
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 1-13355

SECURITY CAPITAL GROUP INCORPORATED

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation
or organization)

36-3692698

(I.R.S. Employer
Identification No.)

**125 Lincoln Avenue
Santa Fe, New Mexico**

(Address of principal executive offices)

87501

(Zip Code)

(505) 982-9292

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days.

Yes No

The number of shares outstanding of the Registrant's common stock as of August 8, 2001 was:

Class A Common Shares, \$.01 par value – 904,217 shares
Class B Common Shares, \$.01 par value – 92,355,394 shares

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SECURITY CAPITAL GROUP INCORPORATED
and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2001	December 31, 2000
<u>ASSETS</u>	(unaudited)	
Investments, at equity:		
Archstone Communities Trust	\$ —	\$ 488,884
CarrAmerica Realty Corporation	686,700	—
ProLogis Trust	537,889	565,184
Regency Centers Corporation	595,536	—
Security Capital European Realty	380,526	393,200
Security Capital U.S. Realty	—	925,417
Security Capital Research & Management:		
Security Capital Preferred Growth Incorporated	91,807	88,716
SC-US Real Estate Shares	15,451	14,988
Storage USA, Incorporated	<u>269,671</u>	<u>—</u>
	2,577,580	2,476,389
Real estate, less accumulated depreciation	2,073,647	999,278
Investments in publicly traded real estate securities, at market value	<u>10,769</u>	<u>10,993</u>
Total real estate investments	4,661,996	3,486,660
Cash and cash equivalents	35,391	28,917
Intangible assets	41,194	17,808
Deferred income taxes	153,606	—
Other assets	<u>174,485</u>	<u>103,828</u>
Total assets	<u>\$ 5,066,672</u>	<u>\$ 3,637,213</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Lines of credit	\$ 70,264	\$ 66,500
Mortgage and construction notes payable	475,342	45,668
Long-term debt	799,710	699,676
6.5% Convertible debentures	224,854	229,818
Capital lease obligation	134,954	137,017
Accounts payable and accrued expenses	179,338	112,650
Deferred income taxes	<u>—</u>	<u>52,832</u>
Total liabilities	1,884,462	1,344,161
Minority interests	52,647	63
Shareholders' Equity:		
Class A Common Shares, \$.01 par value; 15,543,012 shares authorized; 913,639 and 1,029,728 shares issued and outstanding in 2001 and 2000, respectively	9	10
Class B Common Shares, \$.01 par value; 234,199,346 shares authorized; 91,883,550 and 51,737,531 shares issued and outstanding in 2001 and 2000, respectively	919	517
Series B Preferred Shares, \$.01 par value; 257,642 shares issued and outstanding in 2001 and 2000; stated liquidation preference of \$1,000 per share	257,642	257,642
Additional paid-in capital	2,783,867	2,126,290
Accumulated other comprehensive income (loss)	(64,472)	(35,091)
Retained earnings (deficit)	<u>151,598</u>	<u>(56,379)</u>
Total shareholders' equity	<u>3,129,563</u>	<u>2,292,989</u>
Total liabilities and shareholders' equity	<u>\$ 5,066,672</u>	<u>\$ 3,637,213</u>

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

SECURITY CAPITAL GROUP INCORPORATED
and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
INCOME:				
Property revenues:				
BelmontCorp	\$ 4,837	\$ 2,938	\$ 9,001	\$ 5,257
City Center Retail Trust	5,391	—	10,674	—
CWS Communities Trust	14,159	—	26,059	—
Homestead Village Incorporated	59,470	67,295	121,991	126,836
InterPark	33,226	—	59,994	—
Equity in earnings (loss) of:				
Archstone Communities Trust	—	30,664	7,308	46,113
CarrAmerica Realty Corporation	16,641	—	29,474	—
ProLogis Trust	12,781	5,968	25,596	19,790
Regency Centers Corporation	14,775	—	27,067	—
Security Capital European Realty	12,609	(95)	13,132	584
Security Capital U.S. Realty	—	119,036	(16,475)	119,555
Security Capital Research & Management:				
Security Capital Preferred Growth				
Incorporated	7,834	7,723	5,738	10,001
SC-US Real Estate Shares	1,449	2,863	774	4,036
Storage USA, Incorporated	7,476	—	12,635	—
Realized capital gains (losses)	(188)	8,840	225,113	8,581
Other income, net	3,984	1,364	9,990	2,654
	<u>194,444</u>	<u>246,596</u>	<u>568,071</u>	<u>343,407</u>
EXPENSES:				
Property expenses:				
BelmontCorp	3,873	2,501	7,146	4,732
City Center Retail Trust	2,262	—	4,853	—
CWS Communities Trust	4,503	—	8,475	—
Homestead Village Incorporated	22,846	26,468	47,917	51,957
InterPark	19,448	—	36,124	—
General, administrative and other expenses, net of reimbursements from related parties	16,551	8,632	30,202	13,514
Depreciation and amortization	17,007	11,938	29,077	23,860
Interest expense	27,347	31,224	67,445	63,011
Provision for loss on investment	—	71,000	—	71,000
	<u>113,837</u>	<u>151,763</u>	<u>231,239</u>	<u>228,074</u>
Earnings from operations	80,607	94,833	336,832	115,333
Provision for income tax expense	(27,731)	(25,802)	(115,233)	(28,409)
Minority interests in net earnings of subsidiaries	(1,932)	(1,052)	(2,660)	(2,149)
Earnings before extraordinary item	50,944	67,979	218,939	84,775
Extraordinary item— gain (loss) on early extinguishment of debt, net of tax	—	6,074	(1,945)	6,152
Net earnings	50,944	74,053	216,994	90,927
Less Preferred Share dividends	(4,508)	(4,508)	(9,017)	(9,017)
Net earnings attributable to common shares	<u>\$ 46,436</u>	<u>\$ 69,545</u>	<u>\$ 207,977</u>	<u>\$ 81,910</u>

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

SECURITY CAPITAL GROUP INCORPORATED
and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME – (Continued)
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net earnings attributable to common shares	\$ 46,436	\$ 69,545	\$ 207,977	\$ 81,910
Other comprehensive income (loss):				
Foreign currency translation adjustments	<u>(9,966)</u>	<u>(5,849)</u>	<u>(29,381)</u>	<u>(18,047)</u>
Comprehensive income	<u>\$ 36,470</u>	<u>\$ 63,696</u>	<u>\$ 178,596</u>	<u>\$ 63,863</u>
Weighted-average Class B common share equivalents outstanding:				
Basic	<u>140,565</u>	<u>107,950</u>	<u>140,894</u>	<u>109,003</u>
Diluted	<u>152,868</u>	<u>120,058</u>	<u>159,804</u>	<u>121,101</u>
Earnings per share:				
Basic earnings before extraordinary items	\$ 0.33	\$ 0.59	\$ 1.49	\$ 0.70
Extraordinary item— gain (loss) on early extinguishment of debt, net	<u>—</u>	<u>0.05</u>	<u>(0.01)</u>	<u>0.05</u>
Basic net earnings attributable to common shares	<u>\$ 0.33</u>	<u>\$ 0.64</u>	<u>\$ 1.48</u>	<u>\$ 0.75</u>
Diluted earnings before extraordinary items	\$ 0.32	\$ 0.55	\$ 1.40	\$ 0.67
Extraordinary item— gain (loss) on early extinguishment of debt, net	<u>—</u>	<u>0.05</u>	<u>(0.01)</u>	<u>0.05</u>
Diluted net earnings attributable to common shares	<u>\$ 0.32</u>	<u>\$ 0.60</u>	<u>\$ 1.39</u>	<u>\$ 0.72</u>

