INSIGNIA FINANCIAL GROUP INC /DE/
Form 10-K
March 28, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

[ ] 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 1-14373

INSIGNIA FINANCIAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	56-2084290
(State of Incorporation)	(I.R.S. Employer Identification No.)
200 PARK AVENUE, NEW YORK, NEW YORK	10166
(Address of Principal Executive Offices)	(Zip Code)

(212) 984-8033
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, Par Value $0.01 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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 report), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. {X}

At March 1, 2001, there were 21,691,064 shares of Common Stock outstanding.

Based on the reported closing price of $13.00 per share on the New York Stock Exchange on such date, the aggregate market value of Registrant's Common Stock held by non-affiliates was approximately $250 million.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the Annual Meeting of Stockholders is incorporated by reference in Part III of this Form 10-K.

Part I

Item 1. Business

ORGANIZATION

Insignia Financial Group, Inc. ("Insignia" or the "Company"), a Delaware corporation headquartered in New York, New York, is an international real estate services company with operations throughout the United States and United Kingdom as well as in continental Europe, Asia and Latin America. Insignia, incorporated on May 6, 1998 under the name Insignia/ESG Holdings, Inc., originally was a wholly-owned subsidiary of a company also named Insignia Financial Group, Inc. ("Former Parent"). On September 21, 1998, Former Parent effected the spin-off of Insignia through a pro rata distribution (the "Spin-Off") to the holders of common stock of Former Parent of all the outstanding common stock of Insignia (the "Common Stock"). On November 2, 1998, Insignia assumed the name of Former Parent, "Insignia Financial Group, Inc.," and reclaimed Former Parent's original New York Stock Exchange symbol, "IFS." Insignia's principal executive offices are located at 200 Park Avenue, New York, New York 10166, and its telephone number is (212) 984-8033.

Insignia's real estate service businesses specialize in commercial real estate services, apartment brokerage and leasing, single-family home brokerage, mortgage origination, title services, escrow agency services, condominium and cooperative apartment management, real estate oriented financial services, equity co-investment and other services. The Company's principal real estate service businesses are Insignia/ESG, Inc. (U.S. commercial real estate services), Insignia Richard Ellis (U.K. commercial real estate services), Douglas Elliman LLC (residential sales and rentals), Realty One, Inc. (single-family home brokerage and mortgage origination) and Insignia Residential Group, Inc. (condominium and cooperative apartment management). Insignia operates other European businesses in Frankfurt, Germany; Milan, Italy; Brussels, Belgium; Dublin, Ireland; Belfast, Northern Ireland; and Amsterdam, the Netherlands. Insignia enjoys overall market dominance for commercial and residential real estate services in New York through the leading market positions of Insignia/ESG, Douglas Elliman and Insignia Residential Group.

The Company commenced operations in Asia in July 2000 by establishing an office in Tokyo, Japan and subsequently acquiring Brooke International, a commercial real estate services company with existing offices in Hong Kong, China and Thailand, in December 2000. The Company also recently extended its service capability into Latin America with the March 2001 acquisition of Grupo Inmobiliario Inova S.A de C.V. ("Inova"), located in Mexico City, and plans to further extend its Asian platform with the acquisition of Brooke International's operations in India in early April 2001.

In addition to real estate services, Insignia invests in real estate assets, through co-investment initiatives with institutional clients, principal development activities and real estate funds. The Company's real estate service businesses and real estate investment activities are more fully described below.

REAL ESTATE SERVICES

COMMERCIAL REAL ESTATE SERVICES

The Company's commercial real estate services are performed through Insignia/ESG in the United States, Insignia Richard Ellis ("IRE") in the United Kingdom and other Insignia subsidiaries in continental Europe, Asia and Latin America. The Company's commercial services operations generated aggregate service revenues of $641.9 million in 2000, or approximately 73% of the Company's total service revenues and representing substantial gains over $497.8 million in 1999 and $378.4 million in 1998.

United States Operations

The Company's U.S. commercial real estate services operations commenced in 1991 as a division of Former Parent. The move into full-service brokerage commenced in 1996 with the acquisition of Edward S. Gordon Company Incorporated and subsequent expansion of brokerage operations nationwide. In the U.S., the Company is among the leading providers of commercial real estate services, with leadership positions in the New York metropolitan marketplace and significant positions in other major markets including Washington, D.C., Philadelphia, Boston, Chicago, Atlanta, Phoenix, Los Angeles, San Francisco, Dallas and Miami. The Company's growth in the

late 1990's was fueled largely by acquisitions of regional commercial real estate service companies. However, its growth in 2000 was almost fully achieved through the organic expansion of its client base. U.S. commercial real estate services operations comprise the Company's largest business unit, accounting for approximately 57% of total service revenues for the 2000 year. U.S. commercial service operations generated service revenues of approximately $500.2 million in 2000, reflecting material growth over $389.2 million in 1999 and $312.9 million in 1998.

The Company provides a broad spectrum of commercial real estate services throughout the U.S. to corporations and other major space users, property owners and investors. These services include tenant representation, property leasing and management, property acquisition and disposition services, investment sales, mortgage financing, equity co-investment, development, redevelopment and consulting services. The Company serves tenants, owners and investors in office, industrial, retail, hospitality and mixed-use properties, representing 224 million square feet of commercial real estate including 148 million square feet of office space, 56 million square feet of industrial space, 15 million square feet of retail space and 5 million square feet of mixed use space. These services are provided on a third-party basis for companies such as The Irvine Company, Teachers Insurance and Annuity Association, Chase Manhattan, TA Realty, Lend Lease and others. During 2000, the Company completed U.S. sales and leasing transactions totaling in excess of 180 million square feet of commercial real estate, including more than $5.0 billion of commercial property sales.

Insignia/ESG's major corporate clients include Chase Manhattan, Lehman Brothers, The New York Times Company, Barclays and Metropolitan Life.

All commercial real estate services in the U.S. are rendered under the Insignia/ESG brand. The Company prides itself on the consistent, high-quality delivery of its services across geographic markets, property types and disciplines and is active to varying degrees in 47 U.S. markets. Specialized divisions within the U.S. commercial services business are Capital Advisors (investment sales and financing activities), Hotel Partners (hotel/hospitality brokerage services) and Commercial Investments Group (fee-development and redevelopment services).

The Company represents many leading corporations and property owners, helping them to fulfill their real estate needs in this marketplace. During the 2000 year, Insignia/ESG extended its market-leading position in New York with participation in 24 of Manhattan's 50 largest office-leasing transactions, including the top three, according to a list published in the February 2001 issue of Crain's New York Business. This represents the fourth consecutive year that Insignia/ESG held the number one position in this survey and reflects an increase from 17 of the top 50 transactions for the 1999 year. In addition, Insignia/ESG was also responsible for the largest leasing transaction in New Jersey for the second year in a row and 8 of the top 20, according to the January 2001 issue of Real Estate New Jersey.

The Company's reputation and success throughout the U.S. serves as the primary catalyst for growth and expansion of commercial real estate services both domestically and internationally. The Company's growth strategy combines targeted acquisitions of companies that offer complementary skill sets as well as the expansion of servicing capabilities in select markets through broker recruitment initiatives. Expansion is primarily focused on first tier markets (those comprising 75 million square feet or more) and secondarily on opportunities in second tier U.S. and international markets (those comprising 25 million to 74 million square feet). Since May 1998, the Company has completed acquisitions of commercial real estate service companies in Chicago, Philadelphia and Boston, and expanded its service capabilities in Los Angeles, San Francisco, Atlanta and Miami.

United Kingdom and European Operations

The Company's European businesses consist of commercial real estate operations in the United Kingdom, Germany, Italy, Belgium and the Netherlands. European operations, which accounted for 16% of Insignia's total service revenues, produced approximately $141.8 million in service revenues, concluded more than 66 million square feet of sales and lease transactions and arranged the sale of more than $9.0 billion in commercial property in 2000. For the 1999 and 1998 years, Insignia's European operations generated service revenues of $108.6 million and $65.4 million, respectively. The growth in European operations for 2000 was primarily achieved through the organic expansion of the Company's client base in the U.K. This expansion was substantially due to the successful integration in 1999 of Richard Ellis Group Limited ("REGL"), acquired in 1998, and St. Quintin Holdings Limited ("St. Quintin"), acquired in 1999, into a single U.K. operation with a leading market position in London. The British Pound (Sterling) represents the only foreign currency of a material business operation, as more than 90% of Insignia's foreign operations were derived in the U.K. for both 2000 and 1999, with services revenues of $132.2 million and $104.6 million, respectively. The continental European businesses contributed positive results for 2000 with more than $9.5 million of service revenues. The continental European businesses are expected to provide increasingly meaningful contributions over time through the maturation of operations and expansion of service capabilities throughout their markets.

The Company's U.K. subsidiary is among the three largest commercial real estate service providers in the United Kingdom and the largest, based on 25% market share for leasing activity, in central London. The Company provides extensive coverage of the entire United Kingdom market through full-service offices in London, Glasgow, Birmingham, Leeds, Manchester, Liverpool and Jersey, and holds a minority equity interest in an Irish real estate services company with offices in Ireland and Northern Ireland through offices in Dublin and Belfast. The Company's U.K. operation provides broad-ranging real estate services, including agency leasing, tenant representation, property sales and financing, consulting, project management, appraisal, zoning and other general services. The major income components are agency leasing, tenant representation and property sales and financing. The 2000 year was exceptionally successful for the U.K. operation, reflecting the full benefit of the 1999 operational merger of REGL and St. Quintin and a robust real estate market in the U.K.

The combined strength of the Company's subsidiaries in New York and London gives Insignia a commanding position in two of the world's most important global business centers. The U.S. and U.K. operations have benefited from transatlantic cross-selling opportunities, which are expected to grow in impact over time, in light of the global business environment and the prominence of New York and London as world financial capitals.

The U.K. operations are viewed as the springboard for the Company's continued global expansion of the commercial real estate services platform. Since the initial acquisition of REGL in February 1998, the U.K. operations have assisted in the establishment of service operations in Frankfurt, Germany, Milan, Italy, Brussels, Belgium and Amsterdam, the Netherlands.

Asian Operations

The Company launched operations in Asia during 2000 with the establishment of an office in Tokyo, Japan in July 2000 and the acquisition of Brooke International, a Hong Kong based commercial real estate services company, in December 2000. The Tokyo operation serves the Company's clients throughout Japan.

Brooke International, founded in 1988, employs approximately 80 real estate professionals and support personnel in four offices in Hong Kong, China, and Thailand. The acquisition provides the Company with an ideal platform from which to serve existing clients in Asia, particularly in corporate real estate services and investment business, and should also create cross-selling opportunities with the U.S., U.K. and continental European businesses. Insignia expects to expand its Asian operations with the acquisition of Brooke International's operations in India in early April 2001 and anticipates further expansion in Asia as additional attractive opportunities are identified.

