other comparable publicly-traded REITs; and

- The potential for independent valuation of our investment management business which would be operated as a separate transparent segment in a taxable REIT subsidiary.

REIT Related Charter Amendments

We propose to amend our charter to include ownership and transfer restrictions in connection with our election to be taxed as a REIT. The REIT related restrictions are intended to ensure that five or fewer individuals do not own more than 50% of the value of our outstanding stock, a requirement we must satisfy in order to maintain our qualifications as a REIT.

The restrictions would:

- prohibit ownership of our stock by certain individuals in excess of 2.5%;

- allow our board of directors to exempt certain individuals from the 2.5% ownership limit;

- void any transfer in excess of the 2.5% ownership limit; and

- require our board of directors to use reasonable best efforts to preserve our status as a REIT.

We determined that these restrictions are advisable in light of our election to be taxed as a REIT and that they are comparable to similar provisions contained in the corporate charters of other publicly traded REITs.

Capital Structure Related Charter Amendments

We also propose to amend our charter to eliminate from the charter the 100,000,000 shares of authorized but unissued shares of class B common stock as a means of simplifying our capital structure. The class B common stock, none of which is outstanding, had been originally authorized as a means of facilitating compliance with The Bank Holding Company Act of 1956, as amended, by certain prior investors who made a significant equity investment. Now that these investors no longer hold the stock issued in connection with their investment, we believe it is advisable to simplify our capital structure at the same time we are amending our charter to include the REIT related ownership and transfer restrictions.

We also propose to amend our charter to effect a one (1) for three (3) reverse stock split whereby three shares of our outstanding common stock would be automatically converted into one share of such stock and we would pay cash in lieu of fractional shares that would otherwise be issued. Our board of directors believes that the reverse stock split will enhance the marketability and liquidity of our common stock, which trades on the New York Stock Exchange.

Upon the effective date of the reverse stock split, assuming no repurchases of stock prior to such date, the number of shares of our outstanding common stock will be reduced to 5,505,044, subject in each case to further reduction upon the elimination of fractional shares, but the par value and the voting and other rights and preferences of our stock will not otherwise be altered by the reverse stock split. Our aggregate stated capital will be reduced so that it equals $0.01 per outstanding share of our common stock.

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Recommendation of our Board of Directors

Our board of directors has unanimously approved the charter amendments, and believes that the amendments made thereby relating to our REIT election, the elimination of our class B common stock and the reverse stock split are in our company's best interest. Our board of directors unanimously recommends a vote in favor of approval of the proposals to amend our charter as discussed herein.

No Appraisal Rights

Maryland corporate law does not provide for any dissenters' rights to elect to have the fair value of your shares judicially appraised and paid to you in cash in connection with the charter amendments.

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RISK FACTORS

You should read the following risk factors carefully before voting your stock. The risks and uncertainties relating to our election to be taxed as a REIT and the related amendments to our charter are not the only ones you or we will face. If the risks discussed below occur or develop to our or your detriment, they may negatively affect our business or your investment in us.

Risks of ownership of our common stock due to our REIT election

The amended and restated charter does not permit ownership of over 2.5% of our common stock by individuals, and attempts to acquire our common stock in excess of the 2.5% limit would be void without the prior approval of our board of directors.

For the purpose of preserving our REIT qualification, the amended and restated charter would prohibit direct or constructive ownership by any individual of more than 2.5% of the lesser of the total number or value of the outstanding shares of our common stock as a means of preventing ownership of more than 50% of our common stock by five or fewer individuals. The amended and restated charter's constructive ownership rules are complex and may cause the outstanding common stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual. As a result, the acquisition of less than 2.5% of our outstanding common stock by an individual or entity could cause an individual to own constructively in excess of 2.5% of our outstanding common stock, and thus be subject to the amended and restated

charter's ownership limit. The ownership limit was established following a review of the aggregate ownership of the top five direct or constructive individual shareholders. There can be no assurance that our board of directors, as permitted in the amended and restated charter, will increase this ownership limit in the future. Any attempt to own or transfer shares of our common stock in excess of the ownership limit without the consent of our board of directors shall be void, and will result in the shares being transferred by operation of law to a charitable trust, and the person who acquired such excess shares will not be entitled to any distributions thereon or to vote such excess shares.

After reviewing the top five shareholders treated as individuals for REIT qualification purposes, our board of directors fixed the ownership limit at 2.5%. The amended and restated charter contains a provision that would exempt certain of our officers and directors and related persons from the ownership limit. Based on the number of shares outstanding on the date hereof, this exemption would permit these top five shareholders collectively to hold up to 47.8% of our outstanding shares of common stock.

The 2.5% ownership limit may have the effect of precluding a change in control of Capital Trust by a third party without the consent of our board of directors, even if such change in control would be in the interest of our stockholders (and even if such change in control would not reasonably jeopardize our REIT status).

We have not established a dividend payment level and there are no assurances of our ability to pay dividends in the future.

We intend to pay quarterly dividends and to make distributions to our shareholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a dividend payment level. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may

deem relevant from time to time. There are no assurances as to our ability to pay dividends in the future. In addition, some of our distributions may include a return of capital.

Our current common stock trading price is not necessarily indicative of the price of our common stock following the REIT election.

Our current stock price is not necessarily indicative of how the market will value our common stock following our election to be taxed as a REIT. In the future, we will be required to distribute 90% of our taxable income and can be expected to be compared to other REITs and impacted by factors affecting REITs generally. Our current stock price reflects the current market valuation of our current business and assets and does not necessarily take into account the changes in our business and operations that will occur in connection with our REIT election. Our current stock price also is affected by general market conditions.

An increase in market interest rates may lead prospective purchasers of our common stock to expect a higher dividend yield, which would adversely affect the

market price of our common stock.

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

Tax legislation proposed by President Bush may have negative consequences for REITs.

Recent tax legislation proposed by President Bush would, if enacted, allow corporations to pay dividends that are tax-free to shareholders or, to the extent dividends are not paid, allow shareholders to increase the tax basis of their shares. As currently described, this proposal would not apply to REITs. Although the proposal does not adversely affect the tax treatment of REITs, it may cause investments in non-REIT corporations to become relatively more desirable. As a result, the capital markets may be less favorable to REITs when they seek to raise equity capital, and the prices at which REIT equity securities trade may decline or underperform non-REIT corporations.

We will be dependent on external sources of capital to finance our growth.

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

Shareholders are not entitled to appraisal rights in connection with the amended and restated charter and our election to be taxed as a REIT.

Shareholders do not have any statutory dissenters or appraisal rights under Maryland corporate law to elect to have the fair value of their stock judicially appraised and paid in cash in connection with the amended and restated charter or our election to be taxed as a REIT.

Risks related to REIT qualification

If we do not maintain our qualification as a REIT, we will be subject to tax as a regular corporation and face a substantial tax liability.

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

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

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

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

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

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

Complying with REIT requirements may force us to liquidate or restructure otherwise attractive investments.

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

Complying with REIT requirements may force us to borrow to make distributions to shareholders.

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

HISTORICAL AND PRO FORMA CAPITALIZATION

The following table sets forth (i) certain of our short-term obligations and our capitalization as of September 30, 2002 and (ii) such short-term obligations and capitalization giving pro forma effect to the elimination of our class B common stock and the reverse stock split.

	September 30, 2002 Historical	Pro Forma
	(thousands)	
Short-Term Debt	--	--
Total short-term debt		
Long-Term Debt		
Credit facilities	35,000	35,000
Repurchase obligations	172,757	172,757
Total long-term debt	207,757	207,757
Company-obligated, mandatorily redeemable, convertible preferred securities of CT Convertible Trust I, holding solely 8.25% junior subordinated debentures	88,869	88,869
Shareholders' Equity; Pro Forma Shareholders' Equity(1)		
Preferred stock, $0.01 par value, 100,000 shares authorized, no shares issued and outstanding	--	--
Class A common stock, $0.01 par value, 100,000 authorized, 17,912 issued and outstanding	179	--
Class B common stock, $0.01 par value, 100,000 shares authorized, no shares issued and outstanding	--	--
Restricted class A common stock, $0.01 par value, 300 shares issued and outstanding	3	--
Pro forma preferred stock, $0.01 par value; 100,000 shares authorized, no shares issued and outstanding	--	--
Pro forma class A common stock, $0.01 par value; 100,000 shares authorized, 5,971 shares issued and outstanding	--	60
Pro forma restricted class A common stock, $0.01 par value; 100 shares issued and outstanding	--	1
Additional paid-in capital	134,411	134,532
Unearned compensation	(479)	(479)
Accumulated other comprehensive income	(33,154)	(33,154)
Accumulated deficit	371	371

Total shareholders' equity and Pro forma total stockholders' equity	101,331	101,331
Total Capitalization and Pro Forma Total Capitalization (2)	397,957	397,957

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(1) The class B common stock is identical to the class A common stock, except the class B common stock does not entitle the holders to voting rights.

(2) Total Capitalization and Pro Forma Total Capitalization include long-term debt and shareholders' equity.

BUSINESS

We are an investment management and real estate finance company that pursues lending and investment opportunities in commercial real estate and related assets. In December 2002, our board of directors authorized our election to be taxed as a REIT for the 2003 tax year. We will continue to make, for our own account and as investment manager for the account of funds under management, loans and debt related investments in various types of commercial real estate and related assets.