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

**SECURITY CAPITAL GROUP INCORPORATED
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)**

	Six Months Ended	
	June 30,	
	2001	2000
Operating Activities:		
Net earnings	\$ 216,994	\$ 90,927
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Distributions in excess (less than) of equity in earnings of unconsolidated investees	14,234	(122,018)
Realized gains	(225,113)	(8,581)
Depreciation and amortization	29,077	23,860
Deferred income tax expense	33,235	21,108
Loss (gain) on early extinguishment of debt, net of tax	1,945	(6,152)
Provision for loss on real estate	—	71,000
Other	6,283	3,395
Decrease in other assets	17,977	1,546
(Decrease) increase in accounts payable and accrued expenses	(30,261)	6,802
Net cash flows provided by operating activities	<u>64,371</u>	<u>81,887</u>
Investing Activities:		
Real estate investments	(91,391)	(23,302)
Proceeds from sale of properties and land	80,314	19,622
Proceeds from sales of Archstone Communities Trust	700,285	—
Cash paid to dissenting shareholders of SC-U.S. Realty and transaction costs	(142,025)	—
Cash acquired from SC-U.S. Realty and consolidated subsidiaries	35,691	—
Purchase of minority interest in Homestead Village Incorporated	—	(65,356)
Other	1,878	5,208
Net cash flows provided by (used in) investing activities	<u>584,752</u>	<u>(63,828)</u>
Financing Activities:		
Proceeds from lines of credit	421,964	235,600
Payments on lines of credit	(485,959)	(191,649)
Proceeds from transaction loan	530,000	—
Payments on transaction loan	(530,000)	—
Proceeds from issuances of notes	94,414	5,486
Payments on mortgage notes and capital leases	(7,274)	(1,872)
Payment to redeem SC-U.S. Realty convertible debentures	(407,023)	—
Repurchase of common shares, net of issuances	(246,656)	(81,244)
Preferred dividends paid	(9,017)	(9,017)
Other	(3,098)	607
Net cash flows used in financing activities	<u>(642,649)</u>	<u>(42,089)</u>
Net increase (decrease) in cash and cash equivalents	6,474	(24,030)
Cash and cash equivalents, beginning of period	28,917	30,567
Cash and cash equivalents, end of period	<u>\$ 35,391</u>	<u>\$ 6,537</u>

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

SECURITY CAPITAL GROUP INCORPORATED
and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30,	
	2001	2000
Non-Cash Investing and Financing Activities:		
Acquisition of SC-U.S. Realty's assets for stock and cash:		
Investments in real estate operating companies, net of existing investment in SC-U.S. Realty	\$ 1,238,913	—
Assumption of SC-U.S. Realty convertible notes (subsequently redeemed)	(407,023)	—
Other liabilities assumed, net of other assets acquired	(11,367)	—
Net deferred tax assets acquired	214,415	—
Value of Security Capital common stock issued	(894,670)	—
Cash paid to dissenting SC-U.S. Realty stockholders and transaction costs, net of cash acquired from SC-U.S. Realty	\$ 140,268	—
Effect of SC-U.S. Realty's sale of Security Capital shares	\$ —	\$ 13,756
Exchange of Convertible Debentures for Archstone shares	\$ —	\$ 42,500

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

SECURITY CAPITAL GROUP INCORPORATED
and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) General

On January 16, 2001, Security Capital acquired the remaining shares of Security Capital U.S. Realty (SC-U.S. Realty) that it did not already own. As a result, all investees directly owned by SC-U.S. Realty are now under direct ownership of Security Capital. These investees include: CarrAmerica Realty Corporation (CarrAmerica), CWS Communities Trust (CWS Communities), City Center Retail Trust (City Center Retail), InterPark Holdings (InterPark), Regency Centers Corporation (Regency), and Storage USA, Incorporated (Storage USA).

The accompanying consolidated financial statements include the results of Security Capital, its wholly owned subsidiaries and its majority-owned investees, which include BelmontCorp (Belmont), City Center Retail, CWS Communities, Homestead Village Incorporated (Homestead), InterPark, and Security Capital European Real Estate Shares (SC-European Real Estate Shares). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of Security Capital's consolidated financial statements for the interim periods presented. Certain reclassifications have been made in the 2000 consolidated financial statements and notes to consolidated financial statements in order to conform to the 2001 presentation. The results of operations for the three and six-month periods ended June 30 are not necessarily indicative of the results to be expected for the entire year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements of Security Capital as of June 30, 2001, are unaudited and, pursuant to the rules of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements have been omitted. While management of Security Capital believes that the disclosures presented are adequate, these interim consolidated financial statements should be read in conjunction with Security Capital's 2000 audited consolidated financial statements contained in Security Capital's 2000 Annual Report on Form 10-K.

Security Capital has adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. This Statement establishes standards for accounting and reporting of derivative instruments. As of June 30, 2001, Security Capital and its consolidated subsidiaries did not have any material derivative instruments outstanding.

Revenue Recognition

Security Capital's subsidiaries enter into operating leases with tenants for various time periods and terms as follows:

SECURITY CAPITAL GROUP INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Parking Facilities - InterPark

In addition to daily parking revenue, InterPark leases certain parking facilities under agreements with varying terms. InterPark also manages certain facilities for third party owners and receives a management fee based upon a percentage of the facilities' revenue.

Retail Facilities – City Center Retail

City Center Retail leases retail space to tenants under agreements which contain provisions for base rent plus additional rents based on sales volume (percentage rents). Percentage rents are recognized as tenants' reported sales volume exceeds the sales volume level stated in the lease agreement.

Manufactured Housing Communities – CWS Communities

CWS Communities leases homesites under operating leases with initial terms typically of one year.

Senior Assisted Living - Belmont

Belmont collects fees for housing, support services, and additional services. Revenue is recognized when the services are rendered.

Extended Stay Lodging - Homestead

Homestead rents rooms in its hotel properties. Room revenue and other revenue are recognized when services are rendered.

For some properties, the Company's subsidiaries record as revenues tenant recoveries for taxes, maintenance, and other costs on certain leases. These revenues are recognized in the period in which the costs are incurred. Minimum rent is recognized on a straight-line basis over the term of the lease regardless of when the payments are due.

Intangible Assets

Intangible assets primarily represent the excess of purchase price over the fair value of net tangible assets acquired in business acquisitions. Intangible assets consist primarily of operating contracts and goodwill. The contracts are amortized over a straight-line basis over the periods to be benefited, not to exceed seven years. Goodwill is amortized on a straight-line basis over twenty years. Intangible assets are continually reviewed to assess recoverability.

Recent Accounting Pronouncements

In June 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" was issued which established standards for the accounting and reporting of goodwill and other intangible assets. Under this statement, goodwill is not amortized but is tested on an annual basis for impairment instead. Security Capital will adopt the provisions of this statement on January 1, 2002. It is uncertain if any impairment will be recognized upon adoption.

