

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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CALIFORNIA REAL ESTATE INVESTMENT TRUST

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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 September 30, 1996

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: 1-8063

CALIFORNIA REAL ESTATE INVESTMENT TRUST
(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction of
incorporation or organization)

94-6181186
(I.R.S. Employer
Identification No.)

131 STEUART STREET, SUITE 200, SAN FRANCISCO, CA
(Address of principal executive offices)

94105
(Zip Code)

(415) 905-0288
(Registrant's telephone number, including area code)

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 requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes
of common stock as of the close of the latest practical date.

Class	Outstanding at September 30, 1996
Common Shares of Beneficial Interest	
\$1.00 par value ("Common Shares")	9,156,970

CALIFORNIA REAL ESTATE INVESTMENT TRUST

Item 1: Financial Statements

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PART I. FINANCIAL INFORMATION

CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996 (UNAUDITED)	DECEMBER 31, 1995 (AUDITED)
	-----	-----
<S>	<C>	<C>
ASSETS		
INVESTMENTS, GENERALLY HELD FOR SALE:		
Rental properties, net of accumulated depreciation of \$2,777,000 and valuation allowance of \$6,898,000 at December 31, 1995	\$ 8,562,000	\$ 17,215,000
Notes receivable, net of deferred gains of \$239,000 and \$1,103,000 at September 30, 1996 and December 31, 1995, respectively, and valuation allowance of \$8,048,000 at December 31, 1995	1,582,000	10,502,000
Marketable securities available-for-sale	15,606,000	--
	-----	-----
Cash	25,750,000	27,717,000
	3,248,000	4,778,000
Receivables, net of allowance of \$877,000 and \$700,000 at September 30, 1996 and December 31, 1995, respectively	673,000	680,000
Other assets, net of valuation allowance of \$310,000 at December 31, 1995	374,000	357,000
	-----	-----
Total Assets	\$ 30,045,000	\$ 33,532,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

LIABILITIES:

Long-term notes payable, collateralized by deeds of trust on rental properties	\$ 5,192,000	\$ 8,335,000
Accounts payable and accrued expenses	147,000	209,000
Other liabilities	72,000	81,000
	-----	-----
Total Liabilities	5,411,000	8,625,000
	-----	-----

SHAREHOLDERS' EQUITY:

Shares of beneficial interest, par value \$1 a share; unlimited authorization, 9,157,000 shares outstanding at September 30, 1996 and December 31, 1995	9,157,000	9,157,000
Additional paid-in capital	55,098,000	55,098,000
Unrealized holding gains on marketable securities	14,000	--
Accumulated deficit	(39,635,000)	(39,348,000)
	-----	-----
Total Shareholders' Equity	24,634,000	24,907,000
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 30,045,000	\$ 33,532,000
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
REVENUES:				
Rent	\$ 482,000	\$ 537,000	\$ 1,585,000	\$1,572,000
Interest	289,000	361,000	837,000	1,041,000
Hotel	--	44,000	--	44,000
	-----	-----	-----	-----
	771,000	942,000	2,422,000	2,657,000
	-----	-----	-----	-----
EXPENSES:				
Operating expenses	149,000	149,000	475,000	433,000
Property management	20,000	27,000	76,000	71,000
Depreciation and amortization 20,000	163,000	45,000	474,000	
Interest	136,000	220,000	410,000	648,000
General and administrative	293,000	283,000	1,073,000	711,000
	-----	-----	-----	-----
	618,000	842,000	2,079,000	2,337,000
	-----	-----	-----	-----
Income before gain on foreclosure or sale of investments and valuation losses	153,000	100,000	343,000	320,000
Gain on foreclosure or sale of investments	517,000	--	1,113,000	66,000
	-----	-----	-----	-----
Income before valuation losses	670,000	100,000	1,456,000	386,000
Valuation losses	(1,184,000)	--	(1,743,000)	--
	-----	-----	-----	-----