We are the co-sponsor and exclusive investment manager of CT Mezzanine Partners II LP, or Fund II, the largest dedicated commercial real estate mezzanine investment fund in the United States with total equity commitments of $845 million. Our business strategy is to continue to expand our investment management business by sponsoring other funds, and, following the investment period for Fund II, other commercial real estate mezzanine investment funds. We believe that these funds will generate additional investment management fees and incentive compensation tied to the performance of their portfolios of investments. We continue to manage our existing portfolio of balance sheet assets originated prior to the commencement of our investment management business and are positioned to selectively add to our balance sheet investments by investing in a diverse array of real estate and investment management/finance-related assets and enterprises, including operating companies.

Our company was created to take advantage of opportunities resulting from the rapid evolution of the real estate capital markets. Since our inception in 1997, we have designed and developed a platform to provide flexible, value-added financing for large single and multiple portfolios and real estate operating companies. Our current investment program emphases senior and junior mortgage loans, mezzanine loans secured by pledges in equity interests in the property owners, subordinated tranches of commercial mortgage backed securities, commonly referred to as CMBS, and preferred and other direct equity investments. In general, our investments are subordinate to other third-party senior financing, but senior to the owner/operator equity in the property.

In view of our election to be taxed as a REIT, we will tailor our balance

sheet investment program to originate or acquire loans and investments to produce a portfolio that meets the asset and income tests necessary to maintain our qualification as a REIT. In order to accommodate our REIT status, the legal structure of future investment funds we sponsor may be different from the legal structure of our existing investment funds. For a discussion of the federal income tax law qualifications for a REIT, see the information below under the caption "Federal Income Tax Considerations -- Taxation of REIT."

In connection with our election to be taxed as a REIT, we and affiliates of Citigroup Inc. decided to modify our existing relationship under which we co-sponsor and invest in a series of commercial real estate mezzanine funds managed by us. In January 2003, we purchased Citigroup's interest in CT Mezzanine Partners I for a purchase price of approximately $38.4 million (including the assumption of liabilities). We also purchased from Citigroup stock purchase warrants exercisable for 8,528,467 shares of our common stock for a purchase price of approximately $2.1 million. Finally, we have agreed to amend the terms of our venture agreement with Citigroup. Under the amended agreement, we will earn 100% of the base management fees derived from all funds under management and will own 62 1/2% of the incentive management interests in future mezzanine funds co-sponsored with Citigroup pursuant to the venture agreement.

GENERAL INFORMATION ABOUT THE SPECIAL MEETING AND VOTING

Where and when will the special meeting be held?

The date, time and place of the meeting is:

April 2, 2003
10:00 a.m. (New York City time)
The Law Offices of Paul, Hastings, Janofsky & Walker LLP
75 East 55th Street
New York, New York 10022

Why did you send me this proxy statement?

We sent you this proxy statement and the enclosed proxy card because our board of directors is asking for your proxy to vote at the special meeting. This proxy statement summarizes the information you need to know to vote at the meeting. But you don't have to attend in order to vote your shares. Instead, you may simply complete, sign, and return the enclosed proxy card.

Who can vote?

You can vote your shares of common stock if our records show that you were the official owner of record of the shares on February 14, 2003, the record date for the special meeting. A total of 16,515,132 shares of our common stock can vote at the special meeting. You get one vote for each share of common stock that you own. The enclosed proxy card shows the number of shares you can vote.

How are votes counted?

We will hold the special meeting if shareholders representing the required

quorum of shares of stock entitled to vote either sign and return their proxy cards or attend the meeting. A majority of the shares of common stock entitled to vote at the meeting present in person or by proxy will constitute a quorum. If you sign and return your proxy card, your shares will be counted to determine whether we have a quorum even if you abstain or fail to vote as indicated on the proxy card.

The proposals to amend our charter are non-routine matters. As a result, if your shares are held in the name of a nominee, and you do not tell the nominee by April 2, 2003 how to vote your shares, the nominee cannot vote them (giving rise to what is known as a broker non-vote) but if the nominee signs and returns the proxy card, your shares will be counted as present to determine if a quorum exists.

If you abstain or your shares are treated as broker non-votes, your abstention or the broker non-votes will have the effect of a vote against the proposals to amend our charter.

What is the required vote for approval?

The affirmative vote of a majority of the shares of common stock entitled to vote is required to approve the proposals to amend our charter.

How do I vote by proxy?

Follow the instructions on the enclosed proxy card to vote on the matter to be considered at the special meeting. Sign and date the proxy card and mail it back to us in the enclosed envelope. The proxyholders named in the proxy card will vote your shares as you instruct. If you sign and return the proxy card but do not vote on the proposal, the proxyholders will vote for you on the proposal. Unless you instruct otherwise, the proxyholders will vote in favor of approval of the proposals to amend our charter.

What if other matters come up at the special meeting?

The proposals to amend our charter described in this proxy statement are the only matters we now know of that will be voted on at the special meeting. If other matters are properly presented at the meeting, the proxyholders will vote your shares as they see fit.

Can I change my vote after I return my proxy card?

Yes. At any time before the vote on a proposal is taken, you can change your vote either by giving us a written notice revoking your proxy card or by signing, dating, and returning to us a new proxy card or by attending the special meeting and voting your shares in person. We will honor the proxy card with the latest date.

Proxy revocation notices or new proxy cards should be sent to Capital Trust, Inc. c/o American Stock Transfer & Trust Company, 6201 Fifteenth Avenue, Brooklyn, New York 11219, Attention: Paul Caroppoli.

Can I vote in person at the special meeting rather than by completing the proxy card?

Although we encourage you to complete and return the proxy card to ensure that your vote is counted, you can attend the special meeting and vote your shares in person.

What do I do if my shares are held in "street name"?

If your shares are held in the name of your broker, a bank, or other nominee, that party should give you instructions for voting your shares.

Who pays for this proxy solicitation?

We do. In addition to sending you these materials, some of our employees may contact you by telephone, by mail, or in person. None of these employees will receive any extra compensation for doing this.

REIT RELATED CHARTER AMENDMENTS

Introduction

We are providing this proxy statement to you in connection with our request for shareholder approval to make the amendments to our charter we determined are necessary in connection with our election to be taxed as a REIT. Specifically, we are asking you to approve articles of amendment and restatement of our charter which, among other things discussed below under the caption "Capital Structure Related Charter Amendments", would amend our charter to include ownership and transfer restrictions related to our REIT election.

Background

In 1997, our management team took control of our company, re-capitalized it and significantly changed its business plan. At that time, our goal was to create a large, diversified finance company that specialized in the rapidly emerging market for commercial real estate mezzanine financing. Pursuant to that business plan, we also provided advisory and investment banking services to owners and operators of commercial real estate. Although our company had originally been operated as a REIT since it was founded in 1966, in light of our new business plan, we chose to be taxed as a regular domestic corporation in order to maximize flexibility, retain earnings and accommodate our initial mix of businesses.

From July, 1997 through December 31, 1999, we made 41 investments aggregating approximately $1.3 billion, all for our own account and balance sheet. By that time, we had become a recognized leader in the real estate mezzanine market and we saw an opportunity to continue our successful investment strategy and significantly expand our franchise by raising capital in the private equity market. In March of 2000, we entered into a strategic venture with affiliates of Citigroup Inc. to co-sponsor and invest in a series of commercial real estate mezzanine funds that would be managed by us. This venture marked the commencement of our investment management business and provided the potential for significant operating leverage by allowing us to grow earnings and enhance returns on equity without increasing financial leverage.

Pursuant to our strategic venture with Citigroup, we are currently managing CT Mezzanine Partners II, which we refer to as Fund II. Fund II closed its private offering in August 2001 with total capital commitments of $845 million,

including commitments of $199 million and $50 million by Citigroup and us, respectively, and the balance from third party institutional investors. Fund II has originated $1.1 billion of investments and had a $723.5 million investment portfolio at December 31, 2002. Our wholly owned subsidiary, CT Investment Management Co., LLC, referred to as CTIMCO, serves as the exclusive investment manager of Fund II.

When we entered the third party investment management business, we decided to de-emphasize (and ultimately exit) the advisory/investment banking business. Pursuant to our agreement with Citigroup, we also agreed to re-elect REIT status as soon as practicable (the earliest possible point being for the 2002 tax year). During 2001, we became concerned that, due to the mix of assets in our portfolio and our growing third-party investment management business, we would find it difficult, as an operating matter, to meet the qualifications to be taxed as a REIT. As a result, we sought and received from Citigroup a waiver of the requirement to re-elect REIT status, which was ultimately received in early 2002. Notwithstanding the waiver, we remained committed to pursuing alternative strategies for tax efficiency, including a REIT election, depending on the impact on our business.

Decision to Elect to be Taxed as a Real Estate Investment Trust

During 2002, we continued to explore various strategic alternatives to increase shareholder value as we believed that our company was undervalued in the equity market. We were also aware of important new developments in the rules governing REITs that could materially benefit us. Specifically, the IRS had issued private letter rulings concluding that mezzanine loans constitute qualifying assets that result in

qualifying income for REIT qualification purposes. As a result of these developments, at a meeting of our board of directors on November 6, 2002, management presented a preliminary analysis of potential strategic alternatives including a sale or liquidation of the company, a sale or spin-off of CTIMCO, and a re-election of REIT status. The board directed management to propose a comprehensive business plan for our company if we were to elect REIT status for the 2003 tax year. Our board also authorized us to engage Morgan Stanley & Co. Incorporated as our financial advisor to evaluate and analyze the proposed REIT election and the other potential strategic alternatives.

