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PRESENTATION

Operator

Good day everyone and welcome to the Duke Energy monthly chat and Crescent Resources conference call. Today's call is being recorded. At this time for opening remarks I would like to turn the conference over to Duke Energy's Senior Financial Analyst, Jennifer Traylor. Miss Traylor, please go ahead.

Jennifer Traylor - Duke Energy Corporation - Sr. Financial Analyst

Good morning and thank you for joining us this morning.

Joining me today is Art Fields, President and CEO of Crescent Resources. Art and his team who he'll introduce shortly are here today to provide you with some more in depth discussion of Duke Energy's real estate operations.

Today's call is being web cast and a copy of the slides is available for download in the Investor section of our Web site at www.Duke-energy.com and before we begin let me review our Safe Harbor statement.

Some of the things we will discuss in today's call in reference to our views on future company performance and results and other statements not dealing with historical facts, will be forward-looking statements within the meanings of the securities laws. This is to inform you that the actual results may materially differ from those discussed in these forward-looking statements and you should refer to the additional information contained in our SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion.

In addition, today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of such measures to the most directly comparable GAAP measures will be made available on our Investor Relations Web site at www.Duke-energy.com.

Art and his team will begin today's call with some prepared remarks and then we'll open the lines to take your questions. Art?

Art Fields - Crescent Resources, LLC - President, CEO

Jennifer, thank you for this, the opening introduction here.

We are Duke Energy, a leading company located in the Americas with an affiliated real estate operation. We, Crescent Resources are that affiliated real estate operation and that's what we're going to spend time this morning talking about.

As you can see from the next slide, what Crescent has done is over the last 15 years generated and have grown and have a proven track record within the Duke Energy organization and family of delivering a consistent flow of earnings as well as cash flows back to the parent, as well as having a significant return on the capital employed within our organization.

This slide really projects from 2000 to '03 the EBIT that we have generated for the parent as well as the capital that has been deployed within the business, as well as the cash flow that we've generated off of that capital. We've really done this through focusing on proven development lines and a strategy that has been consistent over the years.

We think that we're an opportunity-driven company. We manage our risk by the team and the products and the knowledge of our products, and the familiarity of each of the markets that we're in.

The strengths that we have that set us apart I think from our competition is one of the fundamental benchmarks is experienced development team. Today, as we go through the various market segments that we're in, I will introduce each of the heads of those areas, and each of these heads have 20-plus years experience in the product types and in the markets in which we're doing business.

We typically hire folks in each of the markets that are familiar with the markets, each of the players has significant numbers of years experience, not only in the products but as well as in the existing markets that we're in. I think our synergisms with Duke have certainly been one of our benchmarks over the years as it relates to the quality, integrity and the fundamentals of attempting to exceed our customers' expectations.

This has been a hallmark of Duke Energy over the sixteen years that we've started this endeavor at Crescent Resources. What this has done for us is given us a platform relating to the credibility from all the way from the initial customer through the regulators that we do business with.

One of the fundamentals of any of the sales process we believe is establishing credibility. That's what Duke Energy has done for Crescent, is bring to the platform on day one that level of credibility so as we go into these various markets, acquiring land, rezoning land, getting properties entitled, this credibility is a linchpin in the success that we've had.

Underlying all that is the financial and fiscal strength and responsibilities that we have demonstrated over the years, both on a project basis as well as on a company-driven basis. If you look at our growth pattern, and if you look at what the team has done over the last roughly ten years, sometimes there is a perception within the marketplace that, you know, what is Crescent, are we a liquidator of land?

We think we're a developer. And our definition of a developer is somebody that creates and adds value to the existing product from the point in time that we have acquired it.

I think this chart demonstrates pretty dramatically the growth in revenues that we've had by each of our disciplines over the last ten years.

I'd like to point out that if you look in '01, the multi-family is an area that we expanded into and diversified into in 2000 and 2001 as well as an element of that commercial growth that you see there is an element that Tony Byers who heads up our commercial operation moved into in the 2000 and 2001 time line. So it's a pretty steady growth over that period of time.

The real basic strategy that we undertook back in the late '80s and early '90s was to build on the existing Duke legacy land, which very little of that product really was development-oriented. It was more oriented to timber and forest management and locationally was not driven from development purposes.

So much like other private investors and other companies of our nature, we've taken these lands and sold those and traded through the 1031 Program over the years into properties that we see are in the path of progress around the country. Rather than holding on to a piece of progress, a piece of land that we do not think has the same growth potential, as an example trading into a piece of property such as our Palmetto Bluff development in Bluffton, South Carolina, as well as our Potomac Yards development in D.C., we saw those had much greater opportunity, and that has been the platform that we, you know, one of the real linchpins in our strategy.

We trade into these properties, we've developed them, added value, entitled them and in many cases built on them, in other cases sold them after the entitlement process and captured the value that we created. We look at all of our investments, all of our projects almost on a daily basis to say is the value there today, or is the value going to be greater twelve to twenty-four months down the road.