Commercial Services

The full range of commercial services provided by the Company world-wide include the following:

Tenant Representation-- acquisition or disposition of leased or owned space on behalf of space users

Consulting -- specialization in large, multi-faceted transactions (usually 50,000 square feet or more) requiring in-depth planning, analysis and execution

Investment Sales-- sale or acquisition of all types of commercial property on behalf of owners

Mortgage Financing -- arrangement of financing (either debt or equity) on behalf of owners of all types of commercial properties

Agency Leasing -- marketing of available space within commercial properties on behalf of owners/landlords and the consummation of leases with tenants

Property Management -- responsibility for the financial and operational aspects of a commercial property, which sometimes involve specialized services such as construction management, engineering or energy management

Facilities Management -- responsibility for the delivery of services for properties owned and occupied by corporations, institutions, government agencies, hospitals, colleges and universities

Industrial Services -- specialized services performed for the owners and/or users of manufacturing, warehouse, distribution or flex-space (combining office and industrial uses) facilities

Property Development and Redevelopment -- development and construction services for owners of office, industrial and retail properties, and the re-development/re-positioning of properties for owners looking to create enhanced value

Real Estate Investment -- primarily through ownership in equity co-investment partnerships and development property with select clients

Market Trends

United States

- Clients Demand More Services; Desire to Consolidate Service Providers -- As real estate requirements become more sophisticated, clients' needs follow. Increasingly, companies want to be able to turn to a single source for all of their real estate use, investment and management requirements. As a result, clients with multiple real estate requirements ranging from occupancy needs to investment objectives are consolidating service providers. Whereas several years ago it might have been common for real estate owners, users and investors to hire several different companies in different locations to manage their needs, the industry is seeing a trend towards the hiring of fewer providers to address all of a client's requirements.

- Increasing Sophistication of Transactions -- As companies grow the significance of their real estate issues follow suit. It is common today for a company's real estate occupancy and investment issues to be second only to labor as a component of overall operating costs. Additionally, with the increasing sophistication of capital markets, the trend toward real estate securitization, the tendency of companies today to merge with others to achieve economies of scale and capture market share, and the consolidation of worldwide locations that accompany such mergers, the manner in which corporations manage such issues can have profound impacts on their financial performance. As a result, the level of sophistication required to manage such complex requirements and interrelationships transcends the traditional role of the real estate broker. Successful commercial real estate services companies today must be able to manage these requirements in order to effectively compete.

The Company's response to the foregoing is to seek to become an advisor for corporations and financial institutions with respect to their real estate use, investment and management requirements in the same manner that major investment banks are advisors to a corporation's corporate finance requirements. By focusing on providing the highest quality services with the best talent in the major business centers of the world, the Company seeks to become the "one-stop" resource for all real estate requirements, specializing in the more complex and creative transactions that characterize today's worldwide marketplace.

Europe

The consensus forecast for the U.K. economy projects the slowdown of overall growth in the commercial real estate sector in 2001 (compared with 2000), while overall growth in the Euro based economies is expected to remain at levels relatively consistent with the 2000 year. After very strong activity in 2000, occupational demand in Southeast England will moderate, especially in the information technology and telecommunications sectors; however, the market will remain tightly supplied due to limited new development for office space. The global slowdown and reduced dynamism in technology sectors are likely to lower the pressure of demand over the course of 2001 in some European markets, causing leasing activity to decline.

Competitive Position/Competition

The Company believes that it is well positioned to meet the competitive challenges present in the commercial real estate marketplace. Among its competitive strengths are:

- strong reputation and recognition of the Company's brand names within the industry
- quality and depth of both its management and brokerage staff
- entrepreneurial corporate culture, which allows it to respond quickly to opportunities
- unique methodologies for implementing large, complex transactions
- complete array of services, which allows it to both meet existing client needs and take advantage of cross-selling opportunities
- extensive property services portfolio, which provides significant economies of scale
- proven mergers and acquisitions capability
- market leadership in two of the world's most important financial centers-- New York and London

- focus on attracting, retaining, supporting and promoting the highest quality, most skilled personnel in the industry

U.S. Commercial Real Estate Services

Competition is intense in the U.S. commercial property services industry, particularly in the areas of tenant representation, property leasing and management and other services in which the Company is engaged. Historically, most competitors have been regional or local companies specializing in one or more aspects of the business (e.g., property management, tenant representation, etc.). However, the consolidation trend has spawned fewer, larger international competitors that are integrated across property types and disciplines. The Company competes increasingly with these full-service national competitors, including CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Jones Lang LaSalle and Trammel Crow.

Different factors weigh heavily in the competition for tenant representation and property services assignments. For major tenant representation assignments, competition is based on quality of services, demonstrated track record, breadth of resources, analytical skills and market knowledge. The Company has a distinct methodology for executing major tenant representation assignments, which combines brokerage and consulting disciplines. This methodology, honed in New York over the past decade, is being exported to top tier markets throughout the United States. Further, the Company has an outstanding track record in completing major tenant representation assignments. Over the last two years, the Company, as tenant representative, has arranged major transactions for such well-known entities as the following: Chase Manhattan, Lehman Brothers, Credit Suisse First Boston, John Wiley & Sons, Barclays, Global Crossing, Marsh & McLennan, Winstar Communications, Martha Stewart Enterprises, Waterhouse Securities and Citigroup.

As previously noted, the Company participated in the top three office-leasing transactions and 24 of Manhattan's 50 largest office-leasing transactions for the 2000 year according to a list published in the February 2001 issue of Crain's New York Business. Insignia's creativity and transaction-structuring expertise have been recognized by a leading trade group, which annually recognizes two New York City transactions as its "Deals of the Year." The Company has been the recipient of such awards in four of the past five years. The Company believes that its outstanding track record provides a distinct competitive advantage.

Competition for third-party commercial property services is based principally on cost and the quality of service, including the ability to enhance asset values. The Company's personnel are experienced in managing a wide variety of property types in locations throughout the country. This enables Insignia to offer an owner of a large diversified portfolio the ability to obtain experienced management for most or all of its properties through one organization. The Company believes that it has demonstrated an ability to effectively manage, lease and improve the value of

properties. In addition, the Company believes that it has developed a reputation for quality service and attention to detail for clients, investors and tenants alike. The Company also believes that its economies of scale and state-of-the-art management information systems allow it to offer services efficiently and at an overall cost that is competitive with or less expensive than those offered by other property service companies. Because of its size and diversity, the Company is able to control operating costs by spreading fixed overhead expenses across its large service base, which enhances profitability and enables Insignia to pass cost savings on to the property owners for which it provides services. Major property owner clients include The Irvine Company, Lend Lease, Chase Manhattan and Teachers Insurance and Annuity Association.

U.K Commercial Real Estate Services

Competition is also intense among commercial service providers in the U.K. With 2000 revenues of $132.2 million, the Company's U.K. subsidiary has established itself as a market leader with a "top three" position in the U.K. in commercial property markets, along with DTZ and Jones Lang Lasalle. The Company has also achieved the number one position in the highly competitive central London market for leasing services for 2000 (according to a survey published in the March 3, 2001 issue of Estates Gazette), surpassing several long entrenched competitors. The Company believes that its U.K. subsidiary's operations and reputation place Insignia at a strategic advantage over other primary competitors including CB Hiller Parker, Knight Frank, Cushman & Wakefield and FPD Savills.

RESIDENTIAL REAL ESTATE SERVICES

The Company's residential real estate services are performed in the U.S. through the collective operations of Douglas Elliman, Realty One and Insignia Residential Group.. Through these businesses, the Company provides a diversified array of residential real estate services throughout northern Ohio and the New York metropolitan area including apartment brokerage and leasing, single-family home brokerage, mortgage origination, title services, escrow agency services and condominium and cooperative apartment management. The Company's residential services operations generated aggregate service revenues of $233.2 million in 2000, or approximately 27% of the Company's total service revenues and representing material gains over $180.7 million in 1999 and $129 million in 1998.

Residential Sales and Rentals

Through Douglas Elliman, founded in 1911 and acquired by Insignia in June 1999, the Company operates a residential cooperative, condominium and rental apartment brokerage and leasing firm in New York City. Douglas Elliman commands the number one market position for both residential sales and rentals in New York City according to the annual ranking in the March 2001 issue of Crain's New York Business. In addition, Douglas Elliman operates in upscale suburban markets through offices in Greenwich and Darien, Connecticut, Bernardsville/Basking Ridge, New Jersey, and Long Island (Manhasset, Locust Valley and Port Washington/Sands Point). Douglas Elliman has more than 900 brokers, supported by 130 corporate employees in 15 offices in the New York City area. In 2000, Douglas Elliman's apartment brokerage and leasing business closed transactions valued at over $2.8 billion and generated service revenues of approximately $107.5 million, or 12% of the Company's total service revenues for 2000.

Single Family Home Brokerage and Mortgage Origination

Through Realty One, established in 1953 and acquired by Former Parent in October 1997, the Company operates a full-service single-family residential brokerage, mortgage origination and title insurance business headquartered in Cleveland and having offices throughout northern Ohio. Realty One's current business operation is the result of nearly 60 separate mergers and acquisitions. Realty One's operations constitute the largest residential real estate brokerage firm in Ohio and the fourteenth largest (based on unit volume) in the United States according to Real Trends "Big Brokers Report" published in May 2000. Realty One employs approximately 1,500 sales associates and 600 corporate and support staff located in 46 offices throughout northern Ohio and represents more than 100 residential builders. For 2000, Realty One participated in residential sales transactions valued at nearly $3 billion. Realty One's residential services operation produced $99.2 million in service revenues for 2000, accounting for approximately 11% of the Company's total service revenues.

The Company, through the combined businesses of Douglas Elliman and Realty One, operates the tenth largest residential brokerage operation in the United States, with more than 25,000 transactions valued at approximately $5.8 billion for the 2000 year.

Cooperative and Condominium Management

Through Insignia Residential Group, acquired by Former Parent in September 1995, the Company operates the largest manager of cooperatives, condominiums and rental apartments in the New York metropolitan area, according to a survey in the February 2001 issue of The Cooperator. Insignia Residential Group provides full service third-party fee management for more than 300 properties, comprising in excess of 60,000 residential units, and employ's over 300 people located in offices throughout the greater New York metropolitan area. Among the notable properties currently managed by Insignia Residential Group in New York City are the San Remo, Worldwide Plaza, Fresh Meadows, Horizon House and West Village Houses. Manhattan is the largest market for Insignia Residential Group, although it does maintain a presence in each of the other four boroughs of New York City as well as Long Island, Westchester County and Northern New Jersey. In addition to property management, Insignia Residential Group also offers mortgage brokerage services, including resale and financing arrangements for cooperative and condominium corporations through third-party financial institutions. Insignia Residential Group's residential management and mortgage brokerage business generated total service revenues of $26.5 million in 2000, representing approximately 3% of the Company's service revenues for the year.