On December 10, 2002, our board of directors held a meeting and reviewed management's detailed plan for electing to operate and be taxed as a REIT and to consider Morgan Stanley's evaluation and analysis of strategic alternatives. Management reviewed its plan for meeting the REIT qualification tests, including actions it recommended to address ownership concentration issues and accumulated "earnings and profits" generated during the period when we were taxed as a regular corporation. Morgan Stanley made a presentation that included quantitative and qualitative assessments of various alternatives. Based upon the plan presented by management and the analysis presented by Morgan Stanley, our board unanimously determined that it was in our company's best interest to elect to be taxed as a REIT and authorized management to take all actions necessary and appropriate to elect to be operated and taxed as a REIT. Our board of directors subsequently declared the election advisable and approved and authorized for submission for shareholder approval the amended and restated charter.

Reasons for Election to be Taxed as a REIT

Our board of directors considered numerous factors, including the advice of Morgan Stanley, in reaching its decision to approve our election to be taxed as a REIT as the superior alternative. Paramount among our board's reasons for approving the election were:

- The determination that our existing portfolio of loans and investments could produce an attractive dividend yield if our net income could be distributed to shareholders free of corporate-level income tax, and

- The belief that our third-party investment management business was still in an early phase of development and that the business should continue to grow in the ordinary course and become more valuable.

Our board of directors also considered developments in our business and with respect to the laws and regulations applicable to enterprises that operate as REITs that rendered a decision to elect REIT status opportune for us and that would not otherwise require us to materially alter our business plan in order to qualify as a REIT. Specifically, our board considered the following developments:

- With the development of our investment management business, we had materially reduced the capital intensive nature of our balance sheet lending business and therefore the need to retain earnings as a source of capital;

- Recent IRS private letter rulings that permitted mezzanine loans to be classified as qualifying assets that result in qualifying income; and

- Recent changes in REIT legislation, including the REIT Modernization Act of 2000, that provided us with the flexibility to invest in and manage our portfolio of assets as well as to operate our investment management business in a taxable REIT subsidiary.

From a capital markets and valuation perspective, the board also considered the following benefits afforded by the REIT structure:

- The effective elimination of corporate-level income tax could produce consistent dividend distributions to shareholders;

- The potential for stock price appreciation with an attractive dividend yield;

- The increased likelihood of attracting equity research analysis of our business since our performance can now be measured against a pool of comparable publicly-traded REITs; and

- The potential for independent valuation of our investment management business, which would be operated as a separate transparent segment in a taxable REIT subsidiary.

Our board of directors also considered the following negative factors:

- The fact that the specific plan to restructure our hedging strategy and offset our accumulated earnings and profits and the write-off of

certain deferred tax assets would result in a loss of approximately $14 million in the fourth quarter of fiscal year 2002;

- The possibility that management's assumptions with respect to future operations as a REIT may not be achieved; and

- The potential that the federal tax laws governing or affecting REITs could be changed.

The foregoing discussion of the information and factors considered by our board of directors is not intended to be exhaustive but we believe includes all material factors considered by the board. In view of the complexity and wide variety of information and factors, both positive and negative, considered by the board, it did not find it practical to quantify, rank or otherwise assign relative or specific weights to the factors considered. In addition, the board did not reach any specific conclusion with respect to each of the factors considered, or any aspect of any particular factor, but, rather, conducted an overall analysis of the factors described above, including discussions with management and legal, financial and accounting advisors. In considering the factors described above, individual members of the board may have given different weight to different factors. Our board of directors considered all these factors as a whole and believed the factors supported its determination. After taking into consideration all of the factors set forth above, our board concluded that electing to be taxed and operated as a REIT in accordance with the plan developed by management was superior to the other strategic alternatives considered by it and in the best interest of our company.

Becoming a Real Estate Investment Trust

Shareholder approval of the proposed amended and restated charter at the special meeting, together with timely completion of the other transactions described below, will allow us to qualify to elect to be taxed as a REIT beginning with the taxable year beginning January 1, 2003. If we were to qualify for taxation as a REIT and elect REIT status, we would not be subject to federal corporate income tax on the net income we distribute to our shareholders.

One of the requirements to qualify as a REIT is the elimination of all of our accumulated "earnings and profits" from all non-REIT qualifying years in which we have operated as a regular corporation. We believe we have eliminated all such earnings and profits by actions taken in December 2002. We did so by triggering losses through the settlement of certain derivative hedging instruments, the disposition of a non-performing asset and the write-off of certain deferred tax assets.

In order to qualify as a REIT, no more than 50% of our common stock may be owned by five or fewer individuals. As a means of facilitating compliance with such qualification, shareholders controlled by John R. Klopp and Craig M. Hatkoff and trusts for the benefit of the family of Samuel Zell each sold

500,000 shares of common stock to Stichting Pensioenfonds ABP in a transaction that closed on February 7, 2003. Following this transaction, our largest five individual shareholders own in the aggregate less than 50% of our common stock. In connection with this transaction, we entered into a registration rights agreement with Stichting Pensioenfonds ABP pursuant to which we agreed to register for resale the shares of common stock purchased by it.

Ongoing Management

In connection with our election to become a REIT, we have consolidated all of our management activities, including the investment management of Fund II and future third-party funds and the ongoing management of our company itself, into our wholly owned subsidiary, CTIMCO, which will be operated as a taxable REIT subsidiary. CTIMCO will serve as our exclusive manager and all of our employees will be directly employed by CTIMCO. Subject to the supervision of our board of directors, CTIMCO will be responsible our the day-to-day operations pursuant to a management agreement. We expect to base the compensation, fees, expense reimbursements and other terms of the management agreement with CTIMCO upon the terms contained in the management agreements between externally managed publicly traded commercial mortgage REITs and their outside managers. We believe that this will produce a management agreement with terms comparable to those that could be obtained from unrelated parties on an arm's length basis. We believe that this corporate organizational structure provides financial transparency for, and facilitates the separate valuation of, our different business segments, which should provide us with more flexibility if we decide to sell or spin off CTIMCO's management business in the future.

Description of REIT Related Charter Amendments

We summarize below the principal REIT related amendments contained in the amended and restated charter. This summary does not purport to be complete and is qualified in its entirely by reference to the complete text of the articles of amendment and restatement attached to this proxy statement as appendix A. You are urged to read the appendix to this proxy statement in its entirety.

The proposed amended and restated charter would include a new provision that would restrict ownership of our stock. The new provision prohibits ownership, directly or by virtue of the attribution provisions of the Internal Revenue Code, by any individual of more than 2.5% of the lesser of the number or value of the issued and outstanding shares of our stock. The 2.5% ownership limit was established as a means of preventing ownership of more than 50% of our stock by five or fewer individuals following a review of the aggregate ownership of the top five direct or constructive individual shareholders. Our board of directors, in its sole and absolute discretion, may waive or modify the ownership limit with respect to one or more persons who would not be treated as "individuals" for purposes of the Internal Revenue Code if it is satisfied, based upon information required to be provided by the party seeking the waiver and, if otherwise determined to be necessary, upon a ruling from the Internal Revenue Service or an opinion of counsel satisfactory to the board of directors, that ownership in excess of this limit will not cause a person who is an individual to be treated as owning shares in excess of the ownership limit, applying the applicable constructive ownership rules, and will not otherwise jeopardize our status as a REIT for federal income tax purposes. There can be no assurance that our board of directors will increase this ownership limit in the future.

Any shares held at any time in violation of the ownership limit will be transferred automatically to a trust for the benefit of a designated charitable beneficiary, and the person who acquired such excess shares of our stock will not be entitled to any distributions thereon or to vote such excess shares of stock. The holder of any such excess shares of our stock will receive the lesser of the value of such excess shares as of the effective time or the cash proceeds from the sale of such excess shares of stock by the trustee of the trust. After the effective time of the amended and restated charter, any person who acquires our stock

in excess of the ownership limit will not receive any proceeds from the subsequent sale thereof in excess of the lesser of the price paid therefor or the amount realized from such sale. A transfer of our stock to a person who, as a result of the transfer, violates the ownership limit may be void under certain circumstances, and, in any event, would deny the transferee any of the economic benefits of owning our stock in excess of the ownership limit. The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect the shareholders' ability to realize a premium over the then-prevailing market price for our common stock in connection with such transaction.

The amended and restated charter contains a provision that would exempt all shareholders who hold shares in excess of the 2.5% ownership limit as of the effective date of the charter. Pursuant to this exemption, the following shareholders would be so exempt:

- Samuel Zell, our chairman of the board, and Samstock LLC and Veqtor Finance Company L.L.C., which is owned indirectly by trusts for the benefit of the family of Mr. Zell;

- John R. Klopp, a director and our chief executive officer, and JRK Investment Partnership LP, a family investment partnership owned by Mr. Klopp and his family;

- Craig M. Hatkoff, a director, and CMH Investment Partnership, a family investment partnership owned by Mr. Hatkoff and his family;

- Gary R. Garrabrant, a director, and GRG Investment Partnership LP, a family investment partnership owned by Garrabrant and his family;

- Sheli Z. Rosenberg, a director, and Rosenberg-CT General Partnership, a family investment partnership owned by Ms. Rosenberg and her husband; and

- Stephen D. Plavin, our chief operating officer.

In addition, the proposed amended and restated charter would include a new provision that states that if we elect to qualify for REIT status, our board of directors will use its reasonable best efforts to take such actions as are necessary or appropriate to preserve our status our as a REIT, but if the board determines that it is no longer in our best interests to continue to be qualified as a REIT, the board may revoke or otherwise terminate our REIT election. The board may also determine that compliance with any restriction or limitation on stock ownership and transfers (described above) is no longer required for REIT qualification.