Net (loss) income	\$ (514,000)	\$ 100,000	\$ (287,000)	\$ 386,000
	=====	=====	=====	=====
Net (loss) income per share of beneficial interest	\$ (0.06)	\$ 0.01	\$ (0.03)	\$ 0.04
	=====	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (287,000)	\$ 386,000
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,000	474,000
(Gain) on foreclosure or sale of investments	(1,113,000)	(66,000)
Valuation losses	1,743,000	--
Changes in assets and liabilities:		
(Increase) decrease in receivables, net	(5,000)	(80,000)
Increase in other assets	(61,000)	(215,000)
Increase in accounts payable and accrued expenses	48,000	157,000
Increase in other liabilities	--	7,000
	-----	-----
Total adjustments to net (loss) income	657,000	277,000
	-----	-----
Net cash provided by operating activities	370,000	663,000
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	13,841,000	--
Purchases of marketable securities	(15,849,000)	--
Improvements to rental properties	(123,000)	(204,000)
Principal collections on notes receivable	29,000	840,000
Principal collections on marketable securities	257,000	--
	-----	-----
Net cash (used in) provided by investing activities	(1,845,000)	636,000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term notes payable	(55,000)	(392,000)
	-----	-----
Net cash used in financing activities	(55,000)	(392,000)
	-----	-----
Net (decrease) increase in cash	(1,530,000)	907,000
Cash, beginning of period	4,778,000	3,366,000
	-----	-----
Cash, end of period	\$ 3,248,000	\$ 4,273,000
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation:

Organization

California Real Estate Investment Trust (Trust) was organized under the laws of the State of California pursuant to a Declaration of Trust dated September 15, 1966.

The Trust became a partner of Totem Square, L. P. (Totem), a Washington Limited Partnership in which the Trust owns a 59% interest, on November 30, 1990. The Trust also formed CalREIT Totem Square, Inc. (Cal-CORP) to act as general partner of Totem. Cal-CORP has a 1% interest in Totem, and Totem Square Associates, an unrelated party, has the remaining 40%.

On April 14, 1994, The Peregrine Real Estate Trust (formerly Commonwealth Equity Trust) as majority shareholder owning 76% of the Trust's outstanding Shares of Beneficial Interest, voted its shares to replace the Board of Trustees. At that time, the Trust elected a new Board of Trustees all of whom were key management personnel of The Peregrine Real Estate Trust (Peregrine). Subsequently, the Board has grown to five Trustees of which two are independent. Of the three remaining Trustees, one is the Chairman of the Board of Trustees and Chief Executive Officer of CalREIT, one is the Chairman of the Board of Trustees of Peregrine and one is a former Executive Officer of CalREIT and Peregrine.

On September 19, 1996, Peregrine announced that it had entered into an agreement with MDC REIT Holdings LLC (MDC), an affiliate of the investment banking firm McCown DeLeeuw & Co., for the sale of Peregrine's 76% stock interest in CalREIT. Under the terms of the proposed agreement, MDC would purchase the stock for \$20.5 million in cash plus a deferred payment contingent on the value of one of CalREIT's assets. Closing of the transaction is subject to financing and various other closing conditions.

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation, continued:

At September 30, 1996, the Trust owned two commercial/retail properties located in two market areas in the Western United States. The Trust also owns a mortgage note portfolio comprised of approximately \$7.7 million in loans, with an aggregate book value of approximately \$1.6 million. These loans bear interest at an overall effective rate of approximately 8%. They are collateralized by mortgages on real property. Most of the investments in the three loans were originated by the Trust in connection with the disposition of Trust properties prior to 1996. Additionally, at September 30, 1996, the Trust had approximately \$16 million invested in U.S. Government Agency mortgage-backed securities.

Basis of Presentation

The accompanying financial statements are unaudited; however, they have been prepared in accordance with generally accepted accounting principles for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by generally accepted

accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. The results for the interim period ended September 30, 1996, are not necessarily indicative of the results to be obtained for the full fiscal year. These financial statements should be read in conjunction with the December 31, 1995, audited financial statements and notes thereto, included in the California Real Estate Investment Trust Annual Report on Form 10-K.

The accompanying unaudited consolidated financial statements of California Real Estate Investment Trust include the accounts of the Trust, Cal-Corp and Totem.

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation, continued:

Stock-Based Compensation

In 1995, Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation" was issued. This statement requires either recognition or disclosure of a hypothetical charge for stock options. SFAS 123 also establishes fair value as the measurement basis for transactions in which an entity acquires goods or services from nonemployees in exchange for equity instruments. This statement is effective for transactions entered into after December 15, 1995. The Trust does not intend to record this hypothetical charge for stock options, but will instead provide required disclosures beginning with the Form 10-K for the year ending December 31, 1996.