**SECURITY CAPITAL GROUP INCORPORATED
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

(2) Investments in Real Estate Related Entities and Real Estate

Security Capital holds the following investments at June 30, 2001:

<u>Investment</u>	<u>Type of Entity</u>	<u>Ownership</u>
EQUITY-METHOD INVESTEEES:		
<i>CarrAmerica</i>	Office REIT (publicly traded)	46.4%
<i>ProLogis Trust</i>	Industrial REIT (publicly traded)	28.7%
<i>Regency</i>	Grocery-anchored retail REIT (publicly traded)	59.6% ⁽¹⁾
<i>Storage USA</i>	Self-storage REIT (publicly traded)	43.0%
<i>SC-European Realty</i>	Global real estate investments (private entity)	34.6%
<i>SC-Preferred Growth</i>	Convertible security investments in real estate companies (private REIT)	9.2%
<i>SC-US Real Estate Shares</i>	U.S. real estate securities fund (mutual fund)	12.9%
CONSOLIDATED INVESTEEES:		
<i>Belmont</i>	Senior assisted living (private entity)	99.9%
<i>City Center Retail</i>	Retail (private entity)	99.9%
<i>CWS Communities</i>	Manufactured housing communities REIT (private entity)	94.1% ⁽²⁾
<i>Homestead</i>	Extended-stay lodging (private entity)	99.9%
<i>InterPark</i>	Parking facility ownership and management (private entity)	97.3%
<i>SC-European Real Estate Shares</i>	European real estate securities fund (mutual fund)	99.9%

⁽¹⁾Although Security Capital owns a majority interest of shares outstanding, this entity is not consolidated as voting rights do not exceed 49% per agreement with the investee.

⁽²⁾On August 3, 2001, Security Capital completed the sale of its investment in CWS Communities Trust for net after-tax proceeds of \$270.0 million. See footnote 8 for further discussion.

SECURITY CAPITAL GROUP INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Security Capital received dividends from its investees as follows (in thousands, except per share amounts):

	Dividends Received			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
Dividends:				
Archstone ⁽¹⁾	\$ —	\$ 20,386	\$ 13,006	\$ 41,384
CarrAmerica	13,229	—	26,458	—
CWS Communities ⁽²⁾	3,846	—	3,846	—
Homestead ⁽²⁾	—	25,000	—	25,000
ProLogis	17,217	16,718	34,434	33,436
Regency	17,137	—	34,273	—
SC-European Real Estate Shares ⁽²⁾	120	51	120	51
SC-Preferred Growth	1,323	1,323	2,646	2,646
SC-US Real Estate Shares	161	261	312	595
Storage USA	8,354	—	8,354	—
	<u>\$ 61,387</u>	<u>\$ 63,739</u>	<u>\$123,449</u>	<u>\$103,112</u>

	Dividend Amount Per Investee Share			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
Dividends:				
Archstone ⁽¹⁾	\$ —	\$ 0.3850	\$ 0.4252	\$ 0.7700
CarrAmerica	0.4625	—	0.9250	—
CWS Communities ⁽²⁾	0.1500	—	0.1500	—
Homestead ⁽²⁾	—	0.2083	—	0.2083
ProLogis	0.3450	0.3350	0.6900	0.6700
Regency	0.5000	—	1.0000	—
SC-European Real Estate Shares ⁽²⁾	0.1172	0.0501	0.1172	0.0501
SC-Preferred Growth	0.3350	0.3350	0.6700	0.6700
SC-US Real Estate Shares	0.1200	0.1238	0.2323	0.2487
Storage USA	0.7100	—	0.7100	—

⁽¹⁾On February 28, 2001, Security Capital sold substantially all of its remaining investment in Archstone. (See footnote 8 for further discussion).

⁽²⁾Dividends from these consolidated investees to Security Capital are eliminated in consolidation.

SECURITY CAPITAL GROUP INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following summarizes real estate investments of Security Capital's consolidated investees as of June 30, 2001 and December 31, 2000 (in thousands):

	<u>Estimated Useful Lives (in years)</u>	<u>June 30, 2001</u>	<u>December 31, 2000</u>
<u>Belmont:</u>			
Senior assisted living properties:	20 – 40		
Operating communities		\$ 97,717	\$ 53,793
Communities under construction		50,108	64,858
Communities in planning		17,947	14,302
Land held for future development		<u>777</u>	<u>777</u>
Total real estate, at cost		166,549	133,730
Less accumulated depreciation		<u>(3,610)</u>	<u>(2,548)</u>
Subtotal		<u>162,939</u>	<u>131,182</u>
 <u>City Center Retail (acquired on January 16, 2001):</u>			
Retail facilities:	20 – 40		
Operating properties		98,232	—
Re-developments under construction		<u>22,615</u>	<u>—</u>
Total real estate, at cost		120,847	—
Less accumulated depreciation		<u>(10,492)</u>	<u>—</u>
Subtotal		<u>110,355</u>	<u>—</u>
 <u>CWS Communities (acquired on January 16, 2001):</u>			
Manufactured housing properties:	10 - 30		
Operating communities		381,876	—
Communities under construction		12,646	—
Land held for development		<u>13,344</u>	<u>—</u>
Total real estate, at cost		407,866	—
Less accumulated depreciation		<u>(30,358)</u>	<u>—</u>
Subtotal		<u>377,508</u>	<u>—</u>
 <u>Homestead:</u>			
Extended stay lodging properties:	20 - 40		
Owned properties		729,950	719,400
Properties under capital lease		145,000	145,000
Developments under construction		—	2,787
Properties held for sale		13,572	84,391
Land held for sale		<u>1,402</u>	<u>2,532</u>
Total real estate, at cost		889,924	954,110
Less accumulated depreciation		<u>(103,350)</u>	<u>(86,014)</u>
Subtotal		<u>786,574</u>	<u>868,096</u>
 <u>InterPark (acquired on January 16, 2001):</u>			
Parking facilities:	20 - 40		
Operating properties		655,590	—
Developments under construction		<u>868</u>	<u>—</u>
Total real estate, at cost		656,458	—
Less accumulated depreciation		<u>(20,187)</u>	<u>—</u>
Subtotal		<u>636,271</u>	<u>—</u>
Real Estate, less accumulated depreciation		<u>\$ 2,073,647</u>	<u>\$ 999,278</u>

SECURITY CAPITAL GROUP INCORPORATED
and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In the first quarter of 2001, Homestead sold 24 of its first-generation properties for proceeds of \$81.4 million. The proceeds were used to pay down existing debt (including intercompany debt owed to Security Capital). These properties were not representative of Homestead's current competitive design and location strategies.

Regency

Regency is a significant subsidiary as defined by the Securities and Exchange Commission. A summarized income statement of Regency follows (in thousands):

	<u>Three Months Ended</u> <u>June 30, 2001</u>	<u>Six Months Ended</u> <u>June 30, 2001</u>
Revenues	\$ 92,571	\$ 183,018
Operating expenses	(42,090)	(84,177)
Net interest expense	(17,830)	(35,190)
Minority interest and other	(8,502)	(16,356)
Net income	24,149	47,295
Preferred stock dividends	(744)	(1,478)
Net income for common stockholders	<u>23,405</u>	<u>45,817</u>
Net income per share:		
Basic	<u>\$ 0.41</u>	<u>\$ 0.80</u>
Diluted	<u>\$ 0.41</u>	<u>\$ 0.80</u>

(3) Intangible Assets

Intangible assets, which arise primarily at InterPark, at June 30, 2001 and December 31, 2000 were (in thousands):

	<u>June 30,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
Goodwill	\$ 37,131	\$ 17,808
Other	4,063	—
	<u>\$ 41,194</u>	<u>\$ 17,808</u>

Amortization expense for the three and six months ended June 30, 2001 was \$2.6 million and \$4.5 million, respectively, and \$0.2 million and \$0.4 million for the three and six months ended June 30, 2000, respectively.