If we don't believe that that is the case, we exit those projects and redeploy that capital in markets that we think has substantially higher growth patterns, twelve to twenty-four months down the road.

If the, the next slide really depicts the markets that we see ourselves growing into. These are all markets that we are currently in. They are broken out by product types on this slide. We'll get into a lot of those specifics as the team moves through them.

The real direction here is 80 to 85% of the growth in the United States is in the seventeen states that front on the coast as well as Arizona and Nevada, and those are the markets that we're going to focus on.

If you look at where our greatest investments in these markets are, they are primarily in the Florida market, as well as our Hilton Head, South Carolina, Bluffton, South Carolina, and D.C. markets, are the ones where we see the dynamics, but all of these, and this is where Crescent's growth is going to be oriented, is in these states that dominate the growth pattern of the United States.

We've done this, we focus on diversity. We believe that you diversify in our business two-fold. Both by product type as well as geographic location.

I think if you look at our industry historically, and I think we've had some anomalies in our business since 2000, and typically, when you've gone into a recession like we have in 2000, the residential side of the business led the country into this, and other segments of our business have followed. This time, residential has really kept the foundation of our industry as well as much of the U.S. economy going, while the commercial side of our house has certainly seen its troubles.

We look at geographic diversification. If you look at where we are residentially now, as well as commercially, certain of our markets, even in the commercial vein, have a lot more life and breadth to them because of their geographic location, i.e. our Washington, D.C. office and certainly in the residential arena, the Florida market, with its job growth, has just been dynamic.

So what we've attempted to do in these market cycles is to smooth the pattern so that as we are typically in a very volatile industry, that by managing our portfolio, both on a product type, as well as a geographic type, we can take some of the rough edges off of some of these growth patterns. And I think if you look at where we've invested our capital since '99 to 2000, I think it is certainly demonstrates that what we try to do is look forward in the markets, not really where we've been, but obviously where we're going twenty-four months down the road.

In 1999, when the commercial markets were probably as strong, as dynamic as they've certainly been in the 35 years that I've been in this business, we saw in 2000, Tony and his team track job growth and other fundamentals within each of the markets, and we saw in the 2000 time frame, June, July of 2000, when we saw the job growth numbers change, we dramatically shifted our investment from the commercial side of the house to the residential side of the house.

A significant piece of that in the residential side of the house was really oriented to the second home market which we made a very conscious effort at that time frame to get in front of the demographics. I know each of you are familiar with the demographics of the baby boomers, and at that point in time, the \$17 trillion of transfer of wealth that was going to happen between the baby boomers and their parents over the next ten years, and so the reallocation from the commercial segment in '99, 2000, to what you see in 2003 as well as in 2004, is indicative of two things:

One, where we saw the commercial markets going at that time, and two, where we saw the demographics and the social nature of our country moving in that same time line.

The Crescent portfolio as it relates to the diversification of the product types really focus on these areas as you've seen demonstrated. We are the dominant, high-end country club community developer in many of the markets we're in. Certainly in the Charlotte market, and some the others, and we'll touch base on that when we move into the residential side of the presentation.

We're in the high-end amenitized custom home development market. Our track and superpad, which is our LandMar Division headquartered out of Jacksonville, Florida, run by Ed Burr and his team, really are the dominant player in the markets from roughly Daytona Beach, the Palm Coast, up through St. Mary's in Georgia as well as over in the Tampa area.

The resort golf developments are the ones that, as I alluded to earlier, we consciously got into, in 2001 to get in front of the second home, the retiree market as it relates to the baby boomers. We have historically from early 1990, have focused on suburban mid-rise offices, and all of the commercial markets that we're in, that's the product type that we think we specialize in.

We excel and certainly exceed all of our customers' expectations. In a limited way, we're in warehouse, bulk distribution. Today we're currently doing build-to-suit facilities in the industrial markets.

In 2000 and 2001, Tony oriented himself and brought along some players to move into the food and drug business. We are not a major mall developer. We're not attempting to compete with the Simon's and the Tallman's of the business.

We do not do major strip malls. Our orientation is really to the food and drug side of the business. Those prototypes are currently driven by Publix and Lowes foods in the markets that we're in.

In the multi-family arena, these have traditionally been, which is a market that we entered in 2000, those are markets, it's a product type that has traditionally been the suburban garden market. We also, within that nomenclature, have done some condominium for sale developments and currently have two of those underway.

At this time, I'd like to turn the program over to Tony Byers who is our Senior Vice President, and heads all of our commercial operation, and as I mentioned, the commercial, our definition of commercial within our disciplines is our suburban office product line, as well as our industrial and retail.

Tony? Tony has twenty, twenty-five years of experience in this market. Started in the business in Austin, Texas back in the--

Tony Byers - Crescent Resources, LLC - Sr. Vice President, Commercial Development

'30s, I think.