Articles of Amendment and Restatement

The effective date of the amendments discussed above will occur upon the filing with, and acceptance for record by, the State Department of Assessments and Taxation of Maryland of the articles of amendment and restatement set forth in appendix A hereto. Although our board of directors believes as of the date of this proxy statement that the charter amendments discussed above are advisable and in our company's best interest, our board of directors may abandon the proposal at any time before, during or after the special meeting and prior to filing the articles of amendment and restatement in Maryland, should it determine otherwise. For a summary description of our stock following the charter amendments, refer to the information below under the caption "Description of Our Stock."

CAPITAL STRUCTURE RELATED CHARTER AMENDMENTS

Introduction

We are also providing this proxy statement to you in connection with our request for shareholder approval of other amendments to our charter to eliminate from our charter the authorized but unissued class B common stock and to effect a one (1) for three (3) reverse stock split. Specifically, we are asking you to approve articles of amendment and restatement of our charter, which, among other things discussed above under the caption "REIT Related Charter Amendments", would eliminate our class B common stock and articles of amendment which would further amend our charter to effect the reverse stock split.

Elimination of Class B Common Stock

We summarize below the amendments relating to the elimination of the class B common stock from the amended and restated charter. This summary does not purport to be complete and is qualified in its entirety by reference to the complete text of the articles of amendment and restatement attached to this proxy statement as appendix A. You are urged to read the appendix to this proxy statement in its entirety.

The amended and restated charter would eliminate the 100,000,000 shares of our authorized but unissued class B common stock and make other conforming amendments that would reflect the elimination of the class B common stock. The non-voting class B common stock had been originally authorized as a means of limiting the voting power of certain prior investors who at the time they made a significant equity investment in us might have been prohibited by the Bank Holding Company Act of 1956, as amended, from holding more than 4.9% of any class or series of our voting stock. Now that these investors no longer hold the stock issued in connection with their investment, we believe it is advisable to simplify our capital structure by eliminating the class B common stock and have decided to so amend our charter at the same time that we are amending our charter to include the REIT related ownership and transfer restrictions.

The class B common stock, none of which is outstanding, is identical to the class A common stock except it does not have voting rights. Under our current charter, each share of class B common stock is convertible at the option of the holder at any time into one share of class A common stock, and each share of class A common stock is convertible at the option of the holder at any time into one share of class B common stock. If shares of class B common stock are to be converted into shares of class A common stock, the holder of shares of the class B common stock must certify to us that he or she will not, upon the issuance of such shares of class A common stock, own more than 4.9% of any class of our voting stock or that he or she is not prohibited by the Bank Holding Company Act from holding more than 4.9% of any class or series of our voting stock.

The amendment deletes all references to class B common stock and eliminates all 100,000,000 shares of class B common stock from our authorized stock. The amended and restated charter would also eliminate the conversion rights of the class A common stock pursuant to which the holders have a right to convert one share of class A common stock into one share of class B common stock.

Reverse Stock Split

In January 2003, our board of directors authorized a further amendment to our charter that would effect a one (1) for three (3) reverse stock split whereby three (3) shares of our outstanding common stock would be automatically converted into one (1) share of common stock and a corresponding reduction of our stated capital would be made. To avoid the existence of fractional shares, any shareholder who would otherwise be entitled to receive a fractional share will receive cash from us in lieu of such fractional share

based on the closing trading price of our common stock on the effective date of the charter amendment. The voting and other rights and preferences of our stock will not otherwise be altered by the reverse stock split. A copy of the charter amendment is attached as appendix B.

Our board of directors authorized the reverse stock split with the purpose of increasing the marketability and liquidity of our common stock which trades on the New York Stock Exchange. Our board of directors believes that the current low trading price for our common stock may effectively limit the marketability of the stock for the following reasons:

- there is a reluctance on the part of many brokerage firms and institutional investors to recommend lower-priced stocks to their clients or to hold them in their portfolios because they are viewed as unduly speculative in nature;
- it is the policy of certain brokerage firms not to provide coverage and research with respect to lower-priced stocks;
- brokerage firms often apply time-consuming procedures that function to make the handling of orders for lower-priced stocks difficult for investors and unattractive to brokers from an economic standpoint;
- brokerage firms often will not allow their customers to obtain margin loans on lower-priced stocks; and
- the brokerage commission on a lower-priced stock may also represent a higher percentage of the sale price as compared to the brokerage commission on a higher-priced stock.

Our aim with the reverse stock split is to have the current trading price per share of our common stock, which has averaged $4.85 per share over the last 30 trading days, increase proportionately by three times. With such an increase in price, we believe that:

- the shares become more attractive to a broader range of investors by increasing the price per share so that institutional and other investors with minimum price per share restrictions can purchase the stock;
- brokerage firms will be able to recommend the stock to their clients and avoid applying time-consuming procedures in the handling of orders for the stock;
- the stock becomes more attractive to analysts, and, as a result, produces greater analyst coverage and research;

- brokerage firms will be able to extend margin loans on the stock thereby removing such impediment to ownership by investors who desire to own only marginable stock; and

- trading commissions on a sale of the stock will represent a lower percentage of the sales price.

However, we cannot assure you that the trading price of our common stock will increase in proportion to the reduction in the number of outstanding shares resulting from the reverse stock split or that the marketability or liquidity of such stock will be improved.

Effects of the Reverse Split

If approved by our shareholders, upon the effective date of the charter amendment the following will result:

- each three (3) shares of our outstanding common stock will be converted automatically into one (1) share of our common stock, resulting in a reduction of the number of outstanding shares of such stock from 16,515,132 to 5,505,044 (subject to further reduction upon the elimination of fractional shares);

- the total number of shares of common stock and preferred stock authorized for issuance in our charter will remain the same;

- the par value of our shares of stock will remain $0.01 per share and, as a consequence, the aggregate stated capital of our outstanding stock will be reduced, while the aggregate capital surplus in excess of our stated capital attributable to our outstanding stock for statutory and accounting purposes will be correspondingly increased;

- the number of shares of stock subject to our outstanding stock options and convertible securities and authorized for issuance pursuant to our stock plans will be proportionately reduced and the exercise and conversion prices will be proportionately increased;

- no fractional shares of stock will be issued for any fractional interest resulting from the reverse stock split and we will pay cash in lieu of such fractional shares based on the closing price on the New York Stock Exchange on the day immediately preceding the effective date of the reverse stock split;

- the rights, preferences, privileges or priorities of all our outstanding common stock will remain unchanged;

- each shareholder's percentage ownership and voting power will remain unchanged, except for minor differences resulting from the elimination of fractional interests; and

- certain shareholders may be left with one or more "odd lots," or a number of shares that is less than 100, and therefore may find it difficult to sell such shares and in connection with any sale may have to pay higher commissions and other transaction costs as compared to a

sale involving a "round lot," or a number that is in even multiples of 100.

We do not expect that the reverse stock split will affect the listing of our shares of common stock on the New York Stock Exchange, nor the registration of such stock under the Securities Exchange Act of 1934. We will, however, need to file a supplemental listing application with the New York Stock Exchange in connection with the reverse stock split. All fees incurred in connection with the implementation of the proposed reverse stock split will be borne by us.

Exchange of Stock Certificates and Elimination of Fractional Share Interests

The reverse stock split will become effective upon the filing and acceptance for record of the articles of amendment in Maryland without any action on the part our shareholders and without regard to the date or dates old stock certificates formerly representing shares of our stock before the reverse stock split are physically surrendered for new stock certificates representing the number of shares of stock a shareholder is entitled to receive as a result of the reverse stock split.

As soon as practicable after the date the charter amendment becomes effective, we will send a letter of transmittal to each shareholder of record at the effective time for use in transmitting old stock certificates to our transfer agent, American Stock Transfer & Trust Company, who will be serving as our exchange agent. The letter of transmittal will contain instructions for the surrender of old certificates to the exchange agent in exchange for new certificates representing the number of whole new shares of stock into which such holders' shares represented by the old certificates have been converted as a result of the reverse stock split and cash in lieu of fractional shares.

Shareholders should not send their old certificates to the exchange agent until they have received the letter of transmittal. Old certificates not presented for surrender as soon as is practicable after the letter of transmittal is sent shall be exchanged for new certificates at the first time they are otherwise presented for transfer or conversion. Until so surrendered, each current certificate representing shares of our stock will be deemed for all corporate purposes after the effective time of the charter amendment to represent ownership of shares in the appropriately reduced whole number of shares.

No fractional shares of stock will be issued for any fractional share interest resulting from the reverse stock split. Rather, we will pay each shareholder who would otherwise receive a fractional share of stock as a result of the reverse stock split, in lieu of such fractional share interest, an amount of cash equal to the closing sale price of a share of common stock on the New York Stock Exchange on the date the charter amendment becomes effective (or the preceding trading day if the stock was not traded that day) multiplied by the number of shares of stock held by such holder that would otherwise have been exchanged for such fractional share interest. We will use our existing cash to fund such payments.

Articles of Amendment and Restatement and Articles of Amendment

The effective date of the amended and restated charter that will effect the elimination of the class B common stock and charter amendment that will effect

the reverse stock split will occur upon the filing with, and acceptance for record by, the State Department of Assessments and Taxation of Maryland of the articles of amendment and restatement set forth in appendix A hereto and articles of amendment set forth in appendix B hereto, respectively. Although our board of directors believes as of the date of this proxy statement that the charter amendments are advisable and in our company's best interest, our board of directors may abandon the proposal at any time before, during or after the special meeting and prior to filing the articles of amendment and restatement and articles of amendment in Maryland, if it should determine otherwise. For a summary of our stock following the charter amendments, refer to the information below under the caption "Description of Our Stock".