Residential Services

The residential services provided by the Company include the following:

Residential Brokerage -- agency representation of both buyers and sellers in the purchase and sale of residential housing, including assisting the seller in pricing the property, marketing and advertising the property, showing the property to prospective buyers, assisting the parties in negotiating the terms of the sale and closing the transaction

Leasing -- marketing of available space on behalf of owners/landlords of properties and the consummation of leases with tenants

Rental Brokerage -- agency representation of rental clients in the procurement of suitable apartment housing

Relocation Services -- assisting both corporations and individuals in the sale, procurement and temporary management of residential properties for corporations and transferees (including large group moves as well as individual relocations)

Builder Marketing Services -- representing and consulting with large national and local developers providing marketing, research studies, product development and brokerage services

Mortgage Origination -- convenient and competitive mortgage services to single family residential customers and many other brokerages throughout northern Ohio. The Company represents more than 15 mortgage lenders in northern Ohio, each offering multiple financial products

Title Services -- complete title services to single family residential brokerage customers which streamlines the home-buying and selling process by enabling customers to conduct their entire sale or purchase transaction from one central site, with coordinated business services creating a true "one-stop shopping" experience

Escrow Agency-- residential escrow agency services facilitating the closing of property sales

Property Management -- involves providing accounting services on a cash or accrual basis, lease administration, central purchasing, cash management, insurance oversight, collections and compliance monitoring, and construction management

Transfer Agent -- On behalf of cooperative and condominium clients, the Company processes applications of prospective purchasers, arranges and attends closings, facilitates the assignment of proprietary leases and provides safekeeping of leases and other documents

Mortgage Brokerage Services -- mortgage brokerage services including resale and financing arrangements for customers through third-party financial institutions

Market Trends

The residential brokerage industry is currently defined by several key trends, including the following: market compression; market fragmentation; and consolidation. Profit margins are being compressed primarily as a result of increasing splits paid to real estate agents and rising marketing costs in response to increased market competition. There are more than 50,000 residential brokerage companies in the U.S., one quarter of which are currently estimated to be unprofitable, according to various industry research studies. No single independent broker commands more than 1% of the national market, and no national franchise company maintains more than an 11% market share, with only three franchise companies holding more than 3%.

The residential brokerage industry has been consolidating for some time. Through the exceptional brand names of Realty One and Douglas Elliman, the Company believes it is in a position of strength to enhance Insignia's market leading positions in northern Ohio and New York and to expand into other markets through attractive acquisitions and the extension of service capabilities.

Opportunities exist to increase profit margins through the expansion of services into related areas, such as mortgage, escrow, title, valuation and renovation services that will offer the consumer a true "one-stop shopping" experience. The approach of both Realty One and Douglas Elliman is to use advanced technology to bundle services more inexpensively and increase the value to the consumer.

Competitive Position/Competition

The Company believes its competitive strengths in the residential real estate marketplace include the following:

- exceptional reputation and recognition of the Company's residential brand names
- market leadership in the Company's principal residential markets-- New York and northern Ohio
- superior service capability due to geographic reach in the New York and northern Ohio markets
- leading edge use of information technology platforms tailored to the specific needs of residential clients
- full range of residential services and innovative marketing practices

Residential Sales and Rentals

Through Douglas Elliman, the Company enjoys a long-established presence in the New York City marketplace with a well-recognized brand name and leading market share. Douglas Elliman offers a comprehensive range of services and enjoys clear market advantages over its competitors, most notably The Corcoran Group and Brown Harris Stevens, based on its size, geographic reach in the New York marketplace and its alignment alongside the Company's other New York operations of Insignia/ESG and Insignia Residential Group.

Single Family Home Brokerage and Mortgage Origination

Through Realty One, the Company accounts for approximately 28% of single-family home sales or listings within the northern Ohio residential market. The number two firm, Smythe, Cramer Company, is responsible for approximately 19% of total sales and listings. Other firms trail significantly further behind. The Company believes that Realty One's success is due to a number of competitive advantages, including its leading-edge use of technology and innovative marketing practices.

Realty One's marketing practices are spearheaded by its marketing plans, which include "Welcome Home For First Time Buyer" and Relocation value package programs. These programs include discounts and other promotional items from various national vendor participants including various appliance companies, Glidden Paints, Carter Lumber and Royal Dirt Devil Vacuums. To benefit from these marketing programs, consumers are required to use the brokerage and mortgage origination or title services offered by Realty One and its subsidiaries. In addition, first time buyers receive a free home warranty and a free home inspection with a combined value in excess of $700 when they elect to use the services of Realty One's mortgage origination subsidiary, First Ohio Mortgage. The Company believes that the value of the free home warranty and free home inspection combined with the discounts and other promotional items give Realty One a significant competitive advantage over its peers.

Cooperative and Condominium Management

Through Insignia Residential Group, the Company operates the market leading cooperative and condominium management business in the New York metropolitan area. The cooperative, condominium and apartment management business is extremely competitive. In addition to several large companies, including Charles Greenthal, Inc. and Brown, Harris and Stevens, Inc., there are many small entities that aggressively compete for business. Further, some owner associations have opted for self-management, which eliminates the need for third-party service provider's altogether. Despite the competitive landscape, the Company believes Insignia Residential Group has a proven record and that it has the capability to continue to compete successfully. Insignia Residential Group has grown to be a market leader by offering superior service while providing its clients cost benefits not available from smaller competitors. Examples are the lower cost of supplies, insurance and other items that Insignia Residential Group purchases on behalf of its clients using the buying power available because of size.

REAL ESTATE PRINCIPAL INVESTMENT ACTIVITIES

Co-investment and Development

Insignia pursues opportunities to invest in operating real estate assets. The Company identifies investment opportunities for select clients and invests alongside of those clients in the purchase of qualifying properties. Co-investment partners include Walton Street Real Estate Fund III, Citibank, ING Barings, Blackacre Capital Management, The Witkoff Group, Lennar, Lone Star Opportunity Fund, Prudential, GE Investments and Whitehall Street Real Estate. As of December 31, 2000, Insignia held ownership in 33 co-investment partnerships totaling over 9.2 million square feet of commercial property and over 4,700 multi-family apartment and hotel units. The Company's ownership interests in these partnerships range from 1% to 30%.

At December 31, 2000, the Company also was the sole owner of four properties with an aggregate real estate carrying value of approximately $57.6 million at December 31, 2000. These properties, which are consolidated in the Company's financial statements, include the following:

- Brookhaven Village - 155,000 square foot retail facility located in Norman, Oklahoma
- Dolphin Village - 136,000 square foot retail facility located in St. Petersburg, Florida

- One Telecom - 226,000 square foot office property located in Richardson, Texas and originally developed by Insignia
- Sun Microsystems - 91,000 square foot office property located in Hillsboro, Oregon and currently under development

In addition, the Company holds a 25% interest in an office property under development; owns 30% interests in two parcels of land held for development; and solely owns one parcel of land also held for development. Development activities on these properties are being directed by Insignia and are not expected to be complete until later in 2001 or thereafter.

Insignia Opportunity Trust

In 1999, Insignia sponsored the formation of a private real estate investment trust ("REIT"), Insignia Opportunity Trust ("IOT"). Through its subsidiary operating partnership, Insignia Opportunity Partners ("IOP"), IOT invests primarily in secured real estate debt instruments and, to a lesser extent, in other real estate debt and equity instruments, with a focus on below investment grade commercial mortgage-backed securities.

At formation, IOT received aggregate capital commitments of $71 million (of which $9 million was committed by Insignia and the remainder committed by third-party investors), which IOT in turn committed to invest in IOP in exchange for an 88.75% general partner interest in IOP. Insignia also committed to invest an additional $1 million directly in IOP in exchange for (i) a 1.25% managing general partner equity interest and (ii) a 10% non-subordinated promoted equity interest in IOP. Through December 31, 2000, the IOT investors had funded approximately $52.3 million of their aggregate commitments (including $6.6 million funded by Insignia) and Insignia had funded approximately $737,000 of its capital commitment to IOP, resulting in an Insignia ownership interest of approximately 12% in IOT and 11% in IOP. Funding of the remaining capital commitments is to be completed during 2001.

INTERNET INITIATIVES

In late 1999, Insignia's launched an Internet strategy involving an extensive array of e-commerce initiatives and strategic alliances, including internally developed Internet-oriented businesses and equity investments in third-party businesses, seeking to capitalize on Internet-related opportunities primarily in the real estate industry. In the aggregate, the Company invested approximately $45 million in Internet and technology-related businesses in 1999 and 2000, including approximately $18.7 million of operating costs expensed during the periods. These Internet initiatives have been a disappointment, primarily due to the evaporation of equity financing for Internet technology initiatives in the second half of 2000. As a result, the Company has reevaluated its approach to e-commerce and Internet-based initiatives, ultimately deciding to sell, merge or terminate the majority of its internally developed internet-based businesses and to substantially cease equity financing activities with third-party Internet-based businesses. A driving force behind these decisions was the Company's desire to eliminate all on-going exposure to the financial requirements associated with such Internet-based initiatives. Consequently, the Company incurred aggregate net pre-tax losses of $34.7 million in 2000 related to Internet initiatives, including impairment write-downs of $18.4 million (including both internal initiatives and third-party investments) and aggregate net operating losses of $16.3 million.

At December 31, 2000, Insignia held remaining equity investments of approximately $10.5 million (after approximately $8 million of impairment write-offs) in third-party Internet-related businesses. Insignia's equity ownership in these businesses ranges from 1% to 10%. While these businesses continue to operate, their future performance is highly dependent upon the ability to raise incremental capital to fund the on-going development of their business plans. If they are unsuccessful in raising the necessary capital, Insignia could incur further losses from impairment write-offs.

During the first half of 2000, Insignia consolidated EdificeRex.com, Inc. ("EdificeRex") and recorded losses of approximately $9.3 million, or $3.2 million in excess of the Company's investment. EdificeRex, launched in February 2000, represented Insignia's first internally developed Internet-based business and was de-consolidated, beginning with the third quarter of 2000, due to a restructuring which reduced the Company's voting interest to 47%. The restructuring did not affect Insignia's ownership in EdificeRex, as the Company continues to hold an economic interest of approximately 50%. The $3.2 million excess loss is carried as a deferred credit on the Company's balance sheet until such time as EdificeRex achieves profitability or Insignia disposes of its interest in EdificeRex.

The Company has no obligation or intention to provide additional funding to EdificeRex. All other internal Internet-based operations were terminated at December 31, 2000, resulting in a $10.4 million impairment write-off of capitalized development costs.

The Company has no intention of making any material investments in Internet technology initiatives other than certain Internet-related platforms developed or invested in by Project Octane, the industry consortium comprised of Insignia, CB Richard Ellis, Jones Lang LaSalle and Trammel Crow.

2001 OUTLOOK

The Company's core real estate service businesses continue to perform well. In fact, while predictions of material softening emanate from the economic community, the Company has not yet experienced any meaningful negative impact on the service businesses. That said, the Company believes that the extraordinary operating levels experienced in 2000 are unlikely to continue at the same pace in 2001. However, in light of the eradication of $34.7 million of Internet-related losses and an expected material reduction in capital expenditures, Insignia expects overall capital invested in our businesses in 2001 to decline significantly from year 2000 levels. Thus, while it may be unlikely for the Company to surpass the robust operating performance in 2000 for the service businesses, expectations for 2001 call for financial results surpassing any year in Insignia's or its Former Parent's history other than 2000. If 2001 expectations are met, the reduction in technology related investments, both e-commerce initiatives and business capital expenditures, should result in increased operating cash flow. In any event, the Company expects 2001 to be another solid year, on the back of tremendous growth and performance in 2000.

