



# The road ahead leads home

**Colonial Properties Trust** Annual Report 2006



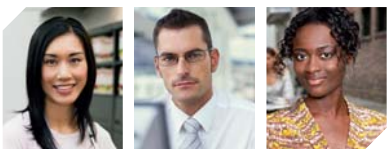
75 million Baby Boomers want simplified living.



Commercial settings need to serve commerce *and* lifestyle.



Everyone likes good weather.



85 million Echo Boomers want freedom and fun.



Knowledge workers want a different kind of office environment.

Years of experience have taught us how to satisfy all these needs.

We're shifting our asset base to multifamily properties and generating additional value through commercial development, leasing and management.

We're coming home to the best of what we've learned from our diversified history.

### Our Destination



- Multifamily: 75%–80% NOI
- Commercial: 20%–25% NOI

## ► Home Base: Superior Living



- Left ► Colonial Grand at Shiloh  
Atlanta, Georgia
- Right ► Colonial Grand at Scottsdale  
Phoenix, Arizona
- Bottom ► Colonial Grand at Arrington  
Raleigh, North Carolina

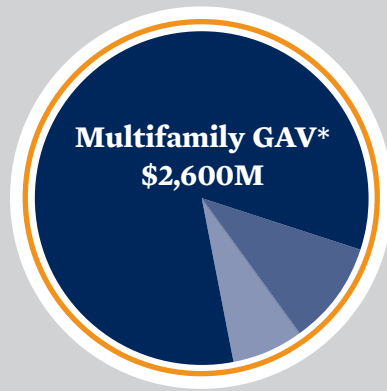


### ► Deep Roots in Residential Real Estate

Our long history in this industry — years of paying attention, responding, staying flexible — has given us razor-sharp acumen in multifamily. The proof is in our performance: Consistently above-average occupancy rates. Steady rent growth. Thirteen consecutive quarters of same-property growth in net operating income (NOI). Our success comes not from scale and saturation, but from understanding multifamily residents and what they want, then delivering exactly that. It's a model that will continue to serve us well as 160 million Echo and Baby Boomers look for housing in the coming years.

### ► High-quality, Branded Properties

As we focus our asset portfolio on multifamily, we're also upgrading its quality. Our developments as well as our acquisitions offer Class A residential space under two brands: Colonial Grand and Colonial Village. Sales of older properties will fund our robust development pipeline and the acquisition of newer communities. Our goal is a younger portfolio that delivers an appealing, amenity-rich product with lower capital requirements.



## Multifamily Development Pipeline

Properties Under Construction	\$375M
Shadow Development Pipeline	\$675M
<b>Total</b>	<b>\$1,050M</b>

- Properties Under Construction \$375M
- Shadow Development Pipeline \$675M

\*Gross Asset Value



Left ▶ Colonial Grand at TownPark  
Orlando, Florida

Right ▶ Colonial Grand at Silverado Reserve  
Austin, Texas



### ► The Right Locations

The Sunbelt is hot, attracting 60% of the new jobs created in the United States and huge numbers of retirees migrating south. By focusing on this southern tier of states, we can capitalize on a population boom that is expected to continue for the next two decades. We are concentrating on top-quartile growth markets such as Charlotte, Phoenix, Atlanta, Orlando and Austin that provide geographic diversity.

### ► Award-winning Development

We prefer to build rather than buy where possible — we create greater value that way. From strategic site selection to first-class architectural elements and amenities, we can control the many nuances that make a development project attractive and profitable. Proven procedures and experienced leadership bring the blueprints to life — on time, on budget and often to acclaim: We've earned 27 industry awards for our projects over the past decade.

► **Strong Skills:** Exceptional Commercial Experience



**Commercial Development Pipeline**

Properties Under Construction	\$340M
Shadow Development Pipeline	\$410M
<b>Total</b>	<b>\$750M</b>

- Pipeline concentrated in top-quartile Sunbelt markets.
- Pipeline varying in design, scope and merchandising mix.
- Significant value creation with on-time, on-budget deliveries.

