AMREIT
Form 10-K
April 03, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ	**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

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

Commission File No. 0-28378
AmREIT
(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	**76-0410050** (I.R.S. Employer Identification No.)
8 Greenway Plaza, Suite 1000 **Houston, Texas** (Address of principal executive offices)	**77046** (Zip Code)

Registrant s telephone number, including area code: **(713) 850-1400**

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

Title of Class	Name of Exchange on Which Registered
Class A Common Shares	**American Stock Exchange**

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

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. þ

Indicate by check mark whether the registrant is a large accelerated filer, a large accelerated filer (see definition of accelerated filer and large accelerated filer in rule 12b-2 of the Act).

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of June, 30, 2005: **$39.2 million**

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 6,513,541 class A shares, 2,114,531 class B shares, 4,131,817 class C shares, and 11,032,852 class D shares as of March 21, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant incorporates by reference into Part III portions of its Proxy Statement for the 2006 Annual Meeting of Shareholders.

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

General

AmREIT (the Company) is a an established real estate company that at its core is a value creator which has delivered results to our investors for 21 years. Our mission is to build a real estate business that can realize profitable growth year over year regardless of market cycles. We have developed three distinct businesses that provide earnings power from multiple sources. First, as a *real estate development and operating company*, we provide value through offering an array of services to our tenants and properties, to our asset advisory group s portfolios and to third parties. Second, our *asset advisory group* broadens the Company s avenues to capital and raises private equity for a series of merchant development partnership funds. And third, we own *an institutional-grade portfolio of Irreplaceable Corners* premier retail properties in high-traffic, highly populated, affluent areas which are held for long-term value and provide a foundation to our FFO growth through a steady stream of rental income.

As of December 31, 2005, we have over 1.3 million square feet of retail centers in various stages of development or in the pipeline for both our asset advisory group and for third parties. Since listing on the AMEX in July 2002, our total assets have grown from a book value of $48 million to $315 million, and equity within our asset advisory group has grown from $15 million to $61 million.

AmREIT s direct predecessor, American Asset Advisers Trust, Inc. was formed as a Maryland corporation in 1993. American Asset Advisors Corp., our external advisor which was formed in 1985, was merged into the Company in June 1998, at which time we changed our name to AmREIT, Inc. In December 2002, we reorganized as a Texas real estate investment trust.

AmREIT s class A common shares are traded on the American Stock Exchange under the symbol AMY . Our offices are located at 8 Greenway Plaza, Suite 1000 Houston, Texas 77046. Our telephone number is 713.850.1400 and we maintain an internet site at www.amreit.com.

Our Strategy

In 2002, after 18 years as a private company, we listed our class A common shares on the American Stock Exchange and set a ten-year goal to build a business model that would enable AmREIT to outperform its peers. We set out to build a real estate company that could create value year over year regardless of the market cycle. The result was the focused development of three distinct businesses that provide earnings power from multiple sources: a real estate development and operating business, an asset advisory business and a premium portfolio of Irreplaceable Corners. These three business segments contribute to the Company s FFO both in combination and independently from each other. These complementary operations give us the flexibility to achieve our financial objectives over the long-term as we navigate the changing real estate market cycles.

In market cycles characterized by strong buyer demand, we place an emphasis on growing our asset advisory business which manages our merchant development partnerships funds. Through these funds, we can actively manage a blend of value-added acquisition, redevelopment and development projects which generate both transactional fees and recurring management fees. We also provide these real estate services to third parties for a fee. This is a portion

Table of Contents

of our strategy that we believe will allow us to continue to grow earnings at a faster pace than the broader REIT market. With this portion of our strategy will come increased volatility, as this real estate activity has a heavy transactional component. This means that quarter to quarter, our earnings will fluctuate, but on an annual basis, and over the long term, we should produce consistent growth in earnings.

In market cycles where we are able to capture a greater spread between cap rates and fixed-rate debt terms, we place an emphasis on growing our portfolio of Irreplaceable Corners that provide a steady and dependable income stream. The active management approach we use within our asset advisory business combines our expertise in acquisitions and merchant development and allows us to participate in both declining and rising market cycles. This business was designed to generate an additional source of recurring income for our shareholders based on equity under management as well as a stream of profits and back-end interests as the funds liquidate and preferred returns are met for investors. This is the hidden value behind our long-term growth.

Great people are at the heart of our company, our strategy and our structure. We have focused on growing a team of professionals that display a high degree of character, that are extremely competent, that are able to communicate clearly in good times and challenging times, and that are contributing to our team-oriented culture. It is our people that are the backbone of our structure and our ability to generate long-term shareholder value.

Our Structure

Our structure consists of three distinct businesses that have been synergistically put together to create value year over year in any market cycle: A real estate development and operating business, an asset advisory business and an institutional-grade portfolio of irreplaceable corners.