Reclassifications

Certain reclassifications have been made in the presentation of the 1995 financial statements to conform to the 1996 presentation.

2. Investments in Rental Properties and Notes Receivable:

At September 30, 1996, and December 31, 1995, the Trust was in the process of repositioning or monetizing its assets, principally investments. Therefore, all investments are classified as held for sale.

In 1995, Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of," (SFAS 121) was issued. SFAS 121, requires that an impairment be recognized to reduce the carrying amount of long-lived assets to their estimated fair value whenever events or changes in circumstances indicate that such carrying amount may not be recoverable. After an impairment is recognized, the reduced carrying amount of the asset is accounted for as its new cost. In 1996, the Trust adopted the provisions of SFAS 121. Generally, fair values are estimated using discounted cash flow, direct capitalization, and market comparison analyses.

As of the end of the third quarter of 1996, the Trust reported total valuation losses of \$1,743,000, attributable to an impairment in the value of the Fulton Square Shopping Center in Sacramento, California, and the Totem Square property in Kirkland, Washington. The reduction in the book value of these properties reflects the change in value of the assets as they are no longer held for investment but held for sale, the current physical conditions of the properties and changed market conditions. Valuation losses totaled \$994,000 for the Fulton Square Shopping Center

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments in Marketable Securities:

At September 30, 1996, the Trust had \$15,606,000 invested in government mortgage-backed securities classified as "available-for-sale."

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," (SFAS 115) issued in May 1993 requires that at the date of acquisition and at each reporting date, debt and equity securities be classified as "held-to-maturity," "trading," or "available for sale." Investments in debt securities in which the Trust has the positive intent and ability to hold to maturity are required to be classified as "held-to-maturity." "Held-to-maturity" securities are required to be stated at cost and adjusted for amortization of premiums and discounts to maturity in the statement of financial position. Investments in debt and equity securities that are not classified as "held-to-maturity" and equity securities that have readily determinable fair values are to be classified as "trading" or "available-for-sale" and are measured at fair value in the statement of financial position. Securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading." Unrealized holding gains and losses for "trading" securities are included in earnings.

Investments that are not classified as "held-to-maturity" or "trading" securities are classified as "available-for-sale." Unrealized holding gains and losses for "available-for-sale" securities are excluded from earnings and reported as a separate component of shareholders' equity until realized.

In accordance with SFAS 115, the Trust determines the appropriate classification at the time of purchase and reevaluates such designation at each balance sheet date.

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments in Marketable Securities, continued:

At September 30, 1996, the Trust's "available-for-sale" securities consisted of the following:

<TABLE>
<CAPTION>

	(In thousands)			
	Cost	Unrealized Gains	Losses	Estimated Fair Value
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Federal National Mortgage Association, adjustable rate interest currently at 7.623%, due April 1, 2024	\$ 3,095	--	\$ (13)	\$ 3,082

Federal Home Loan Mortgage Corporation, adjustable rate interest currently at 6.656%, due June 1, 2024	1,024	--	(4)	1,020
Federal National Mortgage Association, adjustable rate interest currently at 7.320%, due April 1, 2025	761	--	(4)	757
Federal National Mortgage Association, adjustable rate interest currently at 5.155%, due May 1, 2026	3,681	2	--	3,683
Federal National Mortgage Association, adjustable rate interest currently at 5.151%, due June 1, 2026	7,031	33	--	7,064
	-----	----	-----	-----
	\$15,592	\$ 35	\$ (21)	\$15,606
	=====	=====	=====	=====

</TABLE>

The maturity dates above are not necessarily indicative of expected maturities as principal is often prepaid on such instruments.

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Income Taxes:

The Trust has elected to be taxed as a real estate investment trust and as such, is not taxed on that portion of its taxable income which is distributed to shareholders, provided that at least 95% of its real estate trust taxable income is distributed and that the Trust meets certain other REIT requirements.

5. Related-Party Transactions:

The Trust and Peregrine are both self-administered. However, they share certain costs, including personnel costs, for which the Trust reimburses Peregrine pursuant to a cost allocation agreement based on each trust's respective asset values that is subject to negotiation annually. During the nine month periods ended September 30, 1996, and September 30, 1995, reimbursable costs charged to the Trust by Peregrine approximated \$188,000 and \$333,000, respectively.

At September 30, 1996, and December 31, 1995, respectively, the Trust had \$46,000 and \$45,000 due to Peregrine.