- Left ► Colonial Pinnacle at Turkey Creek  
Knoxville, Tennessee
- Right ► Las Olas Center  
Fort Lauderdale, Florida



► **The Best of Our Capabilities at Work**

Our commercial teams apply a different approach to office and retail. We find ways to make developments distinctive, and more appealing to the needs of office clients, retailers and customers. Results indicate that we’re particularly good at it. We consistently achieve occupancy rates above 90% and property sales often yield double-digit returns.

To take advantage of our commercial expertise, we are putting emphasis where we can truly add value — on smart site selection, appealing design and flawless execution. Our properties are attractive to joint venture partners, who purchase a majority interest and retain our property management and leasing services. Proceeds from sales are reinvested into our development pipeline, and the process begins again. It’s not just property value but people value that drives the income stream in this sector.

► **Unique Expertise:** Creating Value Through Mixed-use Development



**Mixed-use Development Pipeline**

Existing/Ongoing Developments	Current Investment
Colonial Brookwood Village	\$143M
Colonial TownPark Colonnade	\$70M
Colonial TownPark/Heathrow	\$346M
Development Pipeline	Projected Investment
Colonial Craft Farms	\$124M
Metropolitan	\$129M
Randal Park	\$113M
<b>Total</b>	<b>\$925M</b>

Left ► Colonial Brookwood Village  
Birmingham, Alabama

Right ► Colonial Center 600 at TownPark  
Orlando, Florida



► **Smart Office Design and Management**

To stay competitive, office environments must cater to the needs of today’s knowledge workers. They’re technologically savvy and discriminating. They tend to work long hours, so we add value by choosing sites within walking distance of restaurants, entertainment, retail and housing—and offering special features such as sophisticated safety systems and green design.

► **Retail Developments that Generate Sales**

Our retail development focuses on large, open-air shopping centers. Strong merchant relationships with marquee retailers such as Ann Taylor, Target, Williams-Sonoma and Regal Cinemas, cultivated through years of proven success, enable us to create attractively merchandised centers.

► **Mixed-use: the Right Combination**

As convenience becomes “nonnegotiable” to residents, knowledge workers and customers, mixed-use developments are finding favor among employers and retailers looking for space. Our commercial development pipeline is heavily weighted with projects where we add value by bringing together the right mix of uses to satisfy the growing demand for this type of environment.



► C. Reynolds Thompson, III  
Chief Executive Officer

## ► To Our Shareholders

There is never a time at Colonial Properties when we stop thinking about ways to improve our company and create value. Our emphasis on quality, service, value and integrity are principles that guide us in every decision we make. Consistent with these principles, we recently introduced a plan to become a multifamily-focused REIT.

Execution of the plan calls for us to expand our multifamily asset base through development and divest the majority of our office and retail assets into a series of joint ventures. This will allow us to focus on what we do best: operate a core portfolio of high-quality multifamily communities, manage commercial assets through joint ventures and develop multifamily, office, open-air shopping centers and mixed-use projects. The pivotal change is that instead of owning commercial properties outright, we will develop and lease them, then sell the majority interest to a joint venture partner while retaining management and leasing responsibilities. Once the transition is complete, our multifamily assets will contribute approximately 80% to our total NOI compared to 50% today.

We are making good progress on our plan. 2007 will be a transitional year. We plan to divest roughly one-fourth of the company – approximately \$1.5 billion to \$1.7 billion of assets. The capital markets are well situated for these sales and in addition to reducing leverage, we expect that you, our shareholders, will receive a special dividend as a result of these transactions. In 2008, we will begin our first full year as a multifamily-focused REIT.

We have previously executed successful joint ventures and have solid relationships with a number of partners. Approximately 60% of our office space under management is currently in two joint ventures: one with DRA Advisors and the other with UBS Wealth Management. We recently expanded our relationship with GPT/Babcock & Brown with their purchase of Colonial Pinnacle/Colonial Promenade Tutwiler Farm. We will also continue to take advantage of joint venture arrangements when we find profitable development opportunities such as Colonial Pinnacle Turkey Creek and Colonial Promenade Smyrna.

Robust performance in 2006 gave us a strong footing from which to accelerate our plan. We met or exceeded our projections of same-property NOI growth in all our divisions. Funds from operations (FFO) increased 5.1% on a per share/unit basis – reaching \$215.5 million or \$3.80 FFO per share (FFOPS) for the year versus \$177.9 million and \$3.62 FFOPS in 2005. Finally, we reduced our overall leverage by 160 basis points to 60.8% over the course of the year.