Art Fields - Crescent Resources, LLC - President, CEO

Based on Tony's gray hair it probably was the '30s. So he brings that level of experience to the market and I think another thing that we try to do is based on our experience, bring players on that have seen how bad real estate can be. All of us have been through the downturns of certainly the very early '80s and the '86, '92 time frame.

Tony, at this time, I'd like for you to pick up and talk a little bit about where we are commercially, your basic strategy, and the dynamics of some of the particular markets as well as the industry as you see it today, Tony?

Tony Byers - Crescent Resources, LLC - Sr. Vice President, Commercial Development

Thank you, Art. Jennifer, let's advance one slide. You should be on the commercial inventory slide. Let's advance one. It should be the Crescent commercial development cycle slide. Is that right?

Art Fields - Crescent Resources, LLC - President, CEO

We're there right now, Tony.

Tony Byers - Crescent Resources, LLC - Sr. Vice President, Commercial Development

Great.

Let me just talk a little bit and underscore what Art was talking about as it relates to 1031 exchanges and for the sixteen years that we've really been doing this, we have been selling the timberlands that we had on our books, thanks to the Duke Power form and the Crescent land and timber in the '60s, we have been trading that into land that's in the path of progress throughout the markets that Art mentioned. We have active offices in Nashville, Tennessee, Washington, D.C., Atlanta, Georgia, obviously Charlotte, North Carolina, Orlando, and Tampa.

During that period of time, we have traded into over \$400 million of this land, strategically placed in all of those different markets. We went and you obviously are familiar with the products that we put in a lot of different markets and the similarities of those products by design, each of those buildings were studied and engineered and something that enabled us through the replication

of it to get a handle on our cost, and those products had been built in all of those different markets that we just talked about.

The plan all along has really been to seek out the credit tenants. We have a very strong profit management division. So after acquiring the land through 1031 exchanges, building and leasing the property, we managed that property, and in turn, when we feel the time is right, we sell those properties to the open market.

Over the sixteen years that Art mentioned, we built almost 17 million feet of the different product types over time. We have retained management of over 12 million square feet of office buildings, warehouses, what have you, so our property management division today is a very large operation within the commercial division and maintaining and managing leasing and managing over 12 million feet of what we've built.

Obviously, part of the process is to sell that product, and as I mentioned, we have built almost 17 million, we've sold the majority of it, and Jennifer, you'll back up one slide, we can sort of briefly go over --

Art Fields - Crescent Resources, LLC - President, CEO

We're there.

Tony Byers - Crescent Resources, LLC - Sr. Vice President, Commercial Development

-- what we have currently in inventory, approximately nine office buildings, five industrial warehouse buildings, seven retail shopping centers, totaling twenty-one different assets, and as we mentioned obviously we're selling on an annual basis when we feel like the properties have matured to the point that they should, that that value should be reaped, whether we, and if we feel the cap rights are proper.

The bottom line, that slide is showing the projected inventory, 12/31/04 of only ten of those assets. What is interesting here is that in this 12/31 inventory, we have introduced the newest project we have in our Washington, D.C. office, we have been lucky enough to have just been given a lease from GSA for over 400,000 square feet in our Potomac Yard development that I'll talk about in just a few minutes.

The next slide, Art talked about this, and in retrospect, you might say that we're clairvoyant in our forecast, but as Art mentioned we do track job growth really on a quarterly basis in all our markets, and in 2000, we saw that that job growth was slowing down, and obviously job growth feeds our commercial side of the development industry, and started, as you can see, in year 2000, with the started time line in the graph there, we started really cutting back in the production of this, because we felt that the speculative side of our business was going to significantly slow. So

that is obviously reflected in what you, in what you see in that current inventory.

The next slide is the Potomac Yard development.

As Art had mentioned, Crescent really made two significant purchases in '01. We acquired Potomac Yard in March of '01.

One was Palmetto Bluff in Bluffton, South Carolina, a large residential development, and Potomac Yard, overlooking the Potomac River, overlooking Reagan National Airport, and the Washington Monument. This is a 300-acre development that we have made great strides in.

The lease that I just mentioned it was an EPA lease, is on our first Landbay. Landbay A here in Potomac Yard which really anchors us as it relates to competing in this market. We feel very excited about having met all of the criteria for GSA and we really feel like this is the first olive out of the bottle from the office standpoint.

We have all along been making sales on the residential standpoint. We chose not to develop in-house some of the residential pieces in '03. In the next slide you'll see that we sold \$57 million of residential land in '03.

We have forecasted in '04 to sell approximately \$181 million of residential land as well as our Alexandria piece of this land. And the whole tract of 300 acres, it stretches from Arlington, Virginia, down into Alexandria, the majority of the sales in '04 you'll see will be on the Alexandria side.

Art Fields - Crescent Resources, LLC - President, CEO

Tony, thank you for this overview of our commercial operations. I'd like to turn it over now to Jim Smith who heads up all of our multi-family operations. Jim joined us several years ago from Summit Properties here in Charlotte as well and brings twenty-plus years experience to the multi-family side of our business. Jim?