In addition to developments in the Company's core service businesses, Insignia expects 2001 to be strategically significant. The Company has spent the last four years developing a global real estate services platform with meaningful market positions in many major financial centers around the world. At the same time, Insignia has a proven track record of real estate investing as a principal, both on and off balance sheet, typically in partnership with our clients. These activities include the Former Parent's earlier programs involving limited partnerships as well as the Company's current co-investment, development, and real estate-oriented debt securities programs. Recently, these activities have been undertaken either on a one-off basis, utilizing the Company's own resources in tandem with institutional clients, or occasionally through the creation of off-balance sheet investment funds, such as IOT.

During 2001, Insignia expects to continue its principal investment activities and pursue other off balance sheet investment opportunities, similar in scope to IOT, which would expand the Company's real estate investment initiatives while at the same time enabling these investment activities to produce more predictable operating contributions.

ACQUISITIONS

Over the past ten years, Insignia has demonstrated the ability to recognize accretive acquisition opportunities and to successfully integrate them within its existing infrastructure. Insignia continues to seek opportunities to align its business with other market leading real estate service firms that fit the Company's objectives for expansion. Insignia maintains an internal mergers and acquisitions staff that includes all senior members of Former Parent's investment banking group as well as the acquisition analysis staff currently maintained by Insignia Richard Ellis in the United Kingdom.

Insignia continues to pursue an acquisition strategy that focuses on the expansion both domestically and internationally, while simultaneously seeking principal opportunities to invest capital in real estate assets in partnership with its clients. Such undertakings may be in the areas of commercial and residential real estate assets and services. Insignia has acquired the following real estate services businesses since January 1, 2000:

Inova

In March 2001, Insignia acquired Inova, a commercial real estate service company headquartered in Mexico City. Inova provides acquisition advisory services and due diligence, project coordination and supervision, real estate valuations, tenant representation, asset management and strategic advisory services. Inova offers Insignia an operating platform, with quality real estate professionals, for the expansion of services in Mexico. The base purchase price was approximately $500,000 and was paid in cash.

Brooke International

In December 2000, Insignia acquired Brooke International, a commercial real estate service company based in Hong Kong with additional offices in China and Thailand. The base purchase price was approximately $1.6 million, comprised of approximately $1.1 million paid in cash and $500,000 in equity. Additional purchase consideration of up to $1 million, payable over three years, is contingent on the future performance of Brooke International, which now operates as Insignia Brooke. Insignia intends to acquire Brooke International's operation in India in early April 2001.

BDR

In March 2000, the Company entered into a definitive agreement to acquire BDR, a Dutch real estate services company headquartered in Amsterdam, the Netherlands. The base purchase price was approximately $2.4 million, all of which was paid in cash upon final closing in September 2000. BDR provides a variety of commercial real estate services with a specialization in international advisory assignments and other corporate services. Additional purchase consideration of approximately $2.5 million, payable over three years, is contingent on the future performance of this business, which now operates as

Insignia BDR.

LIFE INSURANCE PROCEEDS

In October 2000, Insignia received $20 million of life insurance proceeds from a "key man" insurance policy on the life of Edward S. Gordon, a member of the Company's Office of the Chairman who passed away on September 21, 2000. The policy was purchased as a part of Insignia's acquisition of Edward S. Gordon Incorporated in June 1996. Insignia incurred approximately $900,000 in obligations payable to Mr. Gordon's estate at the time of his passing. The Company recognized the resulting income of $19.1 million in the third quarter of 2000.

CORPORATE BRANDING

In February 2000, Insignia introduced a worldwide corporate branding program that established a new logo for each of the Company's principal businesses. The centerpiece for this worldwide branding change is a vibrant, bright blue "i" logo. This logo unites the entire company internationally behind a highly visible and recognizable face in the marketplace and differentiates the Company's identity as the "new" Insignia - separate and distinct from that of the Former Parent.

INDUSTRY SEGMENT DATA

Insignia's operating activities encompass three reportable segments. The Company's segments include (i) commercial real estate services and principal investment activities; (ii) residential real estate services; and (iii) Internet-based e-commerce initiatives. The commercial segment provides services including tenant representation, property and asset management, agency leasing and brokerage, investment sales, development, consulting and other services. The commercial segment also includes the Company's principal real estate investment activities. Insignia's commercial segment comprises the operations of Insignia/ESG in the U.S., IRE in the U.K. and other businesses in continental Europe, Asia and Latin America. The residential segment provides services including apartment brokerage and leasing, single-family home brokerage services, property management services, mortgage origination and other services and is comprised of the operations of Douglas Elliman, Realty One and Insignia Residential Group. Insignia's Internet initiatives, which were launched in late 1999, involve equity investments in third-party Internet-based businesses and internally developed business activities. The Company terminated its internally developed Internet initiatives and substantially ceased equity financing activities with third-party Internet-based

businesses at December 31, 2000. The Company's unallocated administrative expenses and corporate assets, consisting primarily of cash and property and equipment, are included in "Other" in the segment reporting.

Segment operations are disclosed in the notes to the accompanying financial statements of Insignia included in Item 14 of this Form 10-K. These financial statements should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Form 10-K.

CHANGE IN ACCOUNTING PRINCIPLE

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101 ("SAB 101"), Revenue Recognition in Financial Statements, which discusses the SEC's views on the recognition of revenues from certain transactions. At December 31, 2000, the Company changed its method of accounting for revenue recognition for leasing commissions, in compliance with SAB 101, as a cumulative effect of a change in accounting principle, effective as of January 1, 2000. As such, operating results for the year ended December 31, 2000 are presented in compliance with the requirements of this accounting change. Historically, the Company generally recognized leasing commissions upon execution of the underlying lease, unless significant contingencies existed. Under the new accounting method, adopted retroactive to January 1, 2000, the Company's leasing commissions that are payable upon certain events such as tenant occupancy or payment of rent will be recognized upon the occurrence of such events. While this accounting change affects the timing of recognition of leasing revenues (and corresponding commission expense), it does not impact the Company's cash flow from operations.

The cumulative effect of the accounting change for prior years resulted in a reduction to income for the 2000 year of $30.4 million, net of applicable taxes of $23.3 million. The effect of the change on the 2000 year was to decrease revenues by $59.8 million and income exclusive of the cumulative effect of the accounting change by $10.5 million, or $0.43 per share. The effect of the change on income for each quarter of the 2000 year is provided in the following table:

(In thousands)	NET INCOME (LOSS) ON THE BASIS OF THE PREVIOUS ACCOUNTING POLICY	CURRENT PERIOD EFFECT OF ACCOUNTING CHANGE (NET OF INCOME TAXES)	ADJUSTED INCOME (1)
2000 NET (LOSS) INCOME:			
First quarter 2000	$ (4,312)	$ (401)	$ (4,713)
Second quarter 2000	2,767	(3,578)	(811)
Third quarter 2000	27,028	(3,238)	23,790
Fourth quarter 2000	6,786	(3,265)	3,521
2000 YEAR	$ 32,269	$ (10,482)	$21,787

(1) Represents adjusted income before cumulative effect on prior years.

SEASONALITY

Seasonal factors affecting the Company are disclosed in Item 7 of this Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Nature of Operations."

ENVIRONMENTAL REGULATION

Under various federal and state environmental laws and regulations, a current or previous owner or operator of real estate may be required to investigate and remediate certain hazardous or toxic substances or petroleum-product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by such parties in connection with contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The owner or operator of a site may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from the site.

The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. There can be no assurance that Insignia, or any assets owned or controlled by Insignia, currently are in compliance with all of such laws and regulations, or that Insignia will not become subject to liabilities that arise in whole or in part out of any such laws, rules or regulations. Management is not currently aware of any environmental liabilities that are expected to have a material adverse effect upon the operations or financial condition of the Company.

EMPLOYEES

Insignia has more than 8,000 employees worldwide, including employee brokers and other qualified real estate agents and sales associates. Insignia believes that its employee relations are excellent.

EXECUTIVE OFFICERS

The following persons serve as executive officers of Insignia. All executive officers of Insignia serve at the discretion of the Board of Directors.

NAME	AGE	PRINCIPAL POSITIONS
Andrew L. Farkas	40	Chairman of the Board; Chief Executive Officer
Stephen B. Siegel	56	Director; President; Chairman and Chief Executive Office
James A. Aston	48	Chief Financial Officer
Jeffrey P. Cohen	33	Executive Vice President
Frank M. Garrison	46	Office of the Chairman; President of Insignia Financial
Adam B. Gilbert	48	Executive Vice President; General Counsel; Secretary
Ronald Uretta	45	Chief Operating Officer; Treasurer; President of Insigni President of Insignia Residential Group, Inc.

Andrew L. Farkas has been a director and Chairman of Insignia since its inception in May 1998 and Chief Executive Officer of Insignia since August 1998. Mr. Farkas served as a director of Former Parent from its inception in August 1990 until the AIMCO merger in September 1998 and as Chairman and Chief Executive Officer of Former Parent from January 1991 until September 1998. Mr. Farkas also served as Chairman of the Board of Trustees of Insignia Properties Trust, a publicly traded REIT subsidiary of Former Parent, from December 1996 until February 1999 (when it was merged into AIMCO) and as Chief Executive Officer of Insignia Properties Trust from December 1996 until September 1998.

James A. Aston has been Chief Financial Officer of Insignia since August

1998. Mr. Aston served as Chief Financial Officer of Former Parent from August 1996 until September 1998. Additionally, Mr. Aston served as a Trustee of Insignia Properties Trust from December 1996 until February 1999 and President of Insignia Properties Trust from December 1996 until September 1998. Mr. Aston commenced employment with Former Parent in January 1991.

Jeffrey P. Cohen has been an Executive Vice President of Insignia since March 2000, and was Senior Vice President of Insignia from May 1998 until that time. Mr. Cohen also serves as an Executive Managing Director of Insignia Financial Services, Inc. He was a Senior Vice President of Former Parent from April 1997 until September 1998, and Executive Vice President and Secretary of Insignia Properties Trust from May 1997 until February 1999. From September 1993 until March 1997, Mr. Cohen was an attorney with the law firm of Rogers & Wells in New York, New York.

Frank M. Garrison has been a member of the Office of the Chairman since August 1998, and also serves as President of Insignia Financial Services, Inc. Mr. Garrison served as an Executive Managing Director of Former Parent and President of its Financial Services division from July 1994 until September 1998. Additionally, Mr. Garrison served as a Trustee of Insignia Properties Trust from December 1996 until February 1999 and Executive Managing Director of Insignia Properties Trust from December 1996 until September 1998. Mr. Garrison commenced employment with Former Parent in January 1992.

Adam B. Gilbert has been General Counsel and Secretary of Insignia since its inception in May 1998 and Executive Vice President of Insignia since August 1998. Mr. Gilbert also serves as a Senior Vice President of Insignia/ESG. He was General Counsel and Secretary of Former Parent from March 1998 until September 1998. From January 1994 until February 1998, Mr. Gilbert served as a partner in the law firm of Nixon, Hargrave, Devans & Doyle, LLP in New York, New York.