(4) Segment Reporting

Security Capital operates its business in one reportable segment—ownership of real estate operating and capital management companies. This segment records revenues by reporting its pro-rata share of its investees' earnings before depreciation, amortization and deferred taxes (EBDADT). EBDADT of investees which are not REITs or which conduct development-for-sale activities, include gains and losses on sales of operating properties.

SECURITY CAPITAL GROUP INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Presented below is a statement of EBDADT reconciled to net earnings.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Equity in EBDADT of investees/divisions	\$ 136,148	\$109,056	\$ 273,167	\$ 208,227
Interest and other income	<u>1,879</u>	<u>244</u>	<u>6,311</u>	<u>956</u>
Total income	138,027	109,300	279,478	209,183
Operating expenses	7,871	9,943	15,897	18,174
Interest expense	<u>17,974</u>	<u>20,851</u>	<u>40,641</u>	<u>41,343</u>
Total expense	<u>25,845</u>	<u>30,794</u>	<u>56,538</u>	<u>59,517</u>
Convertible preferred share dividends	<u>4,508</u>	<u>4,508</u>	<u>9,017</u>	<u>9,017</u>
Basic EBDADT before current income taxes and special items	107,674	73,998	213,923	140,649
Current income tax expense	<u>11,233</u>	<u>3,786</u>	<u>23,871</u>	<u>7,065</u>
Basic EBDADT before special items	96,441	70,212	190,052	133,584
Realized gains (losses)	395	226	880	(568)
Extraordinary gain (loss) on retirement of debt, net of tax	—	6,074	(1,945)	6,152
Gain on sale of Archstone stock, net of tax	(178)	8,747	160,087	8,747
Other, net	<u>—</u>	<u>(491)</u>	<u>—</u>	<u>1,182</u>
Basic EBDADT after special items	96,658	84,768	349,074	149,097
Investee reconciling items:				
Real estate depreciation	(57,141)	(42,163)	(120,136)	(84,560)
Gains on sale of depreciated properties	3,724	14,318	13,237	17,605
Provision for loss on real estate	—	(71,000)	—	(71,000)
Unrealized gains and foreign currency gains (losses)	8,262	113,279	1,678	110,483
EBDADT, net of dividends from strategic investees of SC-U.S. Realty	—	(8,341)	—	(17,702)
Other	<u>5,047</u>	<u>1,637</u>	<u>(6,242)</u>	<u>(762)</u>
	<u>(40,108)</u>	<u>7,730</u>	<u>(111,463)</u>	<u>(45,936)</u>
Security Capital reconciling items:				
Deferred tax expense	(14,042)	(21,895)	(31,210)	(21,108)
Other	<u>3,928</u>	<u>(1,058)</u>	<u>1,576</u>	<u>(143)</u>
	<u>(10,114)</u>	<u>(22,953)</u>	<u>(29,634)</u>	<u>(21,251)</u>
Net earnings attributable to common shares	<u>\$ 46,436</u>	<u>\$ 69,545</u>	<u>\$ 207,977</u>	<u>\$ 81,910</u>

(5) Indebtedness

A summary of indebtedness as of June 30, 2001, is as follows (in thousands):

	<u>Security Capital</u>	<u>Belmont</u>	<u>CWS</u>	<u>Homestead</u>	<u>InterPark</u>	<u>Total</u>
Lines of credit	\$ 59,000	\$ —	\$ 6,100	\$ 5,100	\$ 64	\$ 70,264
Mortgage and construction notes payable	—	59,032	159,474	—	256,836	475,342
Long-term debt	699,710	—	—	—	100,000	799,710
Convertible debentures	224,854	—	—	—	—	224,854
Capital lease obligation	—	—	—	134,954	—	134,954

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On June 12, 2001, Security Capital amended its unsecured revolving line of credit with Wells Fargo Bank, National Association (Wells Fargo), as agent for a group of vendors. Up to \$450 million can be drawn on the line and borrowings accrue at LIBOR plus a margin (1.2% at June 30, 2001), based upon Security Capital's credit rating, or a Base Rate defined as the higher of Wells Fargo prime rate or the Federal Fund's rate plus 0.50%.

CWS Communities has a \$50 million revolving line of credit that is collateralized by certain communities. Borrowings bear interest at LIBOR or a Base Rate (as defined) plus applicable margins (ranging from 1.5% to 1.75%). The maturity date is September 15, 2002, with an option to renew for one-year extensions with approval. CWS Communities also has mortgages payable collateralized by certain communities. The mortgages bear interest at rates ranging from 6.86% to 8.63% and have maturity dates from September 2001 to January 2011.

On April 27, 2001 Homestead entered into an amended and restated credit facility which provides for a revolving line of up to \$35.0 million in borrowings, a reduction in the interest rate to 2.0% over LIBOR (previously LIBOR plus 3.0%), a reduction in the commitment fee to 0.25% on the undrawn balance (previously 0.375%), an extension of the maturity date to February 2004, and a reduction in the collateral pool to 7 properties. The amended facility requires maintenance of financial ratio and coverage covenants similar to the prior facility and permits payment of dividends based upon a definition of free cash flow.

InterPark has mortgages payable collateralized by certain properties. The mortgages bear interest at rates ranging from 8.0% to 9.3% and have maturity dates from December 2001 to December 2048. InterPark also has \$100 million of subordinated convertible debt financing bearing interest at 7% (4% due semi-annually and 3% deferred until maturity). The debt can be converted into common stock of InterPark at any time at conversion rates ranging from \$12.20 to \$13.31 per share, depending on the date. The loan matures in June 2010.

Security Capital does not guarantee, and is not liable for, the debt incurred by its subsidiaries.

(6) Shareholders' Equity

Share Repurchase Program:

On April 23, 2001, Security Capital announced the final results of its modified Dutch auction self-tender offer, which expired April 17, 2001. The Company purchased approximately 9.3 million shares of Class B common stock at a purchase price of \$20.50 per share, or a total of approximately \$191 million.

As of June 30, 2001, Security Capital had repurchased 31.9 million Class B equivalent shares for a combined purchase price of \$541 million since August 1999, when the program was initially announced.

SECURITY CAPITAL GROUP INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Per Share Data:

The following is a reconciliation of the numerators and denominators used to calculate basic and diluted earnings per Class B Shares (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net earnings attributable to Common Shares-Basic	\$ 46,436	\$ 69,545	\$207,977	\$ 81,910
Convertible debenture interest expense, net of tax	2,505	2,651	5,027	5,390
Preferred share dividends	—	—	9,017	—
Net earnings attributable to Common Shares-Diluted	<u>\$ 48,941</u>	<u>\$ 72,196</u>	<u>\$222,021</u>	<u>\$ 87,300</u>
 Weighted-average Class B Common				
Shares outstanding-Basic	140,565	107,950	140,894	109,003
Increase in shares which would result from:				
Exercise of options and warrants	2,314	1,554	2,286	1,175
Conversion of convertible debentures	9,989	10,554	10,018	10,923
Conversion of preferred shares	—	—	6,606	—
Weighted-average Class B Common				
Shares outstanding-Diluted	<u>152,868</u>	<u>120,058</u>	<u>159,804</u>	<u>121,101</u>

For the three and six months ended June 30, 2001, convertible securities issued by InterPark are not assumed converted as the effect is anti-dilutive.

For the six months ended June 30, 2001, Security Capital's convertible preferred shares are assumed converted as the effect is dilutive.