Jim Smith - Crescent Resources, LLC - Vice President, Multi-Family Operations

Well, as Art had mentioned earlier, we have kind of followed in the footsteps of Tony and Tom and have targeted the high growth markets in the Southeast specifically. And more focused in the Tampa markets, because that has been where our main driver of job growth has occurred.

We were fortunate enough to have some zoned property in the portfolio when I joined the company. And that was our first development called Crosswynde Apartments that we have developed and sold. In 2003, we sold that for \$36 million, that was our first garden community, and again, following in the footsteps

of the other divisions, we are attempting to do prototype developments as often as we can, and as often as it fits the markets.

Our markets admittedly have been slammed hard since we started. An old developer friend of mine who's been in the business for over thirty years said his worst year in the business occurred in the year 2000, until the years 2001 and 2002 came along.

So, the multi-family industry has been hit hard by high job losses of late, high, or low interest rates, pushing a lot of people into the buyer's market. But the buzz word has been stay alive until '05 in the multi-family industry and I think that's still on target.

As Art says, we watch demographics very closely. There's a large echo boomer generation coming out of college, as well as immigration into the country. So there's another large demographic movement coming. And we're prepared to move on that as the opportunities warrant.

Looking back a little bit more, we did do a development in Jacksonville that we've completed and sold in 2003 for \$40 million. And we are currently marketing a development in Tampa, 273 units, which we will close on this year, and that's called Citrus Falls, in the Citrus Falls area of Tampa.

We are breaking ground currently on the Garden's Bridge Hampton in Jacksonville, another prototype garden community, and as Art has indicated, we have diversified as the opportunity arises, into condominiums and we are doing one development right now, 104 units in Tampa, Florida, overlooking Hillsborough Bay, in downtown Tampa. That property actually is being topped out this Wednesday, and we have sold 100 of those 104 units. So that will be a success story very shortly with units closing in February of '05.

Additionally, we are currently targeting garden community sites in the markets where we see again some significant job growth, Tampa, Orlando and Jacksonville.

Art Fields - Crescent Resources, LLC - President, CEO

Thank you, Jim. The next area that we're going to touch on is our residential communities. Tom Webb, are you on the line?

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

I am on, Art. I'm wondering if you can hear me.

Art Fields - Crescent Resources, LLC - President, CEO

Well, we can hear you across the country. Thank you, Tom. Tom heads up our residential operations. Tom brings thirty-plus years to

this market. Got his feet on the ground back in the '70s with the Sea Pines organization and worked out of school for Charles Frazier and his company for a number of years before going out and venturing into other areas, has been with Crescent now six or seven years, and heads up all of our residential operations. Tom, if you'd like to walk us through the residential community?

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

I don't have the slides but let me just tell you briefly through where we're headed. Art mentioned the product lines we're in. Our high-end first home, we continue to have very strong brands both in Charlotte and Atlanta and have launched a new product last year in Atlanta and will continue with a new one probably next year in Charlotte.

But in Charlotte, if you're buying a home over \$400,000, there's about 50% chance you're buying in a Crescent community. And again, our Sugarloaf and River Clubs in Atlanta both have about a third share if you're buying \$700,000 and above in the Atlanta market.

Art Fields - Crescent Resources, LLC - President, CEO

Tom, let me, I apologize. Tom is at a remote location and does not have access to these slides. So Tom, in order to stay on track on these slides, let me pick it up, and as I go through this, don't hesitate, as I know you won't, to interrupt me.

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

Okay.

Art Fields - Crescent Resources, LLC - President, CEO

On some of these specifics.

The product types that we're in in the residential segment are really broken down into the three areas: Our high-end first home communities, which are the communities that we really started with, the signature project that we started in Charlotte, back in 1989 is our Peninsula Development, which we are in and out of and closed out and turned over all the homeowners associations. The ones that we show here are currently some of our high-end communities, first home, primary home markets that we're in.

The second area is our high-end second home segment. These are really resort, residential, or recreational communities that are located in the Hilton Head area, as well as Chaparral Pines which is a development in Payson, Arizona, which is about an hour north of Scottsdale, Arizona.

Our LandMar side of the house is the one that's located out of Jacksonville, Florida, and is the, is primarily oriented to the first move-up markets. Our average home prices in those communities, roughly 80% to 90% of the business at our LandMar division does is in the \$250 to \$350,000 end home price.

We do not build homes, but we build golf course communities, primarily public course communities, and are selling to national home builders in a track take-down basis. Typically, 75% to 80% of all the lots in these developments are presold to the national builders prior to our breaking ground on these projects.

We have done a high rise development on Jacksonville Beach and we currently, a forty-four unit high rise condo development. Our definition of high rise in Jacksonville is ten to eleven stories. On Jacksonville Beach, which we, which Ed Burr and his team in Jacksonville have been in and out of that product, and we currently have what, Tom, a twenty-five unit --

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

Twenty-two of twenty-five sold in Watermark again on Jack's Beach.