Real Estate Development and Operating Group

AmREIT s real estate development and operating business, AmREIT Realty Investment Corporation and subsidiaries (ARIC), is a fully integrated and wholly-owned business consisting of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, asset and property management services to our portfolio of properties, to our asset advisory group, and to third parties. This operating subsidiary, which is a taxable REIT subsidiary, is a transaction-oriented subsidiary that is very active in the real estate market and generates profits and fees on an annual basis. This business can provide significant long-term and annual growth; however, due to its transactional nature, its quarter to quarter results will fluctuate, and therefore its contributions to our quarterly earnings will be volatile.

Having a full complement of real estate professionals helps secure strong tenant relationships for both our portfolio and the merchant development portfolios managed by our asset advisory business. We have a growing roster of leases with well-known national and regional tenants, and of equal importance is that we have affiliations with these parent company tenants that extend across multiple sites. Not only does our real estate development and operating business create value through relationships, but it also provides an additional source of fee income and profits. Through the development, construction, management, leasing and brokerage services provided to our asset advisory group, as well as to third parties, our real estate team continues to generate fees and profits. During the years ended December 31, 2005, 2004 and 2003, ARIC generated net real estate and asset management fees of $5.6 million, $2.3 million, and $1.3 million, which represented 16%, 11%, and 13%, of the Company s total revenues, respectively.

We are clearly in a seller s real estate market. There is more demand for high quality real estate than there is supply. This is a time when, if you have the ability to develop projects and sell them into the marketplace, you should. Through our real estate development activity, we are able to generate additional profits through the selective development or acquisition and disposition of properties within a short time period (12 to 18 months). The majority of these assets are listed as real estate assets held for sale on our consolidated balance sheet. At December 31, 2005 and 2004, assets held for sale totaled approximately $3.6 million and $6.3 million, respectively. For the years ended December 31, 2005, 2004 and 2003, ARIC has generated gains on sales of properties acquired for sale of $3.2 million, $1.8 million, and $787,000, respectively.

Asset Advisory Group

Our asset advisory group broadens the Company s avenues to capital and consists of our in-house securities group which raises private equity for a series of merchant development partnership funds.

Securities Operations The part of our business model and operating strategy that distinguishes us from other publicly-traded REITs is our securities operation, or AmREIT Securities Company (ASC), a National Association of Securities Dealers (NASD) registered broker-dealer which is a wholly-owned subsidiary of ARIC. For the past 21 years, we have been raising private capital for our funds and building relationships in the financial planning and broker-dealer community, earning fees and sharing in profits from those activities. Historically, our securities group has raised capital in two ways: first, directly for AmREIT through non-traded classes of common shares, and second, for our actively managed merchant development funds.

During 2005, our securities operation raised approximately $11 million for AmREIT Monthly Income and Growth Fund III, Ltd., an affiliated merchant development fund sponsored by one of our subsidiaries. Additionally, the advisory group raised approximately $89 million through our class D common share offering. This was a $150 million publicly-registered offering through which we raised a total of $110 million before terminating the offering in September 2005.

During the years ended December 31, 2005, 2004 and 2003, our securities operation generated commission revenues related to the sponsorship of our merchant development funds of $1.2 million, $2.7 million and $1.5 million, respectively. The advisory group incurred commission expenses of $864,000, $2.1 million and $1.1 million which were paid to non-affiliated broker-dealers in conjunction with such capital-raising activities.

Merchant Development Funds The asset advisory group invests in and actively manages five merchant development partnership funds which were formed to develop, own, manage, and add value to properties with an average holding period of two to four years. We invest as both the general partner and as a limited partner, and our in-house securities group sells limited partnership interests in these partnership funds to retail investors. We, as the general partner, manage the partnerships and, in return, receive management fees as well as potentially significant profit participation interests as the funds enter liquidation. However, we strive to create a structure that aligns the interests of our shareholders with those of our limited partners. In this spirit, the partnerships are structured so that the general partner receives a significant profit only after the limited partners in the funds have received their targeted return which links our success to that of the limited partners. During the years ended December 31, 2005, 2004 and 2003, we earned asset management fees of $495,000, $361,000 and $240,000, respectively, which are recurring fees earned over the life of the partnership.

As of December 31, 2005, the advisory group directly managed, through its five actively managed merchant development funds, a total of $61 million in contributed capital. One of the five partnerships entered into the liquidation phase in 2003, and the remaining four partnerships enter their liquidation phases in 2008, 2010, 2011, and 2012. As these partnerships enter into liquidation, the Company, acting as the general partner, expects to receive economic benefit from our profit participation, after certain preferred returns have been paid to the partnerships limited partners. During 2004, AmREIT recognized approximately $869,000 related to its general partner interest in AmREIT Opportunity Fund, Ltd. (AOF