6. Statement of Cash Flows Supplemental Information:

In connection with the sale and foreclosure of properties, notes receivable, and property, plant and equipment the Trust entered into various non-cash transactions as follows:

<TABLE>
<CAPTION>

(In thousands)
For the Nine Months Ended

	Sept 30, 1996	Sept 30, 1995
	-----	-----
<S>	<C>	<C>
Sales price less selling costs	\$ 13,898	\$ --

Liabilities applied to sales price	(57)	--
	-----	-----
Net cash received	\$ 13,841	\$ --
	-----	-----

</TABLE>

One property which collateralized notes payable of \$3,089,000 was foreclosed upon during the quarter ended March 31, 1996, resulting in no gain or loss as the net book value of the property was equal to its debt.

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Statement of Cash Flows Supplemental Information, continued:

Cash paid for interest during the three month periods ended September 30, 1996 and 1995, was \$135,000 and \$165,000, respectively. Cash paid for interest during the nine month periods ended September 30, 1996, and September 30, 1995, was \$411,000 and \$591,000, respectively.

7. Per Share Data:

Per share data is for the three month and nine month periods ended September 30, 1996, and September 30, 1995, based on the weighted average number of shares of beneficial interest outstanding during each period. The weighted average number of shares used in the computation was 9,157,000.

8. Gain on Foreclosure or Sale of Investments:

Components of the gain on foreclosure or sale of investments for the three and nine months ended September 30, 1996, and September 30, 1995, were as follows:

<TABLE>
<CAPTION>

	(In thousands)			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1996	1995	1996	1995
	----	-----	-----	----
<S>	<C>	<C>	<C>	<C>
Sale of Fountain View Office Building Note	\$130	\$ --	\$ 130	\$--
Sale of Aster Ave. Industrial Complex Note	387	--	387	--
Sale of Bekins property	--	--	(164)	--
Sale of Pavilions at Mesa Note	--	--	430	--
Sale of Spacesaver Mini-Storage Note	--	--	30	--
Sale of Van	--	--	1	--
Sale of Redfield property	--	--	299	--
Recognition of deferred gains	--	--	--	\$66
	-----	-----	-----	----
	\$517	\$ --	\$ 1,113	\$66
	=====	=====	=====	====

</TABLE>

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CALIFORNIA REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Stock Option Plans:

On November 15, 1995, the Board of Trustees approved two stock option plans (Plans) which may be submitted to shareholders for ratification at the 1996 Annual Meeting of Shareholders. Options granted under the Plans may not be exercised until the plans are approved by the Shareholders.

The Plans provide the members of the Board of Trustees (Plan I) and certain employees and independent contractors (Plan II) an opportunity to purchase Shares of Beneficial Interest. The aggregate number of Shares of Beneficial Interest which may be issued upon exercise of all options granted under Plan I and Plan II shall not exceed 500,000 and 500,000, respectively.

Under the terms of Plan I, options may be granted to members of the Board of Trustees who are not full-time employees or officers of the Trust or Peregrine. The option price granted under Plan I shall be the fair market value of the Shares of Beneficial Interest on the grant date. On the effective date, each participant was granted an initial option to purchase 100,000 Shares of Beneficial Interest. Each participant whose commencement of service is after the effective date shall be granted an initial option to purchase 100,000 Shares of Beneficial Interest as of the date of participant's commencement of service. Each participant shall also be granted additional options to purchase 10,000 Shares of Beneficial Interest on each anniversary of the grant date of the initial option. On November 15, 1995 (the effective date), Stock Options to purchase 200,000 Shares of Beneficial Interest were granted to participants under Plan I. On the grant date, the fair market value of the Shares of Beneficial Interest was \$1.38.

Under the terms of Plan II, options may be granted to certain key employees of the Trust and Peregrine, including officers and trustees who are employees of Peregrine, Trustees who are also Trustees of Peregrine, and consultants and advisors of the Trust. Options may be granted in any of the following forms: Incentive Stock Options, Nonqualified Stock Options, or any combination of Incentive Stock Options and Nonqualified Stock Options. The Stock Option Committee has the authority and discretion in fixing the option price for Nonqualified Stock Options. The option price for Incentive Stock Options shall not be less than 100% of the fair market value of the shares on the date of grant. Each option agreement shall state the number of shares and the option price. On November 15, 1995, the Stock Option Committee granted Nonqualified Stock Options to purchase 330,000 Shares of Beneficial Interest to certain key employees of the Trust and Peregrine, Trustees who are also Trustees of Peregrine, and consultants and advisors of the Trust. The option price for the Nonqualified Stock Options granted was the fair market value of the Shares of Beneficial Interest on the grant date, which was \$1.38.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q. Historical results set forth are not necessarily indicative of future financial position and results of operations of the Trust.