Art Fields - Crescent Resources, LLC - President, CEO

On Jack's Beach.

The next slide, which is our residential inventory, we went into '03 with roughly 1200 lots with a projected sales price of roughly \$219 million that were on our books in our inventory at 12/31 this year. Tom and his team will sell roughly 1200 of those lots for approximately \$324 million.

At the end of this year, even though we are going to sell during the course of this year the bulk of the inventory that we had going into the year, we're reloading the pipeline, and we should exit '04 with roughly 2200, 2300 lots, finished, on the ground or in some form of development stage, which should give us an inventory for '05 and going forward of approximately \$295, \$296 million.

Some of the statistics, Tom touched base on these a few moments ago, in our Charlotte market, which is the market which we benchmark ourselves off of, and brings credibility to us in many of our other marks since Atlanta, Hilton Head, had been our other primary home markets in this geographic area, roughly 57% of the homesites in Charlotte over \$50,000 are in a Crescent community. 55% of all the homes sold in the greater Charlotte area over \$1 million are in a Crescent community.

Our signature project in the Atlanta market, Sugarloaf Country Club, which what, Tom, we brought to the market roughly eight years ago?

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

Yes.

Art Fields - Crescent Resources, LLC - President, CEO

-- has been the top-selling golf course community in the Atlanta market with, for over million dollar homes for the past six years.

Ed Burr and our LandMar operation in our Grand Haven development have exceeded all the projections. A development that we projected to have roughly a five-year buildout, Grand Haven, I think will ultimately have a three-year buildout. That is one of the markets that we are growing significantly with adding additional inventory.

If you look at our residential sales growth from 1994 through 2003, I think it's very, it demonstrates how Tom has grown that operation to, as we said this year, we'll sell, you know, in '03, we sold roughly \$250 million. We're projecting roughly \$324 million this year.

So we see that growth trend continuing in the residential, the product mix within that residential really varies between the primary and the secondary, as well as in our move-up markets in Florida as well as in our Austin markets.

The number one product and the project which Tony mentioned earlier that we acquired in 2001, one of the two major investments that we made, which were really done to capture the dynamics of the D.C. market, this one was meant to capture the dynamics of the baby boomers and the second home market, as well as what we saw, a real trend in the Hilton Head area, which has always been a signature area, an area which people up and down the 95 corridor, predominantly out of the Northeast, as well as the Atlanta markets, have looked for a second home that there has been a lot of tendency to move off the island, and to take advantage of the less congested, more environmentally sensitive environment while staying in the context of the Savannah, Hilton Head area.

The Palmetto Bluff development in '03 generated roughly \$52 million of sales. In '04, we're projecting that that be in the range of \$60 to \$64 million.

The real benchmarks, the real benchmark, not mark, this year, will be in the opening of the Auberge du Soleil which is roughly a fifty-room bed and breakfast, which will anchor the Village at Palmetto Bluff. We have a signature Jack Nicklaus course. All of these things are online and we're projecting Tom, to open, what, mid August?

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

Mid August.

Art Fields - Crescent Resources, LLC - President, CEO

And we'd invite each of you to come and help our revenue line item by visiting the Auberge.

Tom any other areas that you want to touch on?

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

Just as Art said we did \$250 million last year. This year we are bringing on some new projects that are going to help get us to the \$321 million. We'll be closing the units in the Watermark condo project in Jacksonville, We've got two new communities that are getting to the market in the Tampa area.

Our first community's over there, one's going to do somewhere in the \$22, \$24 million range. Another one we hope to do \$16 to \$20 million and then we're bringing on our first sort of conservation-type development on a large track outside of Charlotte.

Again very high-end. A little over one hundred and ninety units on about 1300 acres and we'll be coming to the market there this year and we're hoping to do \$18 to \$20 million there. So we really do have new projects coming on that are going to help us get to the \$320-\$325 million plus.

Art Fields - Crescent Resources, LLC - President, CEO

Very good. Thank you, Tom. And thanks for that update. The next segment of our operation is our land management group.

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

Art, I'm going to have excuse me, I've got to get on a plane.

Art Fields - Crescent Resources, LLC - President, CEO

Very good. Thank you, Tom.

Tom Webb - Crescent Resources, LLC - Sr. Vice President, Residential Development

Thank you.

Art Fields - Crescent Resources, LLC - President, CEO

The next segment is our land management division, which manages approximately 115,000 acres of our legacy land. Jim Short heads up that area. Jim has been with this land, has managed this land for what, roughly, Jim, thirty years now?

Jim Short - Crescent Resources, LLC - Sr. Vice President, Land Management

Twenty-plus years.

Art Fields - Crescent Resources, LLC - President, CEO

Twenty-plus years. I was looking at his gray hair when I said that. Jim?

Jim Short - Crescent Resources, LLC - Sr. Vice President, Land Management

As Art said, we have 100 plus thousand acres.

Operator

If everyone will please remain on the line.

Jim Short - Crescent Resources, LLC - Sr. Vice President, Land Management

Basically a Charlotte market in North and South Carolina.