Stephen B. Siegel has been a director of Insignia since its inception in May 1998 and President of Insignia since August 1998 and is Chairman and Chief Executive Officer of Insignia/ESG. Mr. Siegel served as President of the Edward S. Gordon Company Incorporated (now Insignia/ESG) from June 1992 to May 1998.

Ronald Uretta has served as Chief Operating Officer and Treasurer of Insignia since August 1998. Mr. Uretta also serves as President of Insignia/ESG and President of Insignia Residential Group. He was Treasurer of Former Parent from January 1992 until September 1998 and Chief Operating Officer of Former Parent from August 1996 until September 1998. Mr. Uretta served as a Trustee of Insignia Properties Trust from December 1996 until October 1998.

There are no family relationships among any of the executive officers of Insignia.

Item 2. Properties

Insignia's principal executive office is located at 200 Park Avenue, in New York, New York. The following table sets forth information on the operating leases for the principal headquarters for each of Insignia's principal operating units:

OPERATING UNIT	LOCATION	ANNUAL RENT	SQUARE
Insignia/ESG	200 Park Avenue, New York, NY	$6,940,000	1
Insignia Richard Ellis	Berkeley Square House, London	3,000,000	
Realty One	6000 Rockside Woods Blvd., Cleveland, OH	660,000	
Douglas Elliman	575 Madison Avenue, New York, NY	635,000	
Insignia Residential Group	675 Third Avenue, New York, NY	1,700,000	

The Company occupies additional office space in locations throughout the United States, United Kingdom, continental Europe, Asia and Latin America under leases expiring at various dates through 2011. Insignia believes its facilities are adequate for current and future planned uses.

Item 3. Legal Proceedings

ANTITRUST LITIGATION

In 1994, Re/Max International and various franchisees filed suit in federal court in Ohio against Realty One, alleging claims under the federal antitrust laws and related state law claims. Re/Max International alleged in its complaint that Realty One conspired with Smythe, Cramer Company to institute a series of differential commission splits intended to harm Re/Max International and its franchisees in the northeast Ohio residential real estate brokerage market. Re/Max International claimed actual damages of $30 million. The federal antitrust laws provide for trebling of actual damages.

Insignia acquired Realty One in October 1997. In connection with the acquisition, the sellers agreed to indemnify the Company for any loss arising from the Re/Max International litigation up to the amount of the acquisition price of approximately $40 million. The Re/Max International case was recently tried before a jury, which resulted in a mistrial. The parties subsequently settled Re/Max International's claims in July 2000, whereby Realty One agreed to cease to impose reduced commission splits on the Re/Max plaintiffs, subject to reinstatement in accordance with the terms of the settlement. In September 2000, the court entered a judgment against Realty One in

the amount of approximately $6.7 million, as agreed to by the parties; however, also included in its judgment were several terms governing Realty One's conduct to which the parties had not agreed. Realty One has appealed the court's judgment. The sellers have funded the initial cash portion of the settlement, totaling approximately $3.6 million, on behalf of Realty One pursuant to their indemnification obligations to Insignia and are obligated to fund the remainder in semi-annual installments over five years. The payment of the first portion of the judgment was made without prejudice to Realty One's rights of appeal.

LITIGATION CLAIMS

Insignia and certain subsidiaries are defendants in other lawsuits arising in the ordinary course of business. Management does not expect that the results of any such lawsuits will have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

INDEMNIFICATION

In 1998, Former Parent entered into a Merger Agreement with Apartment Investment and Management Company ("AIMCO"), and one of AIMCO's subsidiaries, pursuant to which Former Parent was merged into AIMCO. Shortly before the merger, Former Parent distributed the stock of Insignia to its shareholders in a Spin-Off transaction. As a requirement of the Merger Agreement, Insignia entered into an Indemnification Agreement with AIMCO. In the Indemnification Agreement, Insignia agreed generally to indemnify AIMCO against all losses exceeding $9.1 million that result from: (i) breaches by the Company or Former Parent of representations, warranties or covenants in the Merger Agreement; (ii) actions taken by or on behalf of Former Parent prior to the merger, and (iii) the spin-off. The Company also agreed generally to indemnify AIMCO against all losses, without regard to any dollar value limitation, that result from: (i) amounts AIMCO paid to employees of Former Parent that were not retained as employees of AIMCO; (ii) pre-merger obligations for goods, services, taxes or indebtedness except for those that AIMCO agreed to assume; and (iii) the businesses of Former Parent that Insignia now owns and operates as a result of the Spin-Off.

Since the merger transaction in October 1998, there have been no related claims except for an examination of the federal income tax returns of Former Parent being conducted by the Internal Revenue Service for the years ended December 31, 1996, December 31, 1997 and the period ended October 1, 1998. AIMCO has notified the Company that it is seeking indemnity from Insignia for any liability as a result of this examination. Insignia agreed to indemnify AIMCO for taxes, penalties, interest and professional fees for which it is liable as a result of this audit and has reimbursed approximately $500,000 to AIMCO for professional fees incurred in connection with the audit. No determinations have been made or can be made at this time as to any potential tax liability that may arise as a result of this examination.

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

No matter was submitted to a vote of the Company's stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of 2000.

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Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

COMMON STOCK

Insignia's Common Stock trades on the New York Stock Exchange under the trading symbol "IFS". The following table sets forth the high and low daily closing sale prices for the Company's Common Stock as reported on the New York Stock Exchange for each quarter of 1999 and 2000:

CALENDAR PERIOD	HIGH
1999	

First Quarter	15 7/16
Second Quarter	14 11/16
Third Quarter	12 1/8
Fourth Quarter..	8 11/16
2000	
First Quarter..	16 5/8
Second Quarter..	13 3/4
Third Quarter..	11 1/4
Fourth Quarter..	11 15/16

The closing sales price for Insignia's Common Stock on March 1, 2001, as reported on the New York Stock Exchange, was $13.00.

The Company's transfer agent is First Union National Bank of North Carolina, 1525 West W. T. Harris Boulevard. Suite 3C3, Charlotte, North Carolina 28262. As of March 1, 2001, there were approximately 1,600 shareholders of record of the Company's Common Stock.

The Company has never paid dividends on its Common Stock and does not currently intend to pay any dividends in the foreseeable future. Any payment of future dividends and the amounts thereof will be dependent upon the Company's earnings, financial requirements and other factors, including contractual obligations. The payment of dividends is subject to certain restrictions under the Company's credit facility.

Employee Stock Purchase Program

The Company's 1998 Employee Stock Purchase Plan was adopted to provide employees with an opportunity to purchase Common Stock through payroll deductions at a price not less than 85% of the fair market value of the Company's Common Stock. This plan is designed to qualify under Section 423 of the Internal Revenue Code of 1986. During 2000, approximately 307,000 shares of Common Stock were sold under this plan at an average price of approximately $7.75 per share.

Stock Repurchases

At December 31, 2000, Insignia held in treasury 1,502,600 repurchased shares of its Common Stock. Such shares were repurchased at an aggregate cost of approximately $16.2 million and are reserved for issuance upon the exercise of warrants granted in 2000 to certain executive officers, non-employee directors and other employees of the Company.

Preferred Stock Issuance

On February 9, 2000, Insignia sold 250,000 shares of perpetual convertible preferred stock, with a stated value of $100 per share, to investment funds advised by Blackacre Capital Management for an aggregate purchase price of $25.0 million. The issuance was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4 (2) thereof. The preferred stock pays a 4% cumulative annual dividend, payable at Insignia's option in cash or Common Stock, and is convertible into the Company's Common Stock at the option of the holder at $14 per share, subject to adjustment. The preferred stock is callable by the Company, at stated value, at any time on or after February 15, 2004. Stock dividends of $475,000 were paid in 2000 through the issuance of 43,417 shares of the Company's Common Stock.

Item 6. Selected Financial Data

The following table sets forth selected historical financial data of Insignia and those Insignia businesses included in the Spin-Off for the years ended December 31, 2000, 1999, 1998, 1997 and 1996. This information has been derived from and is qualified by reference to the consolidated financial statements of the Company and the notes thereto and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included as Item 7 in this Report.

The selected financial data presents the historical financial position, results of continuing operations and cash flows of those Insignia businesses owned by Former Parent for the periods prior to the Spin-Off in September 1998 as if Insignia were a separate entity for those entire periods presented. Such financial information is not necessarily indicative of results that would have occurred had Insignia operated as a stand-alone entity separate from Former Parent during the periods presented prior to the Spin-Off.

	FOR THE YEAR ENDED DECEMBER			
	2000	1999	1998	
	(In thousands, except per share			
STATEMENT OF OPERATIONS DATA:				
Revenues	$880,363	$680,348	$507,351	$
Income before cumulative effect of a change in accounting principle	21,787	10,298	11,053	
Cumulative effect of a change in accounting principle	(30,420)	--	--	
Net (loss) income	(8,633)	10,298	11,053	
PER SHARE AMOUNTS - ASSUMING DILUTION (1):				
Income before cumulative effect of a change in accounting principle	$ 0.89	$ 0.46	$ 0.50	
Cumulative effect of a change in accounting principle	(1.24)	--	--	
Net (loss) income	(0.35)	0.46	0.50	
OTHER DATA:				
Cash provided by operating activities	$ 82,141	$ 64,810	$ 35,857	$
Cash used in investing activities	(81,436)	(165,844)	(128,140)	
Cash provided by financing activities	62,891	109,429	140,194	
EBITDA (2)	82,291	58,923	48,345	
Net EBITDA (2)	82,462	60,493	52,502	

AT DECEMBER 31,

	2000	1999	1998	
			(In thousands)	
BALANCE SHEET DATA:				
Cash and cash equivalents	$124,527	$ 61,600	$ 53,489	$
Real estate interests	102,170	76,298	58,196	
Total assets	910,342	795,313	595,489	3
Total debt	193,653	164,322	44,438	
Investment and net advances from Former Parent	--	--	--	2
Stockholders' equity	408,881	393,069	383,243	

(1) Per share amounts for 1997 and 1996 are not presented because Insignia was not a separate entity during those periods.

(2) EBITDA is defined as real estate services revenues less direct expenses and administrative costs. Net EBITDA is defined as income before depreciation, amortization, income taxes and non-recurring one-time charges. Neither EBITDA nor Net EBITDA, as disclosed above, should be construed to represent cash provided by operations pursuant to generally accepted accounting principles ("GAAP"), as neither is defined by GAAP. Insignia's usage of these terms may differ from other companies' usage of the same or similar terms. As compared to net income, these measures effectively eliminate the impact of non-cash charges for depreciation, amortization of intangible assets and other non-recurring charges. Management believes presentation of these supplemental measures enhance a reader's understanding of the Company's operating performance.