FEDERAL INCOME TAX CONSIDERATIONS

General

The following is a discussion of the material United States federal income tax considerations associated with our REIT election and with the ownership of our common stock. The following discussion is not exhaustive of all possible tax considerations that may be relevant to the REIT election. Moreover, the discussion contained herein does not address all aspects of taxation that may be relevant to you in light of your personal tax circumstances, including, for example, certain types of shareholders subject to special treatment under federal income tax laws, including insurance companies, tax-exempt organizations (except to the extent discussed under the caption "Taxation of Tax-Exempt Shareholders"), financial institutions, broker-dealers, and foreign corporations and persons who are not citizens or residents of the United States (except to the extent discussed under the caption "Taxation of Non-U.S. Shareholders").

The statements in this discussion are based upon, and qualified in their entirety by, current provisions of the Internal Revenue Code, existing, temporary, and currently-proposed Treasury Regulations promulgated under the Internal Revenue Code, existing administrative rulings and practices of the Internal Revenue Service, and judicial decisions. We cannot give you any assurances that future legislative, administrative, or judicial actions or decisions, which may be retroactive in effect, will not affect the accuracy of any of the statements in this proxy statement.

You are urged to consult your own tax advisor regarding the specific tax consequences to you of the election and of the ownership and sale of stock in an entity electing to be taxed as a real estate investment trust, including the federal, state, local, foreign and other tax consequences of such ownership and sale, as well as potential changes in the applicable tax laws.

Opinion of Counsel

Our tax counsel, Paul, Hastings, Janofsky & Walker LLP, will deliver to us an opinion to the effect that, subject to the qualifications set forth in the opinion and discussed below,

- the summary of the federal income tax consequences to shareholders set forth in this section addresses all material federal income tax consequences of the election, and

- to the extent that such summary involves matters of law, it is accurate in all material respects under the Internal Revenue Code and Treasury Regulations and their existing interpretations and represents

counsel's opinion as to how such matters would be resolved by a court if presented with the issues discussed in this section.

Tax counsel has also delivered to us an opinion to the effect that, subject to the qualifications set forth in the opinion, we will qualify to be treated as a REIT beginning January 1, 2003. No legal opinion has been obtained regarding any other tax issues, except as specifically noted herein. In addition, an opinion of counsel is not binding on the Internal Revenue Service or the courts. Accordingly, some of the conclusions set forth in this section could be challenged by the IRS and any such challenge could be sustained by the courts.

This summary and the opinion of counsel are based on the facts and law relating to the election as of the date of this proxy statement and do not address or cover the tax consequences of any transaction undertaken by us or our shareholders following the election.

Prior to January 1, 2003, all of our income was subject to income taxes that we paid, and our shareholders recognized income only to the extent that we paid a dividend from current or accumulated

earnings and profits. Following the election, we generally will be taxable only on our undistributed income, and our shareholders generally will be taxable on the income distributed to them. However, because the operations of CTIMCO are of a nature and scope that would cause us to fail to qualify as a real estate investment trust, it will be treated and operate as a taxable REIT subsidiary. As a result, CTIMCO will be directly taxed on its income, so that only its after-tax income will be available for reinvestment or for distribution to our shareholders. In general, any of the after-tax income of CTIMCO distributed to our shareholders will be includable in our shareholders' taxable income and will be subject to a second level of tax. The REIT may own an interest in one or more taxable REIT subsidiaries, in addition to CTIMCO.

Tax Consequences of REIT Election

We plan to make an election to be taxed as a real estate investment trust under Section 856 of the Internal Revenue Code, commencing with our taxable year beginning January 1, 2003. The sections of the Internal Revenue Code and Treasury Regulations applicable to qualification and operation as a real estate investment trust are technical and complex. Although we believe that we will be organized and will operate in a manner necessary to satisfy the requirements for taxation as a real estate investment trust under the Internal Revenue Code, many of which are discussed below, we cannot assure you that the REIT will be able to so operate for all periods following the Election.

Taxation of a REIT

If we qualify as a real estate investment trust, we generally will not be subject to federal corporate income taxes on our net income to the extent that the income is currently distributed to stockholders. The benefit of this tax treatment is that it substantially eliminates the "double taxation" resulting from the taxation at both the corporate and stockholder levels that generally results from owning stock in a corporation. Accordingly, income generated by us generally will be subject to taxation solely at the stockholder level upon distribution. We will, however, be required to pay certain federal income taxes, including in the following circumstances:

o We will be subject to federal income tax at regular corporate rates on

taxable income, including net capital gain, that we do not distribute to stockholders during, or within a specified time period after, the calendar year in which such income is earned.

- We will be subject to the "alternative minimum tax" on our undistributed items of tax preference.

- We will be subject to a 100% tax on net income from certain sales or other dispositions of property that we hold primarily for sale to customers in the ordinary course of business (known as "prohibited transactions").

- If we fail to satisfy the 75% gross income test or the 95% gross income test, both described below, but nevertheless qualify as a real estate investment trust, we will be subject to a 100% tax on an amount equal to (i) the gross income attributable to the greater of the amount by which we fail the 75% or 95% gross income test multiplied by (ii) a fraction intended to reflect our profitability.

- If we have (a) net income from the sale or other disposition of "foreclosure property" which is held primarily for sale to customers in the ordinary course of business or (b) other nonqualifying income from foreclosure property, we will be required to pay tax at the highest corporate rate on this income. In general, foreclosure property is property acquired through foreclosure after a default on a loan secured by the property or on a lease of the property.

- If we acquire an asset from a corporation which is not a REIT in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset in the hands of the transferor corporation, and we subsequently sell the asset within ten years, then under Treasury Regulations, we would be required to pay tax at the highest regular corporate tax rate on this gain to the extent the fair market value of the asset exceeds our adjusted tax basis in the asset, in each case, determined as of the date on which we acquired the asset. The results described in this paragraph assume that we will elect this treatment in lieu of an immediate tax when the asset is acquired. We will also be subject to such tax liability for all of our assets that were held as of January 1, 2003.

- We will generally be subject to tax on the portion of any "excess inclusion" income derived from an investment in residual interests in real estate mortgage investment conduits to the extent our stock is held by specified tax exempt organizations not subject to tax on unrelated business taxable income.

- If we fail to distribute during the calendar year at least the sum of (i) 85% of our real estate investment trust ordinary income for such year, (ii) 95% of our real estate investment trust capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, we will pay a 4% excise tax on the excess of such required distribution over the amount actually distributed to stockholders.

- We may elect to retain and pay income tax on some or all of our

long-term capital gain, as described below.

- We may be subject to a 100% excise tax on transactions with our taxable REIT subsidiary not conducted on an arm's-length basis.

Requirements for Qualification as a REIT.

Introduction

In order to qualify as a real estate investment trust for federal income tax purposes, we must elect to be treated as a REIT and must satisfy certain statutory tests relating to, among other things, (i) sources of our income, (ii) the nature of our assets, (iii) the amount of our distributions, and (iv) the ownership of our stock.

The Internal Revenue Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) that issues transferable shares or transferable certificates of beneficial ownership to its owners;

(3) that would be taxable as a regular corporation, but for its election to be taxed as a REIT;

(4) that is not a financial institution or an insurance company under the Internal Revenue Code;

(5) that is owned by 100 or more persons;

(6) not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals, as defined in the Internal Revenue Code to include some entities, during the last half of each year; and

(7) that meets other tests, described below, regarding the nature of its income and assets, and the amount of its distributions.

The Internal Revenue Code provides that conditions (1) to (4) must be met during the entire year and that condition (5) must be met during at least 335 days of a year of twelve months, or during a proportionate part of a shorter taxable year. Conditions (5) and (6) do not apply to the first taxable year for which an election is made to be taxed as a REIT. With Stichting Pensioenfonds ABP's purchase of 1,500,000 shares of our common stock from shareholders associated with John R. Klopp, Craig M. Hatkoff and Samuel Zell, as of the date of this proxy statement, we would satisfy the requirements of condition (6).

Our proposed amended and restated charter provides for restrictions regarding ownership and transfer of our stock. These restrictions are intended to assist us in satisfying the share ownership requirements described in conditions (5) and (6) above. These stock ownership and transfer restrictions are described below under the caption "Description of Our Stock -- Certain Provisions of Maryland Law and Our Charter and Bylaws -- REIT Qualification -- Restrictions on Ownership and Transfer." These restrictions, however, may not

ensure that we will, in all cases, be able to satisfy the share ownership requirements described in conditions (5) and (6) above. If we fail to satisfy these share ownership requirements, our status as a REIT would terminate. If, however, we comply with the rules contained in applicable Treasury Regulations that require us to determine the actual ownership of our shares and we do not know, or would not have known through the exercise of reasonable diligence, that we failed to meet the requirement described in condition (6) above, we would not be disqualified as a REIT. In addition, a corporation may not qualify as a REIT unless its taxable year is the calendar year. We have and will continue to have a calendar taxable year.

A corporation that is a "qualified REIT subsidiary" is not treated as a corporation separate from its parent real estate investment trust for federal income tax purposes. All assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary are treated as the assets, liabilities, and items of income, deduction and credit of the real estate investment trust. A qualified REIT subsidiary is a corporation, all of the capital stock of which is owned by a real estate investment trust and for which no election has been made to treat it as a "taxable REIT subsidiary" (as discussed below). Thus, in applying the requirements described in this section, any qualified REIT subsidiary that we may own in the future will be ignored and all assets, liabilities and items of income, deduction and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction and credit.