The other market area is the Keowee River Basin area located between Atlanta, Georgia and Greenville, South Carolina. We've, over the last ten to fifteen years, we've developed a strategy of selling to governmental entities, real estate developers, recreational buyers and investors along with adjoining land owners.

Since that time we've developed relationships with all of these buyers. We also have an active database, prospect list that we've been successful selling on the Internet, the Web site.

We continue of this 115,000 acres, we hold 15 to 20,000 for future development that Crescent will, we make a decision either to internally to develop for sale. What this has done is driven the value of this property as we develop it, and sell it, and we meet market demand with these sales, not to push it into the markets as the areas grow, and expand, we meet that demand with land sales.

Art Fields - Crescent Resources, LLC - President, CEO

Thank you, Jim.

In really wrapping up the formal presentation side of this, I'd like to recap or really two points, first the, somewhat the management philosophy that we have at Crescent. One, you know, we build, develop and sell. We turn our capital. We see ourselves much as you might term a retailer in that we look at how quick we turn our property, how quick we turn our capital.

Two, we build and develop around an experienced development team that as I mentioned understands the product, the market, as well as understands how good and how bad real estate can be through these up and down cycles.

We diversify by region and by product type. We are market driven. And that's been one of the real strengths of Crescent over the last sixteen years, is that Duke Energy has looked to us to manage our business within the confines of our industry, and to manage it in a fiscally responsible manner. Not driven necessarily for the earnings as well as the cash flow growth, although they are certainly much appreciated by Duke Energy.

We think we keep our employees satisfied. That's the fundamental to keeping our customers satisfied and ultimately generating economic profit.

I know many of you have had the question of why Crescent Resources. Our answer to our parent, Duke Energy, has been that we are self sufficient. Our team, our operation, we draw in a minimal manner upon our parent.

We certainly use their reputation and their strengths, but we are a fully-integrated real estate business run by professionals in every manner. We have a proven record over the last sixteen years of providing earnings to the parent as well as generating cash flows off of these developments.

We've obviously been well capitalized. We've enhanced the existing legacy land that our shareholders have built up over the 100 years that Duke Energy has been in business. And we utilize a pre-tax sales proceeds to grow our business.

We're not a consumer or user of Duke Capital's credit or credit capacity. Duke Energy has never guaranteed any of our debt when we have in fact gone to the debt markets.

So hopefully, that gives you some breadth and understanding of the Crescent story and picture as well as why we are an affiliated company of Duke Energy.

Thank you for this time. And I guess Jennifer now, we will open it to questions, and attempt to answer those. We have the full development team hopefully prepared with the exception of Tom Webb in our residential arena. Thank you.

QUESTION AND ANSWER

Operator

Thank you. The question-and-answer session will be conducted electronically. If you would like to ask a question at this time please press star one on your touch-tone telephone. As a reminder if are you using a speaker phone today, please release the mute button so that your signal may reach our equipment. Again, it is star one if you do have a question. And we'll go first to Paul Patterson at Glen Rock Associates.

Paul Patterson - Glen Rock Associates - Analyst

Good morning.

Art Fields - Crescent Resources, LLC - President, CEO

Good morning.

Paul Patterson - Glen Rock Associates - Analyst

Just wanted to touch on really two questions here. If we look at slide four, the EBIT contribution, segment contribution, it seems to have declined from 2001 over the last couple of years, and I was wondering if you could sort of highlight what's actually causing that? Because if you look at the Cap Ex and you look at the revenues it doesn't seem to necessarily jive. It's not clearly apparent as to what might have caused the decline in EBIT.

And then the second question I have for you is, is really the interest rate and the red hot housing market that we've had. You mentioned that you've been through some declines, you know, historically that as professionals you guys have all experienced that, but we haven't really seen that, at least my understanding of it in the residential market, recently, we haven't seen that at all. And I was wondering what the impact of a real significant slow down in, A, I was wondering what the impact of interest rates might do in your opinion to the residential market, if they were go to up a couple hundred basis points, you know, as an example, and B, what that that would do in terms of impacting you guys, and what sort of steps you've taken to make sure that doesn't happen, or that it doesn't impact you guys too negatively.

Art Fields - Crescent Resources, LLC - President, CEO

Good. Let's go to the first question, which was really oriented to the EBIT from 2000 to 2003 and really the move down from '01 and that's really driven by the reallocation of capital during that time line from the commercial arena into the residential and the lead lag time that it takes to bring products to the market. That

drop-off is purely oriented to the diminished sale of commercial projects in that time line.

And also in that time line, we acquired the, when you look at the capital line item, we, in those years, acquired our two big projects, Palmetto Bluff and Potomac Yards, and because of that lead time line, those have not started to generate returns until '03, and I think you'll see significant numbers in '04. So if you looked at our number which I believe has been shared with everybody, our segment of EBIT, our projected segment of EBIT in '04 is roughly \$156 million. So you'll see that line item start to step back up.