Overview

During the first three quarters of 1996, California Real Estate Investment Trust

continued to implement its strategy to monetize the Trust's assets to implement a growth strategy through merger or acquisitions.

As part of the Trust's strategy, the Trustees reviewed the past, present and expected future performance of the Casa Grande Motor Inn in Arroyo Grande, California. Despite significant improvements in operations under a professional management company, the hotel's current and projected financial performance was insufficient to cover its debt service requirements. The Trust suspended debt service payments and contacted the lender on the property with a proposal to renegotiate financing. The proposal was rejected and in February 1996, the Casa Grande Motor Inn was returned to the lender through foreclosure at no gain or loss to the Trust.

Simultaneously, the Trust's four commercial properties were readied for sale. Leasing, capital and tenant improvement expenditures were approved as they related to their impact on potential sales prices. As of the end of the second quarter, Redfield Commerce Center in Scottsdale, Arizona, and the Bekins Storage Facility in Pasadena, California had been sold. Proceeds from these sales have been invested in diversified, unleveraged pools of U.S. Government Agency mortgage-backed securities which satisfy REIT asset qualification requirements.

During this year, the Trust has reduced the book value of the Fulton Square Shopping Center in Sacramento by \$994,000 to \$1,200,000, and the book value of Totem Square in Kirkland by \$749,000 to \$7,400,000. Since these properties are no longer being held for investment, but rather for sale, their book value was reduced to more accurately reflect the actual market value of the assets. The decline in Fulton Square Shopping Center's value is primarily the result of the Trust's relatively short lease term on the land underlying the center, the physical condition of the property and changed market conditions in the Sacramento area. Disposition efforts on behalf of Totem Square also indicated the need to reduce this property's book value as it was no longer being held for investment purposes but actively marketed for sale.

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As the above activities are completed, the Trust continues to generate substantial amounts of liquid assets with which to pursue an expansion transaction. With a strong cash position, coupled with New York Stock Exchange and Pacific Stock Exchange listings, the Trust is well-positioned to consider a variety of business opportunities. Concurrent with the search for merger or acquisition candidates, the Trust has pursued discussions with outside financing sources, including investment banking firms, to provide either debt or equity financing for CalREIT's expansion plans. At this time, the Trust believes if a potential transaction were to enter the final stages of negotiation such financing would be available.

During the third quarter of this year, Peregrine announced an agreement regarding the potential sale of its 76% ownership interest (6,959,593 shares) in CalREIT to MDC REIT Holdings LLC, an affiliate of the investment banking firm of McCown DeLeeuw & Co. There is no assurance such a transaction will ultimately be consummated with MDC REIT Holdings LLC and any other action that Peregrine might take while it remains a majority shareholder in the Trust is unknown.

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Comparison of the Nine Months and Three Months Ended September 30, 1996 to the Nine Months and Three Months Ended September 30, 1995

Net loss of \$287,000 was reported by the Trust for the nine months ended September 30, 1996, a decrease of \$673,000 from the net income of \$386,000 for the nine months ended September 30, 1995. Net loss of \$514,000 was reported by the Trust for the three months ended September 30, 1996, a decrease of \$614,000 from the net income of \$100,000 for the three months ended September 30, 1995. These decreases were the result of a decrease in interest and rental revenues, increased general and administrative expenses, and valuation losses, offset by

decreased interest and depreciation expense.

Total Revenues decreased \$235,000, or 9%, to \$2,422,000 and \$171,000, or 18%, to \$771,000 for the nine and three months ended September 30, 1996, respectively, down from \$2,657,000 and \$942,000 for the nine and three months ended September 30, 1995, respectively. The decrease for the nine months ended September 30, 1996, is primarily attributable to a decrease in interest revenue as a result of the liquidation of a portion of the Trust's note portfolio. The decrease for the three months ended September 30, 1996, is primarily the result of decreased interest and rental revenues.