We have been able to fund a significant increase in our development pipeline, doubling it to nearly \$1 billion, by disposing of assets with lower long-term growth potential. Our current development projects include eleven Class A Colonial Grand communities that will add over 3,700 premium units to our multifamily portfolio; Metropolitan, a mixed-use development in Charlotte, North Carolina, consisting of office, retail and for-sale residential properties in a unique urban high-rise



setting; and a mixed-use expansion of Colonial Brookwood Village in Birmingham, Alabama, where we're adding Class A high-rise office and retail space to an existing lifestyle center. This is by no means an exhaustive list, but rather a good representation of how we are enhancing the quality of our multifamily portfolio and creating value in our commercial and mixed-use investments.

On a final note, I emphasize that our company continues to be guided by the core principles championed by our chairman and my predecessor, Tom Lowder: put the customer first, build trust, work as a team and exhibit star performance. Tom built an outstanding legacy during his years as chief executive officer of Colonial Properties Trust, and we continue to be guided by those principles.



**C. Reynolds Thompson, III**

Chief Executive Officer

## ► A Message From The Chairman

You always remember where you came from. For us, it started as a family-owned residential real estate company in Alabama in the mid-1950s. Over the years, we expanded our model and built a successful company by developing a diversified portfolio of residential and commercial properties – applying sound business practices driven by information, personal experience and painstaking analysis. Annually, we examined our business model to ensure it provided the right foundation to achieve value and take advantage of the opportunities in the marketplace.

In 2006, the board and senior management again examined our model with a view towards the future. Despite the strength of our diversified asset model, we believe the company is undervalued by the market. We considered various options and concluded that we could best leverage our strengths and create value for our shareholders by focusing our core operations in the multifamily sector while staying engaged in the commercial sector through management of those properties in joint ventures. We also determined that our development expertise in multifamily, office, retail and mixed use is a competitive advantage the company would continue to exploit.

We believe execution of this plan will improve the company's growth and drive a market value consistent with our real estate peers. I am more optimistic than ever about our prospects and I hope you'll continue this journey with us.



**Thomas H. Lowder**

Chairman of the Board

## ► Financial Highlights

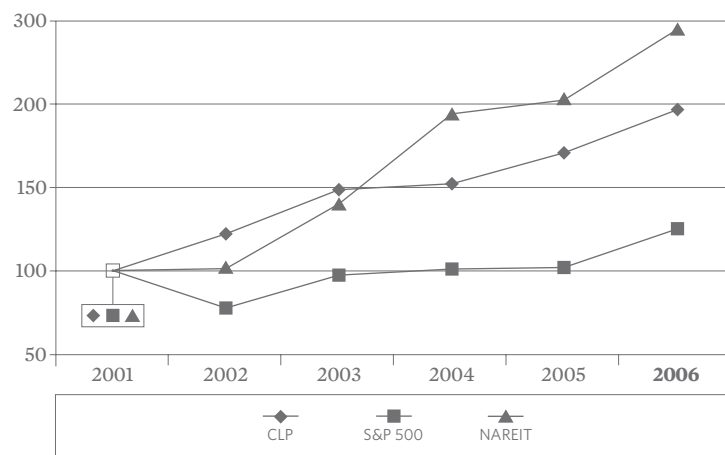
(\$ in thousands, except per share data)	2006	2005	2004	2003	2002
<b>For the Period</b>					
Revenues	\$496,083	\$414,279	\$248,709	\$213,528	\$202,888
Funds from Operations (FFO) <sup>(1)</sup>	215,460	177,931	137,610	123,050	128,110
Net Income Available to Common Shareholders	180,449	197,250	39,837	32,530	57,812
<b>Per Share</b>					
FFO – Basic <sup>(1)</sup>	\$3.84	\$3.65	\$3.67	\$3.47	\$3.86
FFO – Diluted <sup>(1)</sup>	\$3.80	\$3.62	\$3.64	\$3.45	\$3.83
Net Income – Basic	\$3.97	\$5.18	\$1.47	\$1.30	\$2.61
Net Income – Diluted	\$3.92	\$5.13	\$1.45	\$1.29	\$2.58
Dividends	\$2.72	\$2.70	\$2.68	\$2.66	\$2.64
Dividend Payout Ratio (Dividend/FFO – Diluted) <sup>(1)</sup>	71.6%	74.6%	73.6%	77.1%	68.9%
Dividend Payout Ratio (Dividend/Net Income – Diluted)	69.4%	52.6%	184.8%	206.2%	102.3%
<b>At Year End</b>					
Total Market Capitalization (in millions) <sup>(2)</sup>	\$5,387	\$5,242	\$3,622	\$2,998	\$2,680
Shares and Units Outstanding (in thousands)	56,724	55,729	37,972	36,756	33,639
Market Price of Common Shares	\$46.88	\$41.98	\$39.27	\$39.60	\$33.94
<b>Real Estate Portfolio</b>					
Number of Operating Properties	223	261	153	112	106
Multifamily – Apartment Units	38,111	44,337	25,009	15,224	14,556
Office – Leasable Square Feet (in millions)	16.9	19.5	5.9	5.5	5.2
Retail – Leasable Square Feet (in millions)	10.6	11.1	12.7	12.4	12.6
Real Estate Investment at Cost (in millions)	\$4,492	\$4,536	\$3,095	\$2,510	\$2,381