The second piece of the question is really the wild card that you've thrown out, and I think those are things that historically, as I mentioned, we've had an anomaly in our industry where when you've gone into a period of zero job growth, or certainly lost job growth, you've seen the housing market go down. We haven't seen this. We've seen, as you've said, a red hot housing market. I don't know whether because of the, what I might personally perceive as a recalibration.

Historically when long-term housing rates begin to get in the 8% to 9% range, you start to see a real noticeable change. And certainly when they get into the 9% range, it's kind of like, you know, Katie bar the door at that period of time.

I personally believe this you're going to, that you will see some slow-down in the housing market as these rates have gone up. I think long rates, 30-year long rates on home loans today are roughly 6.3% currently. I don't believe that that is going to slow up the market.

I think if you see those rates move in the 7% to 8% range, I think you will see a slow-up. You will probably see that slow-up more impacted in some of the lower price points markets, certainly the entry level, as well as some of those move-up markets.

The other piece of that question historically, when you've been oriented to long rates, and ironically, 70% of the people, when they look at rates on buying homes, only think about the thirty year home loan mortgage, but the institutional and Wall Street as well as our institutions today, with all of the adjustable rate mortgages, I think will have a noticeable impact in softening any blow as it relates to certainly a 200 basis points increase in these long rates.

The second piece of that as it relates to Crescent, and I think that's one of the reasons we're in the diversified segment of this market, by looking at the second home markets, that we're in, and some of the high-ends, these, we believe, are less impacted by interest rates, and can take advantage of some of that \$17 trillion transfer of wealth that we alluded to earlier.

Also, it's buffered by some of the markets that we're in. If you go through where we are today, over the last two weeks, in some of

our communities, we have seen a slowing of traffic into those markets.

In our Florida markets, our LandMar division, we've seen an increase of traffic in those markets, or we've seen no decrease. And they continue to stay that way.

So you know, we think that the housing market is still going to stay strong. Is it going to stay in the million eight to million nine units that we're currently at or will it retreat? I think it will retreat. But will have a de minimus impact on some of our projects.

Paul Patterson - Glen Rock Associates - Analyst

Thank you.

Art Fields - Crescent Resources, LLC - President, CEO

Thank you.

Operator

We'll move next to Andy Smith at J.P. Morgan.

Jim Smith - Crescent Resources, LLC - Vice President, Multi-Family Operations

Good morning. I had actually a follow-up question on the interest rate issue. Since you guys don't call on the parent balance sheet, you know, to back projects and that sort of thing, presumably some portion of your business is project financed. One, I wanted to know if you can sort of talk to us generically about that? But then the bigger issue would be is to sort of get a sense of in an arena of potentially rising rates, are there issues like whether you guys have lease terms that maybe don't match with, maybe short-term, floating interest rate debt, and that sort of thing. If you could give us some color behind that and potential impact would be great.

Art Fields - Crescent Resources, LLC - President, CEO

We have not done, early on in the early '90s, we did project financing. Currently, we have very little of that project financing. Wayne McGee our Chief Financial Officer, I guess we're probably less than \$50 million of project financing. Much less than that number. So I think the interest rates, as it relates to Crescent projects and the impact that it has will obviously be nonexistent.

We have financed all of our projects internally off of Crescent's balance sheet. If you go back to those, the slides with the proven business plan, you can see that in four of those years, we've generated off of our operations positive cash flows. The 2000 and

2001, the years that we did not were the years that we made the major investments in Palmetto Bluff and Potomac Yards.

Jim Smith - Crescent Resources, LLC - Vice President, Multi-Family Operations

Thank you. Okay. Great. Thank you.

Operator

We'll hear next from Devin Geoghegan at Zimmer Lucas.

Devin Geoghegan - Zimmer Lucas - Analyst

Hi. Thanks for the time today. I just had one question. In terms of the '03 EBIT and what you see going forward for '04 what portion can we attribute to rent payments and other things that are I guess nonsale of inventory related?

Art Fields - Crescent Resources, LLC - President, CEO

On the rent, on the rent question, that's probably 5% of our numbers. Basically because these are GAAP earnings, the depreciation on these buildings eat into that number. So from the rent and the lease payments on these projects, are insignificant portion of that \$152 million, as well as the projected \$156 million that you see for '04. As it relates to, can you repeat the second part of that question?

Devin Geoghegan - Zimmer Lucas - Analyst

I'm just trying to understand, in terms of the one, let's just \$150ish, around that level, how much each year comes from I guess selling your inventory versus if you didn't sell stuff for one year, what would be at risk?

Art Fields - Crescent Resources, LLC - President, CEO

Well, --

Devin Geoghegan - Zimmer Lucas - Analyst

I don't know if that's a --

Art Fields - Crescent Resources, LLC - President, CEO

Well, I'm going to hedge and I'm going to give you an answer I'm not sure I'm going to answer it 100% of these earnings is our inventory. You know, we're, you know, when we open our doors,

on January 1 of every year, we've got 100% new customers. All of our residential are new customers.