Rental revenues, including hotel revenues, decreased \$31,000, or 2%, to \$1,585,000 and \$99,000, or 17%, to \$482,000 for the nine and three months ended September 30, 1996, respectively, down from \$1,616,000 and \$581,000 for the nine and three months ended September 30, 1995, respectively. These decreases were primarily the result of decreases in rental revenue due to the sale of the Redfield Commerce Center in March 1996, the sale of the Bekins Storage Facility in May 1996, and the foreclosure of the Casa Grande Motor Inn in February 1996.

Interest revenues decreased \$204,000, or 20%, to \$837,000 and \$72,000, or 20% to \$289,000 for the nine months ended September 30, 1996, respectively, down from \$1,041,000 and \$361,000 for the nine and three months ended September 30, 1995 respectively. These decreases were primarily due to the decrease in interest received on mortgage notes offset by an increase in interest earned on cash accounts and marketable securities.

Total Expenses decreased \$258,000, or 11%, to \$2,079,000 and \$224,000, or 27%, to \$618,000 for the nine and three months ended September 30, 1996, respectively, down from \$2,337,000 and \$842,000 for the nine and three months ended September 30, 1995, respectively. These decreases were attributable to decreases in depreciation and amortization expenses, as well as interest expense offset by increases in general and administration expenses.

Depreciation and amortization expense decreased \$429,000, or 91%, to \$45,000 and \$143,000, or 88% to \$20,000 for the nine and three months ended September 30, 1996, respectively, down from \$474,000 and \$163,000 for the nine and three months ended September 30, 1995, respectively. These decreases are a direct result of the cessation of depreciation of the Trust's rental properties held for sale.

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Interest expense decreased \$238,000, or 37%, to \$410,000, and \$84,000, or 38%, to \$136,000 for the nine and three months ended September 30, 1996, respectively, down from \$648,000 and \$220,000 for the nine and three months ended September 30, 1995, respectively. These decreases primarily resulted from the cessation of interest expense on the Casa Grande Motor Inn when it was foreclosed upon by the lender in February 1996.

General and administrative expenses increased \$362,000, or 51%, to \$1,073,000 and \$10,000, or 4%, to \$293,000 for the nine and three months ended September 30, 1996, respectively, up from \$711,000 and \$283,000 for the nine and three months ended September 30, 1995, respectively. These increases were due to the net effect of increases and decreases in various expense categories. The largest increases were generated by additional Trustee fees and consulting fees related to expansion transaction activities and the packaging and disposition of the Trust's mortgage notes.

Valuation Losses. As of the end of the third quarter of 1996, the Trust reported total valuation losses of \$1,743,000, attributable to impairments in the value of the Fulton Square Shopping Center in Sacramento, California, and the Totem Square property in Kirkland, Washington, as a reflection of the properties' current physical conditions and changed market conditions.

Dispositions. During the first quarter of 1996, the Trust sold Redfield Commerce Center, an office/warehouse property in Scottsdale, Arizona. Its hotel property in Arroyo Grande, California was allowed to be foreclosed upon after the lender

refused a proposal from the Trust to restructure the debt terms. The net gain recognized from the sale of the Redfield Commerce Center in Scottsdale, Arizona was \$299,000. There was no gain or loss upon the foreclosure of the Casa Grande Motor Inn in Arroyo Grande, California as the net book value of the property was equal to its debt.

During the second quarter of 1996, the Trust sold the Bekins Storage Facility in Pasadena, California. The Trust incurred a loss of \$164,000 from the sale of Bekins. Also during the second quarter of 1996, the Trust sold two of its seven mortgage notes. A gain of \$430,000 was recognized upon the sale of the Trust's mortgage note which was collateralized by a first deed of trust on an office/commercial building in Phoenix, Arizona, and a gain of \$30,000 was recognized upon the sale of the Trust's mortgage note which was collateralized by a second deed of trust on a commercial building in Pacheco, California.

During the third quarter of 1996, the Trust sold two of its five remaining mortgage notes. A gain of \$130,000 was recognized upon the sale of the Trust's mortgage note which was collateralized by a first deed of trust on an office building in Scottsdale, Arizona, and a gain of \$387,000 was recognized upon the sale of the Trust's mortgage note which was collateralized by a second deed of trust on an office/industrial building in Sunnyvale, California.