A REIT will be deemed to own its proportionate share (based upon its share of the capital of the partnership) of the assets of a partnership in which it is a partner and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the assets and income of the partnership attributed to a REIT shall retain their same character as in the hands of the partnership for purposes of determining whether the REIT satisfied the income and asset tests described below.

A real estate investment trust may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary may earn income that would not be REIT qualifying income, as described below, if earned directly by the parent real estate investment trust. Both the subsidiary and the real estate investment trust must jointly elect to treat the subsidiary as a taxable REIT subsidiary. Overall, not more than 20% of the value of the real estate investment trust's assets may consist of securities of one or more taxable REIT subsidiaries. A taxable REIT subsidiary will pay tax at regular corporate rates on any income that it earns. There is a 100% excise tax imposed on transactions involving a taxable REIT subsidiary and its parent real estate investment trust that are not conducted on an arm's-length basis. CTIMCO is and will remain our wholly owned subsidiary and we and CTIMCO will make a taxable REIT subsidiary election with respect to CTIMCO. CTIMCO will pay corporate income tax on its

taxable income and its after-tax net income will be available for reinvestment and for distribution to us as its parent. We may own interests in one or more taxable REIT subsidiaries other than CTIMCO.

Income Tests

General. A REIT must satisfy annually two tests regarding the sources of its gross income in order to maintain its real estate investment trust status. First, at least 75% of a REIT's gross income, excluding gross income from

certain "dealer" sales, for each taxable year generally must consist of defined types of income that the REIT derives, directly or indirectly, from investments relating to real property or mortgages on real property or temporary investment income. We refer to this test as the 75% gross income test. Qualifying income for purposes of the 75% gross income test generally includes:

- interest from debt secured by mortgages on real property or on interests in real property;
- "rents from real property" (as defined below);
- dividends or other distributions on, and gain from the sale of, shares in other real estate investment trusts;
- gain from the sale or other disposition of real property; and
- amounts (other than amounts the determination of which depends in whole or in part on the income or profits of any person) received as consideration for entering into agreements to make loans secured by mortgages on real property or on interests in real property or agreements to purchase or lease real property.

Second, at least 95% of the REIT's gross income, excluding gross income from certain "dealer" sales, for each taxable year generally must consist of income that is qualifying income for purposes of the 75% gross income test, as well as dividends, other types of interest, and gain from the sale or disposition of stock or securities. We refer to this test as the 95% gross income test.

Interest from Debt Secured by Mortgages on Real Property or on Interests in Real Property. For these purposes, the term "interest" generally does not include any interest of which the amount received depends on the income or profits of any person. An amount will generally not be excluded from the term "interest," however, if such amount is based on a fixed percentage of receipts or sales.

Any amount includable in gross income by us with respect to a regular or residual interest in a real estate mortgage investment conduit, or REMIC, is generally treated as interest on an obligation secured by a mortgage on real property for purposes of the 75% gross income test. If, however, less than 95% of the assets of a real estate mortgage investment conduit consist of real estate assets, we will be treated as receiving directly our proportionate share of the income of the REMIC, which would generally include non-qualifying income for purposes of the 75% gross income test. In addition, if we receive interest income with respect to a mortgage loan that is secured by both real property and other property and the principal amount of the loan exceeds the fair market value of the real property on the date we purchased the mortgage loan, interest income on the loan will be apportioned between the real property and the other property, which apportionment would cause us to recognize income that is not qualifying income for purposes of the 75% gross income test.

In general, and subject to the exceptions in the preceding paragraph, the interest, original issue discount, and market discount income that we derive from investments in mortgage backed securities and mortgage loans will be qualifying interest income for purposes of both the 75% and the 95% gross income tests. It is possible, however, that interest income from a mortgage loan may be based in part on

the borrower's profits or net income, which would generally disqualify such interest income for purposes of both the 75% and the 95% gross income tests.

We may acquire construction loans or mezzanine loans that have shared appreciation provisions. To the extent interest on a loan is based on the cash proceeds from the sale or value of property, income attributable to such provision would be treated as gain from the sale of the secured property, which generally should qualify for purposes of the 75% and 95% gross income tests. There is some uncertainty as to whether mezzanine loans constitute qualifying assets for purposes of the 75% asset test and result in qualifying income for purposes of the 75% gross income test. Recent private letter rulings issued by the Internal Revenue Service to other taxpayers indicate that, in certain circumstances, mezzanine loans secured by interests in a partnership or limited liability company, substantially all of the assets of which represent interests in real estate, constitute qualifying assets and result in qualifying income. We have received an opinion of counsel to the effect that our mezzanine loans constitute qualifying assets and result in qualifying income. However, an opinion of counsel is not binding on the Internal Revenue Service, and we may not rely on private letter rulings issued to other taxpayers. If this issue is not clarified by legislation, regulations, or a public ruling, we expect to request a private letter ruling from the Internal Revenue Service to the effect that our mezzanine loans constitute qualifying assets and result in qualifying income for purposes of these tests. If, however, our mezzanine loans are determined not to constitute qualifying assets and do not result in qualifying income for purposes of these tests, our ability to elect REIT status will be jeopardized.

We may employ, to the extent consistent with the REIT provisions of the Internal Revenue Code, forms of securitization of our assets under which a "sale" of an interest in a mortgage loan occurs, and a resulting gain or loss is recorded on our balance sheet for accounting purposes at the time of sale. In a "sale" securitization, only the net retained interest in the securitized mortgage loans would remain on our balance sheet. We may elect to conduct certain of our securitization activities, including such sales, through one or more taxable subsidiaries, or through qualified REIT subsidiaries, formed for such purpose. To the extent consistent with the REIT provisions of the Internal Revenue Code, such entities could elect to be taxed as real estate mortgage investment conduits or financial asset securitization investment trusts.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any year, we may still qualify as a REIT if we are entitled to relief under the Internal Revenue Code. Generally, we may be entitled to relief if:

- our failure to meet the gross income tests was due to reasonable cause and not due to willful neglect;
- we attach a schedule of the sources of our income to our Federal income tax return; and
- any incorrect information on the schedule was not due to fraud with the intent to evade tax.

It is not possible to state whether in all circumstances we would be entitled to rely on these relief provisions. If these relief provisions do not apply to a particular set of circumstances, we would not qualify as a REIT. As discussed above under the caption "--Taxation of REIT -- General", even if these relief provisions apply, and we retain our status as a REIT, a tax would be imposed with respect to our income that does not meet the gross income tests. We may not always be able to maintain compliance with the gross income tests for REIT qualification despite frequently monitoring our income.

Foreclosure Property

Net income realized by us from foreclosure property would generally be subject to tax at the maximum Federal corporate tax rate. Foreclosure property includes real property and related personal

property (1) that is acquired by us through foreclosure following a default on indebtedness owed to us that is secured by the property and (2) for which we make an election to treat the property as foreclosure property.

Prohibited Transaction Income

Any gain realized by us on the sale of any property, other than foreclosure property, held as inventory or otherwise held primarily for sale to customers in the ordinary course of business will be prohibited transaction income, and subject to a 100% penalty tax. This prohibited transaction income may also adversely affect our ability to satisfy the gross income tests for qualification as a REIT. Whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business depends on all the facts and circumstances surrounding the particular transaction. While the Treasury Regulations provide standards which, if met, would not result in prohibited transaction income, we may not be able to meet these standards in all circumstances.

Hedging Transactions

We may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging transactions could take a variety of forms, including interest rate swaps or cap agreements, options, futures contracts, forward rate agreements, or similar financial instruments. To the extent that we enter into hedging transactions to reduce our interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income or gain from the disposition of hedging transactions should be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test.

Rents from Real Property

Rent that a REIT receives from real property that it owns and leases to tenants will qualify as "rents from real property" if the following conditions are satisfied,

- First, the rent must not be based, in whole or in part, on the income or profits of any person. An amount will not fail to qualify as rent from real property solely by reason of being based on a fixed percentage (or percentages) of sales and receipts.

- Second, neither a REIT nor any direct or indirect owner of 10% or more of its stock may own, actually or constructively, 10% or more of the tenant from which the REIT collects the rent.

- Third, all of the rent received under a lease will not qualify as rents from real property unless the rent attributable to the personal property leased in connection with the real property constitutes no more than 15% of the total rent received under the lease.

- Finally, a REIT generally must not operate or manage its real property or furnish or render services to its tenants, other than through an "independent contractor" who is adequately compensated and from whom the REIT does not derive revenue. The REIT may provide services directly, however, if the services are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered rendered "primarily for the occupant's convenience." In addition, the REIT may render, other than through an independent contractor, a de minimis amount of "non-customary" services to the tenants of a property as long as the REIT's income from such services does not exceed 1% of its gross income from the property.

Although no assurances can be given that either of the income tests will be satisfied in any given year, we anticipate that our operations will allow us to meet each of the 75% gross income test and the

95% gross income test. Such belief is premised in large part on our expectation that substantially all of the amounts received by us will qualify as interest from debt secured by mortgages on real property or on interests in real property.

Asset Tests

A REIT also must satisfy the following four tests relating to the nature of its assets at the close of each quarter of its taxable year.

- First, at least 75% of the value of a REIT's total assets must consist of cash or cash items, including receivables, government securities, "real estate assets," or qualifying temporary investments. We refer to this test as the "75% asset test".

- Second, no more than 25% of the value of a REIT's total assets may be represented by securities other than those that are qualifying assets for purposes of the 75% asset test. We refer to this test as the "25% asset test".