(7) Commitments and Contingencies

As of August 8, 2001, Security Capital and its affiliates have a remaining funding commitment to SC-European Realty of \$77.7 million. In addition, Security Capital has a remaining funding commitment of \$87.5 million to Belmont. At June 30, 2001, Belmont had approximately \$43 million of unfunded commitments for developments under construction and InterPark has approximately \$21 million of unfunded commitments for acquisitions/developments.

(8) Sale of Investments

As discussed in Note 2, Security Capital sold substantially all of its remaining shares of Archstone stock in February 2001, resulting in a gain of \$217 million and generating \$700.3 million of proceeds, and \$57.3 million of estimated income taxes.

Also, as discussed in Note 2, on August 3, 2001, Security Capital completed the sale of CWS Communities Trust for net after-tax proceeds of \$270.0 million.

SECURITY CAPITAL GROUP INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(9) Purchase of SC-U.S. Realty Assets

On January 16, 2001, SC Realty Incorporated, an indirect wholly-owned subsidiary of Security Capital, purchased all of the assets of SC-U.S. Realty in exchange for the issuance of 45.4 million Class B Shares with a market value of \$894.7 million and the payment of \$112 million in cash to SC-U.S. Realty shareholders who elected to receive cash. In addition, Security Capital funded \$434 million to repay indebtedness of SC-U.S. Realty existing on the date of acquisition. As a result of the acquisition, all investees directly owned by SC-U.S. Realty are now under direct ownership of Security Capital.

The acquisition was accounted for under the purchase method of accounting. Because the fair-value of the assets acquired was more than the purchase price, approximately \$652.5 million of negative goodwill was recognized. The negative goodwill reduced the investments in the three real estate companies that are accounted for under the equity method of accounting and the long-lived assets of the three real estate companies that are consolidated, namely their real estate and intangible assets.

The following pro forma financial information for the six months ended June 30, 2000 assumes that the acquisition of SC-U.S. Realty had occurred on January 1, 2000 (in thousands, except per share amounts):

Income	\$351,209
Expenses	<u>336,009</u>
Net earnings	<u>\$ 15,200</u>
Net earnings per share:	
Basic	<u>\$0.10</u>
Diluted	<u>\$0.10</u>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Security Capital Group Incorporated:

We have reviewed the accompanying consolidated balance sheet of Security Capital Group Incorporated and subsidiaries (see note 1) as of June 30, 2001, and the related consolidated statements of earnings and comprehensive income for the three and six month periods ended June 30, 2001 and the consolidated statements of cash flows for the six month periods ended June 30, 2001 and 2000. These financial statements are the responsibility of the Management of the Company. We were furnished with the reports of other accountants on their reviews of the financial statements of Archstone Communities Trust for the six month period ended June 30, 2000, Storage USA Incorporated for the three month period ended March 31, 2001 and of CarrAmerica Realty Corporation, Regency Centers Corporation and Security Capital European Realty all for the three and six month periods ended June 30, 2001, whose total assets collectively represent 32.8% of the total assets of Security Capital Group Incorporated and subsidiaries as of June 30, 2001 and whose revenues collectively represent 12.5% and 13.4% of the total revenues of Security Capital Group Incorporated and subsidiaries for the six month periods ended June 30, 2001 and 2000, respectively.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review and the reports of other accountants, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Security Capital Group Incorporated and subsidiaries as of December 31, 2000, and, in our report dated March 16, 2001, we expressed an unqualified opinion on that statement based on our audit and reports of other auditors. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

ARTHUR ANDERSEN LLP

Chicago, Illinois
August 14, 2001

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on current expectations, management's beliefs, and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance. Actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Security Capital undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

See Security Capital's 2000 Annual Report on Form 10-K for a discussion of various risk factors associated with forward-looking statements made in this document.

Overview

The results of operations are discussed below, followed by a discussion of Security Capital's Liquidity and Capital Resources. These sections should be read in conjunction with the consolidated financial statements and accompanying notes thereto and Security Capital's 2000 Annual Report on Form 10-K.

Results of Operations

Three and Six Months Ended June 30, 2001 Compared to Three and Six Months Ended June 30, 2000

A substantial portion of Security Capital's earnings are generated by transactional activities in several of its investees. The timing and frequency of these vary, which may lead to fluctuations in consolidated results quarter to quarter.

Investments in Public Companies

Security Capital generates earnings from its investments in public companies. These investments are not consolidated and Security Capital reports its share of their respective earnings. Cash flow from the investments in public companies are generated through receipt of dividends. (See note 2 to the consolidated financial statements for detail of dividends received.)

Presented below is Security Capital's equity in earnings (loss) and common share ownership of its investment in public companies for the periods indicated. Explanations of earnings changes at the investee level, which materially impacted Security Capital's equity in earnings, follow the table (dollar amounts in millions).

	Equity in Earnings (Loss)					
	Three Months Ended		Six Months Ended		% Ownership	
	June 30,		June 30,		as of June 30,	
	2001	2000	2001	2000	2001	2000
Archstone	\$ —	\$ 30.7	\$ 7.3	\$ 46.1	—	38.0 %
ProLogis	12.8	6.0	25.6	19.8	28.7 %	30.5 %
SC-U.S. Realty	—	119.0	(16.5)	119.6	—	40.6 %
CarrAmerica	16.6	—	29.5	—	46.4 %	—
Regency	14.8	—	27.1	—	59.6 % ⁽¹⁾	—
Storage USA	7.5	—	12.6	—	43.0 %	—
	<u>\$ 51.7</u>	<u>\$ 155.7</u>	<u>\$ 85.6</u>	<u>\$ 185.5</u>		

⁽¹⁾Although Security Capital owns a majority interest of shares outstanding, this entity is not consolidated as voting rights may not exceed 49% per agreement with the investee.

Archstone

Security Capital sold its investment in Archstone between July 2000 and February 2001, including the February 28, 2001 sale of substantially all of its remaining 31.7 million Archstone shares (realizing a gain of \$217.1 million). Hence, Security Capital's equity in earnings from Archstone for the three and six months ended June 30, 2001 declined.

ProLogis

ProLogis' increase in earnings for the three months ended June 30, 2001 compared to the same period in 2000 was due to increased earnings from its joint ventures and lower foreign currency exchange losses, partially offset by an impairment adjustment to the value of a technology investment. The increase in earnings for the six months ended June 30, 2001 compared to the same period in 2000 was due to an increase in contribution from its corporate distribution facilities service business and lower foreign currency exchange losses, partially offset by losses in its temperature-controlled distribution operations and the above mentioned impairment adjustment.

SC-U.S. Realty

For the period from January 2, 2001 through January 16, 2001, SC-U.S. Realty recognized unrealized losses on the market value of its investments in public real estate companies.

As a result of the acquisition of the assets of SC-U.S. Realty on January 16, 2001, Security Capital no longer records its share of SC-U.S. Realty's earnings (which were significantly affected by unrealized securities gains and losses); rather, it records its share of earnings from the former investees of SC-U.S. Realty. The following discusses changes in the result of operations of former SC-U.S. Realty investees.

CarrAmerica

CarrAmerica's earnings from continuing operations increased by \$2.7 million to \$32.6 million for the three months ended June 30, 2001 compared to the same period in 2000 due to an increase in fee service revenues for build-to-suit development, project and construction management, leasing and facility and property management services for third party customers. Earnings from continuing operations for the six months ended June 30, 2001 of \$62.8 million were relatively comparable compared to the same period in 2000 as the increase in fee service revenues above were substantially offset by lower gains on sale of assets in 2001.