BASIS OF PRESENTATION

The comparative financial results for the periods prior to the Spin-Off are based on the historical financial statements of those Insignia businesses spun-off from Former Parent as if effected at the beginning of the applicable year. Administrative expenses, which included, among other things, investment banking, information technology, legal, finance, accounting and facilities expenses of Former Parent, were allocated to Insignia for all periods prior to the Spin-Off. The administrative allocations were determined based on an analysis of the operations of Former Parent using various methods, including employee headcount, acquisition activities and estimated management time devoted to the operations of those Insignia businesses. The selected financial data, as presented, may not be comparable between periods due to the allocation of administrative expenses to Insignia for all periods prior to Spin-Off.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL CONDITION

At December 31, 2000, the Company was affected by a change in its method of accounting for revenue recognition for leasing transactions in compliance with SAB101. This change was adopted as a cumulative effect of a change in accounting principle, effective as of January 1, 2000. Approximately $152 million in previously recognized leasing commissions were removed as a result of this accounting change. Such leasing commissions will be realized in the future upon the fulfillment of conditions to commission payment.

The Company's total assets increased by approximately $115 million to $910.3 million at December 31, 2000. This increase was primarily attributable to the following items: (i) a $62.9 million increase in cash attributable to the record transaction levels in the commercial services businesses in combination with $19.1 million of life insurance proceeds; (ii) investment in property and equipment and real estate interests; and (iii) a $19.2 million increase in deferred tax assets. Conversely, assets were lowered by a $14.5 million decline in receivables, which is the net effect of a $137 million increase in uncollected commissions on executed lease transactions and the reduction of approximately $152 million in commissions receivables eliminated by SAB101. In addition, the Company's total assets included costs in excess of net assets of acquired businesses of $324.6 million and $311.5 million at December 31, 2000 and 1999, respectively, resulting from business acquisitions substantially comprised of goodwill.

Liabilities increased by approximately $99.2 million to $501.5 million at December 31, 2000. This reflects a $45.5 million increase in accrued incentives resulting from exceptional operating performance, a $22.5 million increase in acquisition payables related to the full achievement of all remaining U.K. purchase consideration (payable in March 2001), borrowings of $15 million on available credit facilities and approximately $20 million of borrowings on real estate mortgage notes (principally to fund Internet initiatives and real estate development activities). Stockholders' equity increased by $15.8 million to $408.9 million at December 31, 2000, principally as a result of the $25 million convertible preferred stock issuance in February 2000, in combination with a net loss of $8.6 million for 2000. The net loss for 2000 includes income of $21.8 million before the impact of the cumulative effect of SAB101 on prior years totaling $30.4 million (net of applicable taxes).

RESULTS OF OPERATIONS

ACCOUNTING CHANGE

The Company's financial results for 2000 were affected by the change in its method of accounting for revenue recognition for leasing commissions in compliance with SAB 101, Revenue Recognition in Financial Statements. The adoption of SAB 101 is reflected as a cumulative effect of a change in accounting principle as of January 1, 2000. Under SAB101, the Company's leasing commissions that are payable upon certain events such as tenant occupancy or payment of rent will be recognized upon the occurrence of such events.

Historically, Insignia generally recognized leasing commissions upon execution of the underlying lease, unless significant contingencies existed. While this accounting change affects the timing of recognition of leasing revenues (and corresponding commission expense), it does not impact the Company's cash flow from operations. Financial results for the year ended December 31, 2000 are adjusted retroactive to the beginning of the year in compliance with the requirements of this accounting change. The impact of this accounting change on the 2000 year is provided in the following table:

(In thousands)	SERVICE REVENUES	NET EBITDA	I
OPERATING RESULTS - PREVIOUS BASIS OF ACCOUNTING	$ 934,931	$ 100,581	
SAB101 EFFECT:			
First Quarter 2000	(4,936)	(693)	
Second Quarter 2000	(16,659)	(6,184)	
Third Quarter 2000	(17,550)	(5,597)	
Fourth Quarter 2000	(20,635)	(5,645)	
Year 2000 Effect	(59,780)	(18,119)	
OPERATING RESULTS - BEFORE CUMULATIVE EFFECT	875,151	82,462	
Cumulative Effect - January 1, 2000	--	--	
OPERATING RESULTS - AFTER ACCOUNTING CHANGE	$ 875,151	$ 82,462	

The cumulative effect of the accounting change on prior years resulted in a reduction to income for 2000 of $30.4 million (net of applicable taxes of $23.3 million), or $1.24 per share. The effect of retroactive application of the accounting change to January 1, 2000 lowered service revenues by $59.8 million, Net EBITDA by $18.1 million and income before the cumulative effect of the accounting change by $10.5 million, or $0.43 per share, for the 2000 year.

On a pro forma basis, giving effect to the change retroactive to January 1, 1999, the Company would have reported service revenues of $656.7 million, Net EBITDA of $47.9 million, and net income of $3.2 million for the 1999 year. Actual results reported for 1999 included service revenues of $678.5 million, Net EBITDA of $60.5 million and net income of $10.3 million.

2000 YEAR

For 2000, Insignia reported substantial growth in all financial measures as service revenues grew 29% to $875.2 and Net EBITDA grew 36% to $82.5 million, compared to 1999. Income from real estate operations grew sharply to $23.1 million for 2000, reflecting a gain of 61% over $14.4 million for 1999. These operating results were fueled by vigorous organic growth in the Company's U. S. and European commercial real estate services operations and full year contributions from Douglas Elliman (acquired in June 1999) and St. Quintin (acquired in March 1999). It is significant that more than 80% of the growth in revenues and Net EBITDA was from internal means, driven by greater market share and extremely robust real estate economies. These results were achieved despite the lowering effects of the SAB101 accounting change on certain leasing transactions.

The Company's net earnings for 2000 were favorably impacted by income of $19.1 million from life insurance proceeds and $1.4 million in foreign currency transaction gains, principally from facility borrowings in declining European currencies. Conversely, income for 2000 was adversely affected by pre-tax Internet losses totaling $34.7 million and including $18.4 million in impairment write-downs of the Company's internally developed businesses and certain third party investments. Further, as noted above, the effects of the SAB101 accounting change materially lowered 2000 earnings.

As a result of the foregoing, the Company reported income before cumulative effect of a change in accounting principle of $21.8 million for 2000, representing a significant increase of 112% over $10.3 million for 1999. On a per share basis, such earnings represented $0.89 for 2000 compared to $0.46 for 1999. The Company reported a net loss of $8.6 million for 2000, after the $30.4 million cumulative effect of a change in accounting principle. The cumulative effect lowered earnings per share by $1.24 to ($0.35) for the 2000 year.

The comparative results for the 1999 year were marked by the first quarter shortage of brokerage transactions in the aftermath of the late 1998 capital markets turmoil and the $4.3 million ($3.1 million net of tax benefit) provision for merger related expenses incurred in connection with the acquisition of St. Quintin and its merger with REGL.

Weighted average fully diluted common shares increased 8% for 2000 due to the assumed conversion of 4% convertible preferred stock issued in February 2000, along with the additional dilutive effect of assumed stock option and warrant exercises resulting from a 37% rise in the Company's stock price during the 2000 year.

In addition to net income, Insignia uses EBITDA (defined as real estate services revenues less direct expenses and administrative costs) and Net EBITDA (defined as income before depreciation, amortization, income taxes and non-recurring one-time charges) as indicators of the Company's financial performance. Neither EBITDA nor Net EBITDA, as disclosed above, should be construed to represent cash provided by operations pursuant to generally accepted accounting principles ("GAAP"), as neither is defined by GAAP. Insignia's usage of these terms may differ from other companies' usage of the same or similar terms. As compared to net income, these measures effectively eliminate the impact of non-cash charges for depreciation, amortization of intangible assets and other non-recurring charges. Management uses these supplemental measures to evaluate operating performance and in making financial decisions and believes the presentation of such measures enhance a reader's understanding of the Company's operating performance as they provide a measure of generated cash.

The results of operations for the Company are more fully described below.

The following table sets forth certain items derived from the Company's consolidated statements of operations for the years ended December 31, 2000, 1999 and 1998, respectively.

	YEAR ENDED DECEMBER 31,	
	2000	1999

	(In thousands)		
REAL ESTATE SERVICES REVENUE:			
Insignia/ESG	$ 500,152	$ 389,208	$ 3
Europe	141,752	108,562	
Residential	233,247	180,701	1
Total real estate revenues	875,151	678,471	5
COST AND EXPENSES			
Real estate services	776,505	607,722	4
Administrative	16,355	11,826	
EBITDA - REAL ESTATE SERVICES (1)	82,291	58,923	
Real estate FFO (2)	3,877	3,758	
Interest and other income (3)	7,990	5,191	
Foreign currency transaction gains	1,365	827	
Interest expense	(13,061)	(8,206)	
Minority interests	--	--	
NET EBITDA (1)	82,462	60,493	
Applicable income tax	(17,223)	(12,858)	(
NET EBITDA AFTER TAX	65,239	47,635	
Gains on sale of real estate	3,884	2,767	
Real estate impairment	(1,806)	--	
Tax on real estate	(831)	(1,107)	
Depreciation - FF&E	(12,391)	(6,644)	
Amortization of intangibles	(25,894)	(23,823)	(
Depreciation - real estate	(5,125)	(4,465)	
	(43,410)	(34,932)	(
INCOME FROM REAL ESTATE OPERATIONS	23,076	14,363	
Merger related and non-recurring charges	--	(4,272)	
Life insurance proceeds	19,100	--	
Internet-based businesses, net	(14,993)	(1,580)	
Internet impairment write-downs	(18,435)	--	
Internet depreciation	(1,288)	--	
Income tax benefit	14,327	1,787	
	(1,289)	(4,065)	
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	21,787	10,298	
Cumulative effect of a change in principle	(30,420)	--	

NET (LOSS) INCOME	$ (8,633)	$ 10,298	$

(1) Neither EBITDA nor Net EBITDA, as disclosed above, should be construed to represent cash provided by operations determined pursuant to generally accepted accounting principles ("GAAP"). These measures are not defined by GAAP and Insignia's usage of these terms may differ from other companies' usage of the same or similar terms. As compared to net income, the EBITDA and Net EBITDA measures effectively eliminate the impact of non-cash charges for depreciation, amortization of intangible assets and other non-recurring charges. Management

believes that the presentation of these supplemental measures enhance a reader's understanding of the Company's operating performance as they provide a measure of generated cash.

(2) Funds From Operations ("FFO") is defined as income or loss from real estate operations before depreciation, gains or losses on sales of property and provisions for impairment. This measure is not defined by GAAP and Insignia's usage of this term may differ from other companies' usage of the same or similar terms. Management uses this supplemental measure in the evaluation of principal real estate investment activities and believes that it provides a measure of generated cash flows for the Company's real estate operations.

(3) Interest and other income for 2000 excludes $464,000 of interest income of EdificeRex, which is reflected in Internet-based businesses.