- Third, of the investments included in the 25% asset test, the value of the securities of any one issuer (other than a "taxable REIT subsidiary") that a REIT owns may not exceed 5% of the value of the REIT's total assets, and a REIT may not own 10% or more of the total combined voting power or 10% or more of the total value of the securities of any issuer (other than a "taxable REIT subsidiary").

- Fourth, while a REIT may own up to 100% of the stock of a corporation that elects to be treated as a "taxable REIT subsidiary" for federal income tax purposes, at no time may the total value of a REIT's stock in one or more taxable REIT subsidiaries exceed 20% of the value of the REIT's gross assets.

We expect that any mortgage backed securities, real property, and temporary investments that we acquire will generally be qualifying assets for purposes of the 75% asset test, except to the extent that less than 95% of the assets of a real estate mortgage investment conduit in which we own an interest consists of "real estate assets." Mortgage loans, including distressed mortgage loans,

construction loans, bridge loans, and mezzanine loans also will generally be qualifying assets for purposes of the 75% asset test to the extent that the principal balance of each mortgage loan does not exceed the value of the associated real property.

We anticipate that we may securitize all or a portion of the mortgage loans which we acquire, in which event we will likely retain certain of the subordinated and interest only classes of mortgage backed securities which may be created as a result of such securitization. The securitization of mortgage loans may be accomplished through one or more real estate investment conduits established by us or, if a non-real estate mortgage investment conduit securitization is desired, through one or more qualified REIT subsidiaries or taxable subsidiaries established by us. The securitization of the mortgage loans through either one or more real estate mortgage investment conduits or one or more qualified REIT subsidiaries or taxable subsidiaries should not affect our qualification as a REIT or result in the imposition of corporate income tax under the taxable mortgage pool rules. Income realized by us from a real estate mortgage investment conduit securitization could, however, be subject to a 100% tax as a "prohibited transaction." Such prohibited transactions are discussed above under the caption "--Income Tests--Prohibited Transaction Income."

We intend to operate so that we will not acquire any assets that would cause us to violate any of the asset tests. If, however, we should fail to satisfy any of the asset tests at the end of a calendar quarter, we would not lose our real estate investment trust status if (i) we satisfied the asset tests at the end of the close of the preceding calendar quarter and (ii) the discrepancy between the value of our assets and the

asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more nonqualifying assets. If we did not satisfy the condition described in clause (ii) of the preceding sentence, we could still avoid disqualification as a real estate investment trust by eliminating any discrepancy within 30 days after the close of the calendar quarter in which the discrepancy arose.

Distribution Requirements

Each taxable year, a REIT must distribute dividends to its shareholders in an amount at least equal to:

- 90% of the REIT's "real estate investment trust taxable income," computed without regard to the dividends paid deduction and the REIT's net capital gain or loss; and

- certain items of noncash income.

A REIT must make such distributions in the taxable year to which they relate, or in the following taxable year if the REIT declares the distribution before it timely files its federal income tax return for such year and pays the distribution on or before the first regular distribution date after such declaration. Further, if a REIT fails to meet the 90% distribution requirement as a result of an adjustment to its tax returns by the Internal Revenue Service, the REIT may, if the deficiency is not due to fraud with intent to evade tax or a willful failure to file a timely tax return, and if certain other conditions are met, retroactively cure the failure by paying a deficiency dividend (plus interest) to its shareholders.

A REIT will be subject to federal income tax on its taxable income, including net capital gain, that it did not distribute to its shareholders. Furthermore, if a REIT fails to distribute during a calendar year, or, in the case of distributions with declaration and record dates falling within the last three months of the calendar year, by the end of the January following such calendar year, at least the sum of:

- 85% of the REIT's real estate investment trust ordinary income for such year;
- 95% of the REIT's real estate investment trust capital gain income for such year; and
- any of the REIT's undistributed taxable income from prior periods, the REIT will be subject to a 4% nondeductible excise tax on the excess of such required distribution over the amount actually distributed. If the REIT elects to retain and pay income tax on the net capital gain that it receives in a taxable year, the REIT will be deemed to have distributed any such amount for the purposes of the 4% excise tax described in the preceding sentence.

We intend to make distributions to our holders of common stock in a manner that will allow us to satisfy the distribution requirements described above. It is possible that, from time to time, our pre-distribution taxable income may exceed our cash flow and we may have difficulty satisfying the distribution requirements. We intend to monitor closely the relationship between our pre-distribution taxable income and our cash flow and intend to borrow funds or liquidate assets in order to overcome any cash flow shortfalls if necessary to satisfy the distribution requirements imposed by the Internal Revenue Code. It is possible, although unlikely, that we may decide to terminate our REIT status as a result of any such cash shortfall. Such a termination would have adverse consequences to our stockholders. The consequences are described above under the caption "--Taxation of a REIT--General."

Recordkeeping Requirements

A REIT must maintain records of information specified in applicable Treasury Regulations in order to maintain its qualification as a real estate investment trust. In addition, in order to avoid a

monetary penalty, a REIT must request on an annual basis certain information from its shareholders designed to disclose the actual ownership of the REIT's outstanding stock. We intend to comply with these recordkeeping requirements.

Ownership Requirements

For a REIT to qualify as a real estate investment trust, shares of the REIT must be held by a minimum of 100 persons for at least 335 days in each taxable year after the REIT's first taxable year. Further, at no time during the second half of any taxable year after the REIT's first taxable year may more than 50% of the REIT's shares be owned, actually or constructively, by five or fewer "individuals." As of the date of the proxy statement, we would satisfy the requirement that we not be closely held as described in the foregoing sentence. Our common stock will be held by 100 or more persons. Our proposed amended and restated charter will contain ownership and transfer restrictions designed to

prevent violation of these requirements. The provisions of the amended and restated charter restricting the ownership and transfer of our common stock are described below under the caption "Description of Our Stock--Certain Provisions of Maryland Law and Our Charter and Bylaws -- REIT Qualification Restrictions on Ownership and Transfer."

Earnings and Profits

In order for us to qualify as a REIT, on or before the end of the 2003 tax year (the first year to which our election to be taxed as a REIT relates), we must have distributed to our shareholders an amount equal to any earnings and profits accumulated from years in which we were taxed as a regular corporation. We have been treated as a regular corporation for 1997-2002. Any distribution made by us to satisfy this requirement will be treated as taxable income by the shareholders, and we generally will not be permitted to include such amounts when computing our dividends paid deduction. If we were found to have miscalculated our earnings and profits accumulated from years in which we were a regular corporation, our ability to qualify as a REIT could be jeopardized. We believe, as of January 1, 2003, we have no accumulated earnings or profits from any non-REIT qualifying tax year for which we were taxed as a regular corporation as a result of losses we triggered in December 2002.

Failure to Qualify

If a REIT fails to qualify as a real estate investment trust in any taxable year, and no relief provisions applied, the REIT would be subject to federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. In calculating a REIT's taxable income in a year in which it did not qualify as a real estate investment trust, the REIT would not be able to deduct amounts paid out to its shareholders. In fact, the REIT would not be required to distribute any amounts to its shareholders in such taxable year. In such event, to the extent of the REIT's current and accumulated earnings and profits, all distributions to shareholders would be taxable as ordinary income. Moreover, subject to certain limitations under the Internal Revenue Code, corporate shareholders might be eligible for the dividends received deduction. Unless the REIT qualified for relief under specific statutory provisions, the REIT would be disqualified from taxation as a real estate investment trust for the four taxable years following the year in which it ceased to qualify as a real estate investment trust. We cannot predict whether, in all circumstances, we would qualify for such statutory relief.

Taxation of Taxable U.S. Shareholders

Taxable U.S. Shareholder

As used herein, the term "Taxable U.S. Shareholder" means a holder of our common stock that, for United States federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation, partnership, or other entity created or organized in or under the laws of the United States or any state or political subdivision thereof;

- an estate the income of which from sources without the United States is includible in gross income for United States federal income tax purposes regardless of its connection with the conduct of a trade or business within the United States; or

- any trust with respect to which (i) a United States court is able to exercise primary supervision over the administration of such trust and (ii) one or more United States persons have the authority to control all substantial decisions of the trust.

For any taxable year in which we qualify as a REIT, amounts distributed to Taxable U.S. Shareholders will be taxed as follows.

Distributions Generally

Distributions made to our Taxable U.S. Shareholders out of current or accumulated earnings and profits (and not designated as a capital gain dividend) will be taken into account by such shareholder as ordinary income and will not, in the case of a corporate shareholder, be eligible for the dividends received deduction. To the extent that we make a distribution with respect to holders of our common stock that is in excess of our current or accumulated earnings and profits, the distribution will be treated by a Taxable U.S. Shareholder first as a tax-free return of capital, reducing the shareholder's tax basis in the common stock, and any portion of the distribution in excess of the shareholder's tax basis in the common stock will then be treated as gain from the sale of such common stock. Dividends declared by us in October, November, or December of any year payable to a shareholder of record on a specified date in any such month shall be treated as both paid by us and received by shareholders on December 31 of such year, provided that the dividend is actually paid by us during January of the following calendar year. Taxable U.S. Shareholders may not include on their federal income tax returns any of our tax losses.

Capital Gain Dividends

Dividends to Taxable U.S. Shareholders that properly are designated by us as capital gain dividends will be treated by such shareholders as long-term capital gain, to the extent that such dividends do not exceed our actual net capital gain, without regard to the period for which the shareholders have held our common stock. Taxable U.S. Shareholders that are corporations may be required, however, to treat up to 20% of particular capital gain dividends as ordinary income. Capital gain dividends, like regular dividends from a real estate investment trust, are not eligible for the dividends received deduction for corporations.