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Liquidity and Capital Resources

At September 30, 1996, the Trust had \$3,248,000 in cash. Its two rental properties had a net book value of \$8,562,000 at that date with collateralized indebtedness against the rental properties totaling \$4,298,000 (50%). CalREIT's \$7,716,000 mortgage note portfolio is carried at a net book value of \$1,582,000 due primarily to cumulative write downs in valuation. Its investment in marketable securities had a net book value marked to market at September 30, 1996, of \$15,606,000. The primary sources of liquidity for the Trust in the remainder of 1996, which management believes will adequately meet its future liquidity and capital resource requirements, will be cash on hand, cash generated from operations, interest and principal payments on its securities, and cash generated from asset dispositions. The primary demands on the Trust's capital resources will be debt service payments and expenses associated with the search for, analysis of and negotiations with respect to an expansion transaction.

The Trust experienced a net decrease in cash of \$1,530,000 for the nine months ended September 30, 1996, compared to a net increase in cash of \$907,000 for the nine months ended September 30, 1995, a difference of \$2,437,000. For the nine months ended September 30, 1996, cash provided by operating activities was \$370,000, down \$293,000 from \$663,000 during the same period in 1995. Cash provided by investing activities during this same period decreased by \$2,481,000 to (\$1,845,000), down from \$636,000, primarily the result of a reduction in collections on notes receivable and investments in marketable securities funded with cash generated from operations and asset dispositions; and cash used in financing activities decreased by \$337,000 from \$392,000 to \$55,000.

The note on Totem Square of \$4,265,000 was originally scheduled to mature on April 1, 1996. The Trust received an extension from the lender to May 1997, under the same terms and conditions as the original agreement.

Funds From Operations and Funds Available for Distribution. REIT analysts generally consider Funds From Operations (FFO) an appropriate measure of performance in comparing the results of operations of REIT's. FFO is defined by the National Association of Real Estate Investment Trusts as net income computed in accordance with generally accepted accounting principles before gains and losses on sales of property and from debt restructuring plus depreciation and amortization. Funds Available for Distribution (FAD) is defined as FFO less capital expenditures funded by operations and loan amortization. The Trust believes that in order to facilitate a clear understanding of the historical operating results of the Trust, FFO and FAD should be examined in conjunction with net income as presented in this report. FFO and FAD should not be

considered as an alternative to net income as an indication of the Trust's performance or to cash flow as a measure of liquidity.

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Funds From Operations and Funds Available for Distribution for the three months and six months ended June 30, 1996 and 1995 are summarized as follows:

Calculation of Funds From Operations and Funds Available for Distribution

<TABLE>
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	(In thousands)			
	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
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Net income before gain on foreclosure or sale of investments and valuation losses	\$ 153	\$ 100	\$ 343	\$ 320
Depreciation and amortization	20	163	45	474
Funds from operations	173	263	388	794
Capital improvements	(5)	(113)	(123)	(204)
Loan principal payments	(17)	(15)	(55)	(392)
Funds available for distribution	\$ 151	\$ 135	\$ 210	\$ 198
	=====	=====	=====	=====

</TABLE>

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PART II. OTHER INFORMATION

Item 1: Legal Proceedings

The Trust filed a complaint in San Francisco Superior Court on September 27, 1996, seeking a declaratory judgment against Carrillion V, a California limited partnership, and its general partner (collectively, the "Defendant"), with respect to an earnest money deposit given by the Defendant under a May 1996 mortgage loan purchase agreement (the "MLP"). The Trust asserts that the deposit was forfeited by the Defendant, as liquidated damages, upon the default by the Defendant under the MLP. The deposit is presently held by the designated escrow agent under the MLP. The amount in dispute is \$142,950. The defendant has moved to change the venue of the dispute to Santa Clara County, but has otherwise not answered the complaint.

Item 2: Changes in Securities None

- Item 3: Defaults Upon Senior Securities
None
- Item 4: Submission of Matters to a Vote of Security Holders
None
- Item 5: Other Information
None
- Item 6: Exhibit 27 Financial Data Schedules
Reports on Form 8-K - None

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SIGNATURES

Pursuant to the requirement 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.

CALIFORNIA REAL ESTATE INVESTMENT TRUST

November 14, 1996

/s/ Frank A. Morrow

Date

Frank A. Morrow,
Chairman of the Board and
Chief Executive Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND STATEMENT OF OPERATIONS, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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