YEARS ENDED DECEMBER 31, 2000 AND 1999

Real Estate Services

Commercial Real Estate Services

During 2000, Insignia's commercial real estate service operations included Insignia/ESG in the United States, IRE in the United Kingdom, other businesses in Germany, Italy, Belgium, the Netherlands and Asia. For 2000, these commercial businesses produced aggregate service revenues of $641.9 million and EBITDA of $82.5 million, reflecting gains of 29% for revenues and 46% for EBITDA, as compared to 1999. These results for 2000 reflect year-over-year growth pursuant to the SAB101 accounting change, which materially understates actual growth over 1999 on a comparable basis. Growth achieved for 2000 would have been 41% to $701.2 million for service revenues and 78% to $100.4 million for EBITDA, had adoption of SAB101 not been required. Alternatively, assuming SAB101 were adopted for both 2000 and 1999 years, commercial real estate service operations would have produced year-over year gains of 35%, or $165.8 million, for service revenues and 88%, or $38.7 million, for EBITDA. Commercial real estate services produced approximately 73% and 84%, respectively, of Insignia's total service revenues and EBITDA (before unallocated administrative costs) for 2000. Substantially all of the revenue and EBITDA gains in 2000 were from organic growth, reflecting the Company's continued success in securing assignments from new and existing commercial real estate customers in both the United States and Europe. The Company's Asian operations were launched in December 2000 with the acquisition of Brooke International.

The 2000 year was an extraordinary period for the U.S. commercial real estate services operation. The Company's well developed U.S. commercial service delivery platform (which is well entrenched in most major central business districts) and the continuation of strong economic conditions propelled operating performance to record levels. For 2000, the Company generated U.S. commercial service revenues of $500.2 million and EBITDA of $56.7 million, representing material gains of 29% for revenues and 36% for EBITDA, compared to 1999. U.S. commercial leasing activity remained strong across the board, with all Insignia/ESG regions contributing to the revenue and EBITDA growth for the year. It is noteworthy to add that the year-over-year domestic gains were almost entirely attributed to organic growth.

The New York region, the Company's largest market, continued to produce exceptional operating results, generating more than 50% of the Company's total U.S. commercial services revenue and EBITDA for 2000. The Company participated in 24 of Manhattan's 50 largest office-leasing assignments of 2000, including the top three deals overall, according to the annual list published by Crain's New York Business in February 2001. This represents the fourth consecutive year in which Insignia/ESG claimed the top position on this list, and the 24 assignments are the highest annual total over that period.

In Europe, financial results for the 2000 year were also significant with reported services revenues of $141.8 million and EBITDA of $25.9 million. Such operating results reflected revenue gains of $33.2 million, or 31%, and EBITDA gains of $11.1 million, or 76%, over 1999. The 2000 year was one of the most successful years in IRE's history with operating results reflective of the full benefits of the 1999 merger with St. Quintin. The Company, through IRE, achieved the number one market position in central London, with responsibility for more leasing activity than any other firm. As evidence, the Company's U.K. operation generated service revenues and EBITDA of $132.2 million and $24.6 million, respectively, for 2000. These operating results represented growth of 26% in revenues and 66% in EBITDA compared to 1999. The Company's continental European businesses produced

aggregate service revenues and EBITDA of $9.6 million and $2.1 million (before European administrative expenses), respectively, for 2000. These results, which represented gains over 1999 of $5.5 million for revenues and $1.7 million for EBITDA, were attributable primarily to marked improvement in Germany together with positive contributions from the Netherlands operations, acquired in March 2000.

Residential Real Estate Services

The Company's residential real estate services operations, comprised of Realty One, Douglas Elliman and Insignia Residential Group, generated aggregate service revenues and EBITDA of $233.2 million and $16.1 million, respectively, for 2000. This operating performance represented revenue gains of 29% and EBITDA gains of 12% over 1999 and was entirely attributable to contributions from the full year of operations for Douglas Elliman. Residential operating results were adversely affected by soft demand for housing and declines in refinancing activities in northern Ohio primarily due to higher mortgage interest rates. For 2000, Realty One's service revenues declined 5% to $99.2 million and EBITDA declined 39% to $4.5 million compared to 1999. For the 2000 year, Realty One's mortgage origination business experienced declines of approximately 21% in mortgage volume. Douglas Elliman produced service revenue and EBITDA of $107.5 million and $11.2 million, respectively, for the 2000 year. These operating results represented material increases of $57.8 million, or 116% for revenues and $4.8 million, or 75%, for EBITDA, compared to 1999. Insignia Residential Group produced relatively flat operating results for 2000, compared to 1999, generating service revenues of $26.5 million and EBITDA of $452,000. The comparable results for 1999 were service revenues of $26.9 million and EBITDA of $581,000.

Real Estate Principal Investment Activities

The Company's strategy of investing in qualifying real estate assets continued to produce positive contributions to the commercial business. The Company reported equity earnings from real estate ventures of approximately $1.5 million for 2000, reflecting a decline of 36% compared to $2.3 million for 1999. This decline is primarily attributable to $1.8 million in impairment write-downs on two under-performing assets, in combination with a $1.1 million increase in pre-tax gains from property sales during 2000. Such property sales in 2000 generated pre-tax gains of $3.9 million, compared to $2.8 million in 1999.

The Company produced FFO from real estate ownership of approximately $3.9 million for 2000, representing a modest 3% increase over 1999. FFO is defined as income or loss from real estate operations before depreciation, gains or losses on sales of property and provisions for impairment. This measure is not defined by GAAP and Insignia's usage of this term may differ from other companies' usage of the same or similar terms. Management uses this supplemental measure in the evaluation of real estate activities and believes that it provides a measure of cash generated by property operations.

Internet Initiatives

In aggregate, the Company invested approximately $22.5 million in Internet and technology-related businesses during the 2000 year. These investments included both internally developed businesses and third-party Internet-oriented businesses with a real estate focus. Internet-based business initiatives adversely affected income, reflecting pre-tax losses of approximately $34.7 million for the 2000 year. These losses include approximately $18.4 million in aggregate impairment write-downs (including both internal initiatives and third-party investments), $9.3 million of EdificeRex operating losses during the first half of 2000 prior to de-consolidation, and $7.0 million of other internal operating expenses. Such internal operating costs were net of a realized gain of $811,000 from the sale of stock in Homestore.com and interest income of $464,000 earned on cash holdings of EdificeRex prior to its de-consolidation.

The Company's Internet initiatives have been a disappointment, primarily due to adverse market conditions during the second half of 2000 that resulted in the evaporation of equity financing for Internet technology initiatives. Therefore, the Company has substantially ceased financing of internal and third-party internet businesses and does not expect to invest materially in Internet technology initiatives, other than certain Internet-related platforms developed or invested in by Project Octane. A driving force behind this decision was the Company's desire to eliminate all on-going exposure to the financial requirements associated with such Internet-based initiatives.

At December 31, 2000, Insignia held remaining equity investments of approximately $10.5 million (after approximately $8 million of impairment write-offs) in third-party Internet-related businesses. Insignia's equity ownership in these businesses ranges from 1% to 10%. While these businesses continue to operate, their future performance is highly dependent upon the ability to raise incremental capital to fund the on-going development of their business plans. If they are unsuccessful in raising the necessary capital, Insignia could incur further losses from impairment write-offs.

The Company also has a deferred credit of $3.2 million at December 31, 2000 representing losses incurred in excess of the Company's investment in EdificeRex prior to its de-consolidation in the third quarter of 2000. EdificeRex, launched in February 2000, represented Insignia's first internally developed Internet-based business and the Company continues to hold an economic interest of approximately 50% in EdificeRex. The $3.2 million excess loss is carried as a deferred credit on the Company's balance sheet until such time as EdificeRex achieves profitability or Insignia disposes of its interest in EdificeRex. The Company has no obligation or intention to provide any additional funding to EdificeRex. All other internal Internet-based operations were terminated at December 31, 2000, resulting in a $10.4 million impairment write-off of capitalized web-based development costs. Other than Project Octane initiatives, the Company will look skeptically upon any future emerging technology-related investment opportunities.

Other Items Affecting Net Income

Administrative expenses rose 38% from $11.8 million in 1999 to approximately $16.4 million in 2000. These increases reflect increased executive compensation in connection with a new employment agreement with the Chairman and robust performance meeting maximum incentive targets for the 2000 year.

Interest and other income increased from $5.2 million in 1999 to $8.5 million in 2000 (including $464,000 of interest income of EdificeRex during the first half of the 2000 year). The increase is attributed to materially higher average cash holdings during the 2000 year, in combination with gains of approximately $862,000 on forward contracts to purchase British Pounds (Sterling). In addition, the Company realized foreign currency gains of approximately $1.4 million in 2000, principally from facility borrowings in declining European currencies. In comparison, foreign currency gains totaled $827,000 for the 1999 year.

Interest expense increased 59%, or $4.9 million, to approximately $13.1 million for 2000, compared to 1999. This increase is due principally to increases in prevailing interest rates throughout 2000, interest charges on 1999 credit facility borrowings of approximately $110 million to finance the acquisitions of Lynch Murphy, St. Quintin and Douglas Elliman and further borrowings of $15 million in 2000 to finance Internet initiatives.

Depreciation and amortization of intangibles from real estate service operations (excluding property operations and Internet-based businesses) increased 26%, in the aggregate, from $30.5 million in 1999 to $38.3 million in 2000. This increase is the result of substantial capital investments in property and equipment (see also "Liquidity and Capital Resources") and the full year impact of purchased intangible amortization for the 1999 acquisitions of St. Quintin and Douglas Elliman.

The comparative results for the 1999 year were adversely affected by the $4.3 million ($3.1 million net of tax benefit) non-recurring charge for merger related expenses in connection with the March 1999 acquisition of St. Quintin and its subsequent combination with REGL. The one-time charge was substantially composed of the costs to vacate excess office space and, to a lesser extent, corresponding severance costs. The one time charge included provisions for rent expense during the period from vacancy to sublease, costs of improvements required for sublease, free rent concessions, excess rent over sublease terms and severance. All excess office space was subleased and severance costs were incurred prior to December 31, 1999. Also, certain excess office space was subleased on more favorable terms than originally estimated, resulting in a $1.3 million pre-tax income credit in the fourth quarter of 1999.

Income taxes for 2000 declined 69% compared to 1999, despite higher income, due primarily to the non-taxable nature of the previously mentioned income of $19.1 million from life insurance proceeds.

YEARS ENDED DECEMBER 31, 1999 AND 1998

Insignia reported strong operating results for 1999, with service revenues and Net EBITDA totaling $678.5 million and $58.9 million, respectively. These operating results represented increases of 34% and 12%, respectively, over 1998. Over $90 million, or approximately 55%, of the revenue growth was attributable to 1999 acquisitions with the remainder representing internal growth from the expansion of services and robust market conditions, primarily in the commercial sector. Net EBITDA for the service businesses grew 15% to $60.5 million for 1999, in comparison to 1998. Net EBITDA for 1999 was favorably impacted by foreign currency transaction gains of $827,000 attributable to the portion of the Company's credit facility borrowings denominated in European currencies. During 1999, Insignia held approximately $25 million of its credit facility borrowings in European currencies to act as a partial hedge against decreases in European earnings from declines in currency exchange rates against the U.S. Dollar. Net EBITDA less income taxes increased 18% to $46.7 million in 1999 from $39.5 million in 1998.

Net income for 1999 totaled $10.3 million, reflecting a 7% decline from $11.1 million in 1998. Net income per share, on a diluted basis, was $0.46 for 1999 compared with $0.50 for 1998. The $4.3 million one-time charge pertaining to the operational merger of St. Quintin and REGL and fourth quarter 1999 expenses of $1.6 million related to the development of stand-alone Internet-based businesses adversely affected earnings. On an after-tax basis, these items reduced net income by approximately $4 million, or $0.17 per share.