Retained Capital Gains

A REIT may elect to retain, rather than distribute, its net long-term capital gain received during the tax year. To the extent designated in a notice from the REIT to its shareholders, the REIT will pay the income tax on such gains and Taxable U.S. Shareholders must include their proportionate share of the

undistributed net long-term capital gain so designated in their income for the tax year. Each Taxable U.S. Shareholder will be deemed to have paid its share of the tax paid by the REIT, which tax will be credited or refunded to such

shareholder.

Passive Activity Loss and Investment Interest Limitations

Distributions, including deemed distributions of undistributed net long-term capital gain, from us and gain from the disposition of our common stock will not be treated as passive activity income, and, therefore, Taxable U.S. Shareholders who are subject to the passive loss limitation rules of the Internal Revenue Code will not be able to apply any passive activity losses against such income. Distributions from us, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of the investment income limitation on deductibility of investment interest. However, net capital gain from the disposition of our common stock or capital gain dividends, including deemed distributions of undistributed net long-term capital gains, generally will be excluded from investment income.

Sale of Common Stock

Upon the sale of our common stock, a Taxable U.S. Shareholder generally will recognize gain or loss equal to the difference between the amount realized on such sale and the holder's tax basis in the common stock sold. To the extent that the common stock is held as a capital asset by the Taxable U.S. Shareholder, the gain or loss will be a long-term capital gain or loss if the common stock has been held for more than a year, and will be a short-term capital gain or loss if the common stock has been held for a shorter period. In general, however, any loss upon a sale of the common stock by a Taxable U.S. Shareholder who has held such common stock for six months or less (after applying certain holding period rules) will be treated as a long-term capital loss to the extent that distributions from us were required to be treated as long-term capital gain by that holder.

Taxation of Tax-Exempt Shareholders

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, which we refer to as Exempt Organizations, generally are exempt from federal income taxation. Exempt Organizations are subject to tax, however, on their unrelated business taxable income, or UBTI. UBTI is defined as the gross income derived by an Exempt Organization from an unrelated trade or business, less the deductions directly connected with that trade or business, subject to certain exceptions. While many investments in real estate generate UBTI, the Internal Revenue Service has issued a ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI, provided that the shares of the REIT are not otherwise used in an unrelated trade or business of the exempt employee pension trust. Based on that ruling, amounts distributed to Exempt Organizations generally should not constitute UBTI. However, if an Exempt Organization finances its acquisition of common stock with debt, a portion of its income from a REIT will constitute UBTI pursuant to the "debt-financed property" rules.

In addition, in certain circumstances, a pension trust that owns more than 10% of the stock of a REIT will be required to treat a percentage of the dividends paid by the REIT as UBTI based upon the percentage of the REIT's income that would constitute UBTI to the shareholder if received directly by it. This rule applies to a pension trust holding more than 10% (by value) of our common stock only if (i) the percentage of the income from us that is UBTI (determined as if we were a pension trust) is at least 5% and (ii) we are treated as a "pension-held REIT." We do not expect to qualify as a "pension-held REIT" and have covenanted not to become one in connection with our prior convertible trust preferred financing.

Taxation of Non-U.S. Shareholders

General

The rules governing United States federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships, foreign trusts and certain other foreign stockholders, which we refer to as Non-U.S. Shareholders, are complex and no attempt is made herein to provide more than a general summary of such rules. This discussion does not consider the tax rules applicable to all Non-U.S. Shareholders and, in particular, does not consider the special rules applicable to U.S. branches of foreign banks or insurance companies or certain intermediaries. Non-U.S. shareholders should consult with their own tax advisors to determine the impact of federal, state, local and foreign tax laws with regard to the election, including any reporting and withholding requirements.

Ordinary Dividends

General

Distributions to Non-U.S. Shareholders that are not attributable to gain from sales or exchanges by a REIT of United States real property interests and are not designated by a REIT as capital gain dividends (or deemed distributions of retained capital gains) will be treated as ordinary dividends to the extent that they are made out of current or accumulated earnings and profits of the REIT. Any portion of a distribution in excess of current and accumulated earnings and profits of the REIT will not be taxable to a Non-U.S. Shareholder to the extent that such distribution does not exceed the adjusted basis of the shareholder in the REIT's stock, but rather will reduce the adjusted basis of such shares. To the extent that the portion of the distribution in excess of current and accumulated earnings and profits exceeds the adjusted basis of a Non-U.S. Shareholder in our common stock, such excess generally will be treated as gain from the sale or disposition of the common stock and will be taxed as described below.

Withholding

Dividends paid to Non-U.S. Shareholders may be subject to U.S. withholding tax. If an income tax treaty does not apply and the Non-U.S. Shareholder's investment in the REIT's stock is not effectively connected with a trade or business conducted by the Non-U.S. Shareholder in the United States (or if a tax treaty does apply and the investment in the stock is not attributable to a United States permanent establishment maintained by the Non-U.S. Shareholder), ordinary dividends (i.e., distributions out of current and accumulated earnings and profits) will be subject to a U.S. withholding tax at a 30% rate, or, if an income tax treaty applies, at a lower treaty rate. Because we generally cannot determine at the time that a distribution is made whether or not it will be in excess of earnings and profits, we intend to withhold on the gross amount of each distribution at the 30% rate (or lower treaty rate) (other than distributions subject to the 35% FIRPTA withholding rules described below). To receive a reduced treaty rate, a Non-U.S. Shareholder must furnish us or our paying agent with a duly completed Form 1001 or Form W-8BEN (or authorized substitute form) certifying such holder's qualification for the reduced rate. Generally, a Non-U.S. Shareholder will be entitled to a refund from the IRS to the extent the amount withheld by us from a distribution exceeds the amount of United States tax owed by such shareholder.

In the case of a Non-U.S. Shareholder that is a partnership or a trust, the withholding rules for a distribution to such a partnership or trust will be

dependent on numerous factors, including (1) the classification of the type of partnership or trust, (2) the status of the partner or beneficiary, and (3) the activities of the partnership or trust. Non-U.S. Shareholders that are partnerships or trusts are urged to consult their tax advisors regarding the withholding rules applicable to them based on their particular circumstances.

If an income tax treaty does not apply, ordinary dividends that are effectively connected with the conduct of a trade or business within the United States by a Non-U.S. Shareholder (and, if a tax treaty applies, ordinary dividends that are attributable to a United States permanent establishment maintained by the Non-U.S. Shareholder) are exempt from U.S. withholding tax. In order to claim such exemption, a Non-U.S. Shareholder must provide us or our paying agent with a duly completed Form W-8ECI (or authorized substitute form) certifying such holder's exemption. However, ordinary dividends exempt from U.S. withholding tax because they are effectively connected or are attributable to a United States permanent establishment maintained by the Non-U.S. Shareholder generally are subject to U.S. federal income tax on a net income basis at regular graduated rates. In the case of Non-U.S. Shareholders that are corporations, any effectively connected ordinary dividends or ordinary dividends attributable to a United States permanent establishment maintained by the Non-U.S. Shareholder may, in certain circumstances, be subject to an additional branch profits tax at a 30% rate, or lower rate specified by an applicable income tax treaty.

Capital Gain Dividends

General

For any year in which we qualify as a REIT, distributions that are attributable to gain from sales or exchanges by us of United States real property interests will be taxed to a Non-U.S. Shareholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980, which is commonly referred to as FIRPTA. Under FIRPTA, distributions attributable to gain from sales of United States real property are taxed to a Non-U.S. Shareholder as if such gain were effectively connected with a United States trade or business. Non-U.S. Shareholders thus would be taxed at the regular capital gain rates applicable to Taxable U.S. Shareholders (subject to the applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). Distributions subject to FIRPTA also may be subject to a 30% branch profits tax in the hands of a corporate Non-U.S. Shareholder not otherwise entitled to treaty relief or exemption.

Withholding

Under FIRPTA, a REIT is required to withhold 35% of any distribution that is designated as a capital gain dividend or which could be designated as a capital gain dividend and is attributable to gain from the disposition of a United States real property interest. Moreover, if a REIT designates previously made distributions as capital gain dividends, subsequent distributions (up to the amount of the prior distributions so designated) will be treated as capital gain dividends for purposes of FIRPTA withholding.

Sale of Common Stock

A Non-U.S Shareholder generally will not be subject to United States federal income tax under FIRPTA with respect to gain recognized upon a sale of our common stock, if less than 50% of our assets during a prescribed testing period consist of interests in real property located within the United States

(excluding interests in real property solely in the capacity as a creditor) or we are a "domestically-controlled REIT." A domestically-controlled REIT generally is defined as a real estate investment trust in which at all times during a specified testing period less than 50% in value of the stock was held directly or indirectly by non-U.S. persons. Although currently it is anticipated that we will be a domestically-controlled REIT, and, therefore, that the sale of common stock will not be subject to taxation under FIRPTA, there can be no assurance that we will, at all relevant times, be a domestically-controlled REIT. If we are not a domestically-controlled REIT, a Non-U.S. Shareholder's sale of our stock will generally not be subject to tax under FIRPTA if (a) the stock is treated as "regularly traded" on an established securities market and (b) the seller held 5% or less of our stock at all times during a specified testing period. If the gain on the sale of our common stock were subject to taxation under FIRPTA, a Non-U.S. Shareholder would be subject to the same treatment as Taxable U.S. Shareholders with resp