As it relates, if you're talking about the inventory, as it relates to our office buildings, you know, if you go back through our distribution, roughly our earnings are split up basically a third through our land management operation, which is the inventory of the old legacy land that we then take those capital dollars and reallocate those to other divisions, and then the other 70% of our business is split between the residential as well as the commercial operations. But we look at everything we sell every year as inventory.

You know, our office buildings, we do not hold typically when we're in the 90%, 95% lease level, or when we think cap rates are attractive, we move that product out.

Devin Geoghegan - Zimmer Lucas - Analyst

Okay.

Art Fields - Crescent Resources, LLC - President, CEO

So --

Devin Geoghegan - Zimmer Lucas - Analyst

That makes sense.

Art Fields - Crescent Resources, LLC - President, CEO

Hopefully that answers it.

Devin Geoghegan - Zimmer Lucas - Analyst

It does. Thank you very much.

Operator

We'll go next to Scott Engstrom at Hamilton Investment Management.

Scott Engstrom - Hamilton Investment Management - Analyst

Good morning. I also had a couple of questions on slide four. And just following up on that last question, I guess, is if I looked at Crescent's income statement, would the revenue line primarily be sales proceeds less book value of inventory? Is that the main segment of, you know, ninety-plus percent of revenues for Crescent? Is that fair to say?

Art Fields - Crescent Resources, LLC - President, CEO

We're going to let Kevin Lambert, our Controller, deal with that issue.

Kevin Lambert - Crescent Resources, LLC - Controller

Yes, that would be fair. It's, the revenues are from the asset sales versus the rent and other income coming off of those assets.

Scott Engstrom - Hamilton Investment Management - Analyst

Something higher than 90 or 95%? Is that fair ballpark range?

Kevin Lambert - Crescent Resources, LLC - Controller

90% would be fair, yes.

Scott Engstrom - Hamilton Investment Management - Analyst

And then on just the other question, just if you look at the return the ROCE line there declining over the last four years, is that, you know, you'd look at the declining Cap Ex as maybe saying that your ROCE might be increasing as you harvested projects while putting less capital into the business. Is that, it is counter-intuitive when I look at the declining ROCE and the declining Cap Ex, I guess.

Kevin Lambert - Crescent Resources, LLC - Controller

That's a good question but it really drives from the two major investments that we made back in 2001 in Palmetto Bluff and Potomac Yard. Those assets really haven't had any return until '03 and we'll see, you know, future returns well into '07 and '08. So that's really the, what's pulling that rocky line item down in '02 and '03.

Scott Engstrom - Hamilton Investment Management - Analyst

Okay.

Art Fields - Crescent Resources, LLC - President, CEO

And I also think it's indicative of the length of time that historically in the late '90s and 2000, we were holding our office buildings a shorter period of time. Our lease-up time line was certainly much shorter than it is.

And as I think we alluded to earlier, the commercial side, certainly the suburban office side of our business, has been the worst that

I've seen it in the 35 years that I've been doing this, as it relates to absorption. You're not hearing about it today. Whereas in the late '80s and early '90s because of the RTC and the financial troubles of the banks and the S&Ls, that was all that was being talked about.

Well, it should be what is being talked about today. Because you're seeing almost zero absorption in many of the markets that we're in, and you're competing against major corporations with subleased space in these markets. In D.C., as an example, in July of 2000, Tony, there was what, less than 500 square feet of subleased space in the Dulles corridor?

Tony Byers - Crescent Resources, LLC - Sr. Vice President, Commercial Development

Yes.

Art Fields - Crescent Resources, LLC - President, CEO

And in February, March of 2001, there was 5 to 6 million square feet of subleased space. And so I think for what Kevin said, as well as for some of the softening in the commercial markets, that's what you're seeing reflected in that return. Hopefully you'll see that return line item head back in an increasing trend line.

Scott Engstrom - Hamilton Investment Management - Analyst

Okay. This is the last question. Then the \$150 million, I think you said \$156 million was the kind of point estimate for segment EBIT this year. What would that translate into an ROCE then for '04, for ballpark, something higher than 12%?

Art Fields - Crescent Resources, LLC - President, CEO

We haven't looked at that number. And we have not, we will look at that, and get back with you on that.

Scott Engstrom - Hamilton Investment Management - Analyst

Okay.

John Arensdorf - Duke Energy - VP of Investor Relations

Well, we haven't disclosed it, Scott, is the problem and it will be, but we do believe it will be in that 12% to 15% range.

Scott Engstrom - Hamilton Investment Management - Analyst

Okay. Great. Thanks a lot.

Jennifer Traylor - Duke Energy Corporation - Sr. Financial Analyst

That wraps up today's call. We appreciate your participation today. If you have further questions, the investors relations team will be available to help you out. Thank you.

Art Fields - Crescent Resources, LLC - President, CEO

Thank you all.

Operator

That does conclude today's conference call. Thank you all for joining us.