Regency

Regency's net income increased by \$8.0 million to \$23.4 million for the three months ended June 30, 2001 compared to the same period in 2000 due primarily to 4.4% same-store net operating income growth and \$6.9 million provision for loss recorded in 2000. Net income for the six months ended June 30, 2001 increased by \$8.8 million to \$45.8 million compared to the same period in 2000 primarily due to the above mentioned provision.

Storage USA

Storage USA's net income increased by \$2.1 million to \$17.2 million for the three months ended June 30, 2001 and increased \$1.4 million to \$31.1 million for the six months ended June 30, 2001 compared to the same periods in 2000. Both increases were due to revenue growth of 7.5% on a same store basis partially offset by an increase in property level expenses.

Investments in Private Divisions

Security Capital has significant investments in several real estate companies that operate as private divisions. Security Capital owns all or substantially all of each of these operating companies. Security Capital consolidates the results of the activities of Belmont, CWS Communities, City Center Retail, Homestead and InterPark.

Belmont

The increase in Belmont's property revenues and expense is due to additional operating properties. Belmont has six operating properties: three have achieved stabilized occupancy levels and three are prestabilized, compared to all four properties being prestabilized at June 30, 2000. Belmont has four properties under construction.

CWS Communities

CWS Communities' property revenues for the three and six months ended June 30, 2001 increased by 9.3% and 14.5% compared to the three and six months ended June 30, 2000. On August 3, 2001, Security Capital sold its investment in CWS to Chateau Communities Inc. for net after-tax cash proceeds of \$270.0 million.

City Center Retail

City Center Retail has two operating properties and one property under redevelopment. Management is evaluating strategic alternatives, which could include the sale of a portion or all of its assets.

Homestead

In the fourth quarter of 2000 and first quarter of 2001, Homestead completed the sale of 25 first-generation properties. The proceeds were used to repay existing debt (including intercompany debt owed to Security Capital). These properties were not representative of Homestead's current competitive design and location strategies.

Overall property level results for Homestead are summarized below (in millions):

	Three Months Ended		Six Months Ended	
	June 30 ,		June 30,	
	2001	2000	2001	2000
Property revenues	\$ 59.5	\$ 67.3	\$ 122.0	\$ 126.8
Total room expense	<u>(22.8)</u>	<u>(26.5)</u>	<u>(47.9)</u>	<u>(52.0)</u>
Net operating income	<u>\$ 36.7</u>	<u>\$ 40.8</u>	<u>\$ 74.1</u>	<u>\$ 74.8</u>

Same Store⁽¹⁾ Property Performance

Occupancy %	77.4%	83.4%	76.3%	78.1%
Weekly Revenue per Available Room	\$ 310	\$ 310	\$ 312	\$ 290

⁽¹⁾Includes 111 stabilized properties (\$940 million investment) as of June 30, 2001.

The decrease in net operating income from 2000 to 2001 was due to the decrease in the number of operating facilities. Homestead had 111 and 136 operating properties at June 30, 2001 and 2000, respectively.

InterPark

In January 2001, Urban Growth Property Trust (Urban Growth) merged into InterPark Holdings, the property manager for most of Urban Growth's properties and is now part of InterPark. Because of the merger, prior year information is not comparable.

Security Capital Research & Management

Security Capital Research & Management (formerly Global Capital Management Group) manages or advises capital invested in publicly traded and privately owned real estate companies and securities for investment companies, institutional separate accounts and high net worth clients. The equity in earnings of Security Capital Research & Management's investees includes changes in unrealized gains or losses for SC-Preferred Growth and SC-US Real Estate Shares. These changes are a result of fluctuating market prices for the shares in their underlying investments and are reflected in earnings as these investees use fair value accounting. Fluctuations in market prices do not have an impact on cash flow. During the three and six months ended June 30, 2001, a general increase in security prices has positively impacted such equity in earnings.

Security Capital Research & Management continues to add new investment management clients. Assets managed for separate accounts increased from \$765 million at June 30, 2000 to \$1.0 billion at June 30, 2001.

SC-Preferred Growth

SC-Preferred Growth's earnings for the three months ended June 30, 2001, compared to the same period in 2000, were unchanged as a result of comparable increases in the market prices of its investments. SC-Preferred Growth's earnings for the six months ended June 30, 2001 were lower compared to the same period in 2000 as a result of a general decline in security prices during the first three months of the year.

SC-US Real Estate Shares

The decrease in earnings for the three and six months ended June 30, 2001 compared to the same periods in 2000 was due to the decrease in Security Capital's ownership from 24.4% at June 30, 2000 to 12.9 % at June 30, 2001.

SC-European Realty

SC-European Realty's current investments are primarily in operating and development companies with significant pre-stabilized assets in three businesses. The increase in earnings for the three and six months ended June 30, 2001 compared to the same periods in 2000 was due to gains on sales of office development properties, which were partially offset by increased foreign exchange losses due to the change in foreign exchange rates. In addition, SC-European Realty's parking affiliate's operating performance increased due to acquisitions and improved operations. It is expected that earnings, excluding the impact of property sales, for SC-European Realty will increase as additional properties reach stabilization. However, there is no assurance this will occur and failure to do so would impair the ability of SC-European Realty to grow both its portfolio and its earnings. A substantial portion of SC-European Realty's earnings are generated by transactional activities in several of its investees. The timing and frequency of these activities are difficult to predict, which may lead to variations in consolidated results quarter to quarter.

EBDADT

Earnings before depreciation, amortization and deferred taxes, or EBDADT, is considered by management to be an additional measure of operating performance for Security Capital and its affiliates, supplementing net earnings as measured by GAAP. Among other things, GAAP net earnings includes the impact of real estate depreciation. The value of real estate assets generally changes in response to existing market conditions and does not necessarily diminish in value predictably over time, as historical cost depreciation implies. Therefore, consistent with real estate industry practice, EBDADT adjusts GAAP net earnings by eliminating real estate related depreciation. EBDADT also involves certain other adjustments, the most material being the omission of changes in unrealized gains and losses on real estate securities due to fluctuations in market prices. EBDADT of investees who are not REITs or who conduct development-for-sale activities include gains and losses on sales of operating properties. EBDADT should not be considered as an alternative to net earnings or any other GAAP measurement of performance or as an alternative to cash flows from operating, investing or financing activities, or as a measure of Security Capital's liquidity.

Components of EBDADT before special items are (in thousands):

	Three Months Ended		Six Months Ended	
	June 30 ,		June 30,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Equity in EBDADT of investees/divisions	\$ 136,148	\$ 109,056	\$ 273,167	\$ 208,227
Interest and other income	<u>1,879</u>	<u>244</u>	<u>6,311</u>	<u>956</u>
Total income	<u>138,027</u>	<u>109,300</u>	<u>279,478</u>	<u>209,183</u>
Operating expenses	<u>7,871</u>	<u>9,943</u>	<u>15,897</u>	<u>18,174</u>
Interest expense	<u>17,974</u>	<u>20,851</u>	<u>40,641</u>	<u>41,343</u>
Total expenses	<u>25,845</u>	<u>30,794</u>	<u>56,538</u>	<u>59,517</u>
Convertible preferred share dividends	<u>4,508</u>	<u>4,508</u>	<u>9,017</u>	<u>9,017</u>
Basic EBDADT before current income taxes and special items	107,674	73,998	213,923	140,649
Current income tax expense	<u>11,233</u>	<u>3,786</u>	<u>23,871</u>	<u>7,065</u>
Basic EBDADT before special items	<u>\$ 96,441</u>	<u>\$ 70,212</u>	<u>\$ 190,052</u>	<u>\$ 133,584</u>

Provision for Income Taxes

The effective tax rate for the first six months of 2001 was 34.5%, which is slightly lower than the expected corporate tax rate of 35% due to non-taxable earnings of a foreign subsidiary.