(1) Funds from operations (FFO) is a supplemental non-GAAP financial measure used to measure the operating performance of equity REITs. A discussion of FFO and a reconciliation of FFO to net income available to common shareholders is included in Item 7, Funds from Operations, of our Annual Report on Form 10-K. FFO per share is calculated by dividing FFO by the weighted-average shares and units outstanding for the period.

(2) Consists of all outstanding indebtedness, the liquidation preference of the preferred shares and the market share of our common shares and operating partnership units at year end.

### Comparison of Cumulative Total Return

Colonial Properties Trust, S&P 500 Index and NAREIT Equity Index\*  
December 31, 2001–December 31, 2006



\*Based on \$100.00 investment in stock or index, including reinvestment of dividends.

The performance shown in the graph is not necessarily indicative of future price performance.

As of December 31,	CLP	S&P 500 <sup>(1)</sup>	NAREIT <sup>(2)</sup>
2001	100.00	100.00	100.00
2002	117.43	76.63	103.82
2003	144.14	96.85	142.37
2004	151.69	105.56	187.33
2005	169.05	108.73	210.12
2006	193.52	123.54	283.78

(1) Source: S&P 500 Index

(2) Source: NAREIT U.S. Real Estate Index

## ▶ Trustees and Officers

### Trustees

#### Carl F. Bailey<sup>1\*,2,3</sup>

Chairman, TekQuest Industries, Inc.; Board of Trustees, Birmingham Southern College; Co-Chairman (Ret.), BellSouth Telecommunications, Inc.; Chairman and CEO (Ret.), South Central Bell Telephone Company

#### M. Miller Gorrie<sup>3\*</sup>

Chairman of the Board and Chief Executive Officer, Brasfield & Gorrie, LLC; Director, American Cast Iron Pipe Co.

#### William M. Johnson<sup>3,4</sup>

President and Chief Executive Officer, Johnson Development Company

#### Glade M. Knight

Chairman of the Board and CEO, Apple REIT Companies

#### James K. Lowder<sup>3</sup>

Chairman, The Colonial Company; Director, Alabama Power Company

#### Thomas H. Lowder<sup>3</sup>

Chairman of the Board, Colonial Properties Trust

#### Herbert A. Meisler<sup>1,4</sup>

President, The Rime Companies; Director, Mobile Airport Authority

#### Claude B. Nielsen<sup>2,4\*</sup>

Chairman of the Board, President and Chief Executive Officer, Coca-Cola Bottling Company United, Inc.; Director, Regions Financial Corporation

#### Harold W. Ripps<sup>3</sup>

Chief Executive Officer, The Rime Companies

#### Donald T. Senterfitt<sup>1,2\*</sup>

Chairman of the Board, Colonial Bank — Central Florida Region; Vice Chairman (Ret.), SunTrust Banks, Inc.; Former President, American Bankers Association

#### John W. Spiegel<sup>1,4</sup>

Vice Chairman and Chief Financial Officer (Ret.), SunTrust Banks, Inc.; Director, Rock-Tenn Company, Inc.; Director, Bentley Pharmaceuticals, Inc.; Director, S1 Corporation; Director, HomeBanc, Inc.