The results of operations for the Company are more fully described below.

Real Estate Services

Commercial Real Estate Services

The Company's commercial real estate service businesses produced an aggregate service revenue increase of 32% to $497.8 million for 1999, in comparison to $378.4 million for 1998. The increase in service revenue attributable to the acquisitions of Lynch Murphy in Boston and St. Quintin in the U.K. totaled approximately $49 million, or 41% of the overall growth over 1998. The Company's European operations, most notably Insignia Richard Ellis, accounted for approximately 36% of the growth over 1998. The remainder of the revenue growth, approximately $70 million, was attributable to the full year impact of the mid-1998 acquisitions of Hotel Partners and Jackson Cross, internal growth from the expansion of services in key U.S. markets and favorable market conditions, most notably in the New York metropolitan area. The commercial service businesses produced aggregate EBITDA gains of 21% to $56.4

million for 1999 compared to $46.7 million for 1998.

The U.S. commercial service operations produced revenue increases of 24% from $312.9 million in 1998 to $389.2 million in 1999. Lynch Murphy, acquired in March 1999, contributed $13.9 million of the 1999 revenue growth. Additionally, $17.5 million of the service revenue growth for 1999 was a result of the full year impact of the mid-1998 acquisitions of Hotel Partners and Jackson Cross. The New York metropolitan area was the primary catalyst behind the remaining 1999 internal growth of approximately $45 million. The New York region produced record results, with service revenue totaling $186 million, reflecting a gain of approximately $17.6 million over 1998 levels. Virtually every domestic operating region reported revenue gains in 1999 in comparison to 1998.

The U.S. commercial service operations produced EBITDA of $41.6 million for 1999, reflecting an increase of 6% over $39.3 million for 1998. The lower percentage increase in EBITDA, as compared to revenues, was substantially attributable to an $8.0 million increase in back office support costs resulting from internal growth and higher information technology costs. The EBITDA results for 1999 again reflected favorable year-over-year gains by the New York region, which produced an EBITDA increase of 7% to $36.5 million for 1999 as compared to 1998. In addition, the Company's investment sales unit, Capital Advisors, produced a $3.2 million increase in EBITDA in 1999 compared to 1998. This increase for Capital Advisors clearly indicated the full recovery from the turmoil in the capital markets experienced in the fourth quarter of 1998 and first quarter of 1999 that resulted in a downturn in investment sales activity.

In Europe, service revenues increased 66% over 1998 levels to $108.6 million in 1999. This increase was primarily attributable to the full year impact of results for REGL in 1999 (compared to ten months in 1998), the acquisition and operational merger of St. Quintin with REGL in March 1999 and the full year impact of the German operation established in June 1998. In 1999, the combined operation of Insignia Richard Ellis contributed service

revenues of $104.6 million and the German business contributed service revenues of $3.7 million. These results represented gains of 72% and 147%, respectively, compared to 1998. The Italian and Belgian businesses, established in mid-1999, produced modest revenues of $245,000 and $28,000, respectively, for the 1999 periods of operation.

The Company's European operations contributed EBITDA of $14.7 million for 1999, reflecting an increase of 101% or $7.3 million over 1998. This significant EBITDA gain reflected the full recognition of cost savings and revenue growth associated with the acquisition of St. Quintin and its operational merger with REGL, which operate as Insignia Richard Ellis, and the robust real estate market in the United Kingdom. The integration of these two U.K. market leaders exceeded Insignia's expected timetable for expense recovery and operational efficiency. In its first full year of operations, the German business contributed EBITDA of $551,000 for 1999, reflecting a 51% increase over 1998.

Residential Real Estate Services

The Company's residential service operations produced an aggregate service revenue increase of 40% from $129.0 million for 1998 to $180.7 million for 1999. This growth was essentially attributable to the acquisition of Douglas Elliman, which produced service revenues totaling $49.8 million for the six months of ownership since its acquisition in June 1999. Douglas Elliman experienced significant growth in its 1999 sales volume over 1998 due to the robust market for cooperative and condominium sales in New York City. For the full 1999 year, Douglas Elliman closed transactions valued at more than $2.2 billion, reflecting an increase of 25% compared to 1998. In addition, Douglas Elliman's average sales price for 1999 closed transactions saw a 13% increase over 1998 to $657,000. Realty One produced a service revenue increase of a modest 1% from $103.3 million in 1998 to $104.0 million for 1999. This achievement of revenue, nearly in line with the record level of 1998, was noteworthy given Realty One's sensitivity to interest rates fluctuations. Insignia Residential Group, which saw its management portfolio expand to more than 62,000 units during 1999, reported a 5% increase in service revenues from $25.7 million in 1998 to $26.9 million in 1999. First Ohio Mortgage, Realty One's mortgage loan subsidiary, experienced a 2% decline in loan volume to $405 million compared to 1998 levels. However, this result was significantly more favorable than that experienced by most competing mortgage banking companies, which generally saw loan volumes shrink by more than 30% in 1999.

The residential service operations produced EBITDA gains of 62% from $8.9 million in 1998 to $14.4 million in 1999. Consistent with revenues, the EBITDA increases are the result of the June 1999 acquisition of Douglas Elliman, which produced EBITDA of $6.4 million for the six-month period since acquisition. Realty One reported an EBITDA decline of 7% to $7.4 million in 1999. This decrease reflected the effects of the year-over-year decline in first quarter results attributable to the reversion to a more normal seasonal sales pattern in 1999 (compared to the record level experienced in the first quarter of 1998) and the impact of rising interest rates on sales volume. Insignia Residential Group reported an EBITDA decline of 36% from $915,000 in 1998 to $581,000 in 1999 as a result of higher lease expense and support costs, compared to 1998.

Real Estate Principal Investment Activities

The commercial operations of Insignia/ESG also included the property operations of the three wholly-owned real estate properties that were consolidated in the Company's financial statements for 1999. These properties produced revenues and pre-tax losses of approximately $1.9 million and ($224,000), respectively. The results of operations for these properties were excluded from service EBITDA and included in FFO from real estate operations.

FFO from real estate ownership produced increases of 117% from $1.7 million in 1998 to $3.8 million in 1999. This increase reflected the continued enhancement of operating performance at existing properties resulting from improved occupancy and further cost efficiencies and the continued investment in qualifying properties. During 1999, the Company, in partnership with select clients, concluded real estate investment purchases of 18 properties comprising approximately 2.5 million square feet of commercial space and 400 residential units.

Equity earnings from real estate ownership totaled approximately $2.3 million for 1999, compared to losses of $1.9 million for 1998. This substantial increase was fueled by aggregate realized gains of approximately $2.8 million ($1.7 million after tax) from the sale of eight co-investment properties in 1999. The difference between real estate FFO and equity earnings is represented by depreciation of real estate, gains or losses from sales of property and provisions for impairment. Real estate depreciation increased 23% from $3.6 million in 1998 to $4.5 million in 1999.

Internet Initiatives

Internet-based business expenses of approximately $1.6 million lowered earnings for 1999. These expenses, incurred entirely in the fourth quarter of 1999, related to the development of new Internet-oriented business applications and consisted primarily of costs for personnel and advertising and marketing campaigns. In 1999, Insignia invested an aggregate $14.9 million in the development of capitalized intellectual property for internal Internet-based businesses and in third-party Internet-related businesses with a real estate focus.

Other Items Affecting Net Income

Administrative expenses rose 64% from $7.2 million in 1998 to $11.8 million in 1999. This increase reflected the anticipated higher costs following the Spin-Off as a separate company, continued growth of the Company through acquisitions and expansion of services, and certain atypical expenses incurred in connection with abandoned acquisition transactions. Administrative expenses of the Company through the time of the Spin-Off in September 1998, which totaled approximately $5.5 million, consisted entirely of estimated allocations of Former Parent overhead costs.

Interest and other income increased from $3.4 million in 1998 to $5.2 million in 1999 principally as a result of higher average cash holdings during the 1999 year, as compared to 1998. Also, as previously noted, income for 1999 was enhanced by foreign currency transaction gains of $827,000 resulting from the affect of exchange rate declines on credit facility borrowings denominated in European currencies.

Interest expense increased by $6.8 million over 1998 levels to $8.2 million for the 1999 year. The increase was due principally to interest charges on 1999 credit facility borrowings of approximately $110 million to finance the acquisitions of Lynch Murphy, St. Quintin and Douglas Elliman. Interest expense for 1998 was attributable solely to asset financing consisting of Realty One borrowings, principally under its warehouse line used in the origination of mortgage loans for sale, and REGL borrowings substantially secured by restricted cash deposits. The results for 1998 do not include any interest expense allocation from the indebtedness of Former Parent.

Depreciation and amortization of intangibles (exclusive of property operations) increased 35% from $22.5 million in 1998 to $30.5 million in 1999. These increases were the result of increased capital investments in property and equipment and acquisitions substantially comprised of purchased intangibles.

Results for 1999 were adversely affected by the $4.3 million ($3.1 million net of tax benefit) non-recurring charge for merger related expenses in connection with the March 1999 acquisition of St. Quintin and its subsequent combination with REGL. As previously noted, the one-time charge was substantially composed of the costs to vacate excess office space and, to a lesser extent, corresponding severance costs. The one time charge included provisions for rent expense during the period from vacancy to sublease, costs of improvements required for sublease, free rent concessions, excess rent over sublease terms and severance. All excess office space was subleased and severance costs were incurred prior to December 31, 1999. Also, certain excess office space was subleased on more favorable terms than originally estimated, resulting in a $1.3 million pre-tax income credit in the fourth quarter of 1999.

Earnings for 1998 were adversely affected by the one-time impairment charge of $2.3 million for the write-down of the Company's 60% investment in its Italian subsidiary, Insignia/CAGISA, to the then estimated disposition value of approximately $1 million. The Company completed the disposition of its interest in this subsidiary in March 1999, realizing a gain of approximately $50,000.

Income taxes declined 6% to $12.2 million in 1999, in comparison to 1998, as a result of lower income.

LIQUIDITY AND CAPITAL RESOURCES

Insignia's liquidity and capital resources consist of its unrestricted cash on hand, available credit under its $185 million revolving credit facility and cash provided by operations. The Company utilizes cash holdings and available credit for general corporate purposes, expansion of the service platform through acquisitions and office openings and to fund ongoing real estate investment activities.

Unrestricted cash at December 31, 2000 totaled approximately $124.5 million. However, in March 2001, a substantial portion of this cash is to be used for payment of approximately $75 million in incentive compensation and $22.5 million for remaining purchase consideration for the U.K. operation. The Company's total debt at December 31, 2000 and 1999 consisted of the following:

(In thousands)	2000	19
Credit facility borrowings	$ 122,350	$
Notes payable to sellers of acquired businesses, secured by restricted cash holdings	6,219	
Other debt of subsidiaries	7,213	
Notes payable	135,782	
Mortgage warehouse line of credit	9,502	
Real estate mortgage notes payable	48,369	
TOTAL DEBT	$ 193,653	$

The real estate mortgages, mortgage warehouse line a