For the first six months of 2000, the effective tax rate was 25.1%, which is lower than the expected corporate tax rate of 35% due to the use of a capital loss carry-forward due to a capital gain recognized in 2000 and non-taxable earnings of a foreign subsidiary.

The effective tax rate for 2001 is likely to increase compared to 2000 as net operating loss carryforwards were completely utilized during 2000.

Security Capital's tax basis in any investee is generally equal to its original cost basis for such asset, reduced by the portion of the cumulative dividends received from such investee which have been characterized for tax purposes as return on capital.

Security Capital's basis on which taxes would be calculated upon a sale of the investments in its strategic investees at June 30, 2001, was as follows (in thousands):

Belmont	\$ 92,486
CarrAmerica	711,578
City Center Retail	177,154
Homestead	530,097
InterPark	210,675
ProLogis	636,361
Regency	722,467
SC-European Realty	440,548
SC-Preferred Growth	77,402
Storage USA	377,982

Liquidity and Capital Resources

Investment Activity

Security Capital's investment activity primarily consists of allocations to and redemptions from its capital in its various affiliates. The following table summarizes Security Capital's capital allocations to and (proceeds from or redemptions of) its primary investments (in millions):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
Archstone	\$ —	\$ (32.7)	\$ (700.3)	\$ (32.7)
CarrAmerica ⁽¹⁾	—	—	683.7	—
City Center Retail ⁽¹⁾	—	—	141.6	—
CWS ⁽¹⁾	—	—	187.2	—
InterPark ⁽¹⁾	—	—	294.9	—
Regency ⁽¹⁾	—	—	602.7	—
Storage USA ⁽¹⁾	—	—	265.4	—
SC-US Real Estate Shares	—	(6)	—	—
(7.3) SC-U.S. Realty	—	—	(908.8)	—
Net real estate investment (proceeds):				
Belmont	15.3	13.1	32.7	19.3
City Center Retail	(14.0)	—	(13.4)	—
CWS Communities	(5.5)	—	(4.6)	—
Homestead	3.2	2.5	7.0	4.1
InterPark	5.5	—	73.7	—
Homestead proceeds from sale of land	—	(9.6)	80.3	(19.6)

⁽¹⁾ Reflects allocated purchase price paid to acquire SC-U.S. Realty's assets.

Real estate investments reflect development activity at Security Capital's consolidated subsidiaries.

Financing Activity

In January 2001, Security Capital obtained a \$530 million transaction loan to finance the acquisition of SC-U.S. Realty's assets and to retire that company's debt. This loan was entirely repaid in February 2001 with the proceeds from the sale of 31.7 million shares of Archstone common shares.

On April 27, 2001 Homestead entered into an amended and restated credit facility which provides for a revolving line of up to \$35.0 million in borrowings, a reduction in the interest rate to 2.0% over LIBOR (previously LIBOR plus 3.0%), a reduction in the commitment fee to 0.25% on the undrawn balance (previously 0.375%), an extension of the maturity date to February 2004, and a reduction in the collateral pool to 7 properties. The amended facility requires maintenance of financial ratio and coverage covenants similar to the prior facility and permits payment of dividends based upon a definition of free cash flow.

On June 12, 2001, Security Capital amended its unsecured revolving line of credit with Wells Fargo Bank, National Association (Wells Fargo) as agent for a group of vendors. Up to \$450 million can be drawn on the line and borrowings accrue at LIBOR plus a margin (1.2% at June 30, 2001), based upon Security Capital's credit rating, or a Base Rate (defined as the higher of Wells Fargo prime rate or the Federal Funds rate plus 0.50%).

Cash Flow from Operations

Cash flow from operations decreased from \$81.9 million to \$64.4 million for the six months ended June 30, 2000 and 2001, respectively. The decrease was due to dividends not being received from Archstone due to sale of that investment and the payment of \$56.8 million income taxes on that sale, partially offset by additional dividends received from former investees of SC-U.S. Realty that are now directly owned by Security Capital.

Current taxes increased due to the 2001 sale of Archstone shares resulting in \$217 million in capital gains and the complete utilization of net operating losses during 2000. Not including the income taxes related to the Sale of Archstone, cash flow from operations would have been \$121.2 million.

Stock and Debenture Repurchase Programs

On April 23, 2001, Security Capital announced the final results of its modified Dutch auction self-tender offer, which expired April 17, 2001. The Company purchased approximately 9.3 million shares of Class B common stock at a purchase price of \$20.50 per share, or a total of approximately \$191 million.

As of June 30, 2001, Security Capital had repurchased 31.9 million Class B equivalent shares for a combined purchase price of \$541 million since August 1999 and \$60.3 million of 6.5% convertible subordinated debentures (\$80.5 million principal amount).

Future Capital Commitments and Liquidity

As of August 8, 2001, Security Capital and its affiliates have a remaining funding commitment to SC-European Realty of \$77.7 million. In addition, Security Capital has a remaining funding commitment of \$87.5 million to Belmont. At June 30, 2001, Belmont had approximately \$43 million of unfunded commitments for developments under construction and InterPark has approximately \$21 million of unfunded commitments for acquisitions.

Security Capital expects that cash flows from operations and funds currently available under its revolving line of credit will be sufficient to enable Security Capital to satisfy its anticipated cash requirements for operations and currently committed investments. In the longer term, Security Capital intends to finance its business activities through the selective sale of assets, internally generated cash flow, its line of credit transaction loans, and future issuance of equity and debt securities. The business activities to be financed may include investments in new business initiatives, additional investments in certain existing affiliates and additional potential repurchases of Security Capital securities.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

See Form 10-K “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” for a more complete discussion of Security Capital’s exposure to interest rate and equity price risks. Other than the purchase of assets and assumption of liabilities of SC-U.S. Realty that were recorded at fair value, there have been no material changes in the fair values of assets and liabilities disclosed in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in Security Capital’s 2000 Form 10-K, as compared to their respective book values at June 30, 2001.

PART II

Item 1. Legal Proceedings

Security Capital and its subsidiaries are parties to certain legal proceedings arising in the ordinary course of their business, none of which are expected to have a material adverse impact on Security Capital.

Homestead Village Incorporated (“Homestead”) and its Board of Directors were named as defendants in five purported class action lawsuits filed in connection with the proposed offer made by Security Capital in March 2000 to acquire all shares of Homestead not owned by Security Capital. The plaintiffs sought unspecified money damages and an injunction. In May 2000, the plaintiffs’ lawyers, Homestead, its Board of Directors and Security Capital entered into a memorandum of understanding under which the plaintiffs’ lawyers agreed to settle these claims for the payment of a total of \$675,000 for fees and expenses. Homestead has recorded such amount plus \$200,000 of associated legal fees as part of the special charge expenses in 2000. The settlement was approved by the court in March 2001 after notice to all former Homestead shareholders of the proposed settlement. Homestead made the payment of \$675,000 in April 2001 in settlement of the class action lawsuits filed.

Item 4. Submission of Matters to a Vote of Security Holders

Security Capital held its annual meeting of shareholders on May 17, 2001. On the record date of March 28, 2001, there were outstanding 982,942.1 Class A Shares, 99,160,137 Class B Shares and 257,642 Series B Preferred Shares. Each Class A share is entitled to one vote, each Class B Share is entitled to .005 of a vote, and each Series B Preferred Share is entitled to .0641 of a vote. A total of 869,112 Class A Shares, 83,657,338 shares, 418,286 votes Class B Shares, and 16,516 Series B Preferred Shares were voted, for a total of 1,303,914 votes.

The shareholders of Security Capital elected the following Class II Directors to serve three-year terms expiring in 2004 by the following votes:

1,302,719 votes for the election of Mr. Cyrus F. Freidheim, Jr. (1,195 votes withheld);
1,302,458 votes for the election of Mr. H. Laurance Fuller (1,456 votes withheld);
1,302,685 votes for the election of Mrs. Janet Hill (1,229 votes withheld); and,
1,302,460 votes for the election of Mr. Ray L. Hunt (1,454 votes withheld).

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 4.1 Amended and Restated Credit Agreement, dated as of June 12, 2001 by and between Security Capital and Bank of America, N.A., The Chase Manhattan Bank, Wells Fargo Bank, National Association and Chase Securities, Inc.
- 12.1 Computation of Ratio of Earnings to Fixed Charges
- 12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends
- 15 Letter from Arthur Andersen LLP, dated August 14, 2001, regarding unaudited financial information

(b) Reports on Form 8-K

<u>Date</u>	<u>Items Reported</u>
June 8, 2001	Item 5, Item 7
June 14, 2001	Item 5, Item 7

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SECURITY CAPITAL GROUP INCORPORATED

/s/ Paul E. Szurek

Paul E. Szurek, *Chief Financial Officer*
(Principal Financial Officer)

/s/ James C. Swaim

James C. Swaim, *Sr. Vice President*
(Principal Accounting Officer)

Date: August 14, 2001

Exhibit 12.1

**SECURITY CAPITAL GROUP INCORPORATED
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollar amounts in thousands)**

	Six Months Ended		Year Ended December 31,				
	June 30,						
	<u>2001</u>	<u>2000⁽¹⁾</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Earnings (loss) from Operations	\$ 336,832	\$ 115,333	\$ 434,689	\$ (134,135)	\$ (156,351)	\$ 80,732	\$ 84,128
Less: Equity in earnings from equity investees	(105,249)	(200,079)	(369,045)	(78,899)	71,950	(170,576)	(168,473)
Add: Dividends received from equity investees	119,483	78,061	147,005	150,756	144,757	110,082	74,652
Other	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,612</u>	<u>7,124</u>	<u>18,003</u>	<u>—</u>
Net Earnings (loss) from Operations	351,066	(6,685)	212,649	(59,666)	67,480	38,241	(9,693)
Add:							
Interest Expense	<u>67,445</u>	<u>63,011</u>	<u>108,558</u>	<u>133,454</u>	<u>82,203</u>	<u>104,434</u>	<u>117,224</u>
Earnings as Adjusted	<u>\$ 418,511</u>	<u>\$ 56,326</u>	<u>\$ 321,207</u>	<u>\$ 73,788</u>	<u>\$ 149,683</u>	<u>\$ 142,675</u>	<u>\$ 107,531</u>
Fixed Charges:							
Interest Expense	\$ 67,445	\$ 63,011	\$ 108,558	\$ 133,454	\$ 82,203	\$ 104,434	\$ 117,224
Capitalized Interest	<u>2,766</u>	<u>1,135</u>	<u>3,192</u>	<u>8,209</u>	<u>26,703</u>	<u>69,883</u>	<u>11,448</u>
Total Fixed Charges	<u>\$ 70,211</u>	<u>\$ 64,146</u>	<u>\$ 111,750</u>	<u>\$ 141,663</u>	<u>\$ 108,906</u>	<u>\$ 174,317</u>	<u>\$ 128,672</u>
Ratio of Earnings to Fixed Charges	<u>6.0</u>	<u>0.9</u>	<u>2.9</u>	<u>0.5</u>	<u>1.4</u>	<u>0.8</u>	<u>0.8</u>

(1) The earnings as adjusted were insufficient to cover the fixed charges by \$7.8 million.

SECURITY CAPITAL GROUP INCORPORATED
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED
CHARGES AND PREFERRED SHARE DIVIDENDS
(Dollar amounts in thousands)

	Six Months Ended		Year Ended December 31,				
	June 30,						
	2001	2000 ⁽¹⁾	2000	1999	1998	1997	1996
Earnings (loss) from Operations	\$ 336,832	\$ 115,333	\$ 434,689	\$ (134,135)	\$ (156,351)	\$ 80,732	\$ 84,128
Less: Equity in earnings from equity investees	(105,249)	(200,079)	(369,045)	(78,899)	71,950	(170,576)	(168,473)
Add: Dividends received from equity investees	119,483	78,061	147,005	150,756	144,757	110,082	74,652
Other	—	—	—	2,612	7,124	18,003	—
Net Earnings (loss) from Operations	351,066	(6,685)	212,649	(59,666)	67,480	38,241	(9,693)
Add:							
Interest Expense	67,445	63,011	108,558	133,454	82,203	104,434	117,224
Earnings as Adjusted	<u>\$ 418,511</u>	<u>\$ 56,326</u>	<u>\$ 321,207</u>	<u>\$ 73,788</u>	<u>\$ 149,683</u>	<u>\$ 142,675</u>	<u>\$ 107,531</u>
Combined Fixed Charges and Preferred Share Dividends:							
Interest Expense	\$ 67,445	\$ 63,011	108,558	\$ 133,454	\$ 82,203	\$ 104,434	\$ 117,224
Capitalized Interest	2,766	1,135	3,192	8,209	26,703	69,883	11,448
Preferred Share Dividends ⁽²⁾	70,211	64,146	111,750	141,663	108,906	174,317	128,672
	<u>13,706</u>	<u>11,964</u>	<u>24,876</u>	<u>20,280</u>	<u>22,368</u> ⁽³⁾	<u>15,416</u>	<u>12,352</u>
Combined Fixed Charges and Preferred Share Dividends	<u>\$ 83,917</u>	<u>\$ 76,110</u>	<u>\$ 136,626</u>	<u>\$ 161,943</u>	<u>\$ 131,274</u>	<u>\$ 189,733</u>	<u>\$ 141,024</u>
Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends	<u>5.0</u>	<u>0.7</u>	<u>2.4</u>	<u>0.5</u>	<u>1.1</u>	<u>0.8</u>	<u>0.8</u>

(1) The earnings as adjusted were insufficient to cover fixed charges by \$19.8 million.

(2) The preferred dividends have been increased to show a pretax basis.

(3) Excludes a one-time non-cash dividend of \$19.8 million incurred in conjunction with the exchange of Series A Preferred Shares for Series B Preferred Shares.

August 14, 2001

Board of Directors and Shareholders
of Security Capital Group Incorporated:

We are aware that Security Capital Group Incorporated has incorporated by reference in its Registration Statement Nos. 333-38521, 333-38523, 333-38525, 333-38527, 333-38531, 333-38533, 333-38537, 333-38539, 333-47926, 333-48167, 333-61395, 333-61401, 333-64979, 333-65688 and 333-65704 its Form 10-Q for the six months ended June 30, 2001, which includes our report dated August 14, 2001 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933 (the "Act"), that report is not considered a part of the registration statements prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

ARTHUR ANDERSEN LLP