\* Indicates committee chair

1 Audit Committee

2 Corporate Governance Committee

3 Executive Committee

4 Executive Compensation Committee

### Officers

#### C. Reynolds Thompson, III

Chief Executive Officer

#### Weston M. Address

President and Chief Financial Officer

#### Paul F. Earle

Executive Vice President, Multifamily

#### Robert A. Jackson

Executive Vice President, Office

#### Charles A. McGehee

Executive Vice President, Mixed Use

#### John P. Rigrish

Chief Administrative Officer, Corporate Secretary

#### John E. Tomlinson

Executive Vice President, Chief Accounting Officer

## ▶ Corporate and Shareholder Information

### Corporate Headquarters

2101 Sixth Avenue North, Suite 750  
Birmingham, AL 35203  
(205) 250-8700  
www.colonialprop.com

### Independent Accountants

PricewaterhouseCoopers LLP  
Birmingham, Alabama

### Corporate Counsel

Hogan & Hartson LLP  
Washington, DC

### Transfer Agent and Registrar

Computershare Investor Services  
P.O. Box 43078  
Providence, RI 02940-3078  
Investor Relations: (866) 897-1807  
www.computershare.com

### Shares Listed

New York Stock Exchange (NYSE), symbol: CLP

### Annual Meeting

The Annual Meeting of Shareholders of Colonial Properties Trust is scheduled for Wednesday, April 25, 2007 at 10:30 a.m. CDT, 2nd floor auditorium, AmSouth-Harbert Plaza, 1901 Sixth Avenue North, Birmingham, Alabama 35203.

### Form 10-K

The company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC), is incorporated into this annual report. Address inquiries to Investor Relations at the address printed at left.

### Share Ownership

As of March 8, 2007, the company had an estimated 3,175 shareholders of record and 36,000 beneficial owners.

### Direct Investment Program

Colonial Properties Trust offers a Direct Investment Program that allows shareholders to make initial purchases of shares directly from the

company and automatically invest dividends, as well as make voluntary cash payments for the purchase of additional shares. To receive more information, contact the company's Transfer Agent, Computershare Investor Services, at (866) 897-1807 or the Investor Relations department at (800) 645-3917.

### Certifications

Colonial Properties' chief executive officer and chief financial officer have filed their certifications required by the SEC regarding the quality of the company's public disclosure (these are included in the attached Form 10-K). Further, the company's chief executive officer has certified to the NYSE that he is not aware of any violation by Colonial Properties of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE listing standards.

### Forward-looking Statements

This annual report to shareholders contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including but not limited to anticipated timetables for acquisitions, dispositions, developments and expansions, expected economic growth in geographic markets where Colonial owns or expects to own properties, and Colonial's strategy to change its business plan to focus predominantly on multifamily properties. These statements involve known and unknown risks and uncertainties and other factors that may cause actual results, performance, achievements or transactions to be materially different from those projected. Prospective investors should specifically consider, in connection with these forward-looking statements, the various factors identified in the company's filings with the SEC, including but not limited to the risks described under Item 1A, "Risk Factors," in our Form 10-K for the fiscal year ending December 31, 2006 that could cause actual results to differ. These factors include but are not limited to downturns in local or national economies, competitive factors, our ability to implement our strategic plan to focus predominantly on multifamily properties, the availability of suitable properties for acquisition at favorable prices, other risks inherent in the real estate business, our ability to maintain REIT qualifications and changes to U.S. tax laws that affect REITs.

An aerial photograph of a city, likely Birmingham, Alabama, showing a dense residential and commercial area. A major multi-lane highway runs diagonally from the top right towards the center. Several large, dark blue lakes are scattered throughout the landscape, interspersed with green trees and buildings. The overall scene is a mix of urban development and natural features.

**COLONIAL**  
PROPERTIES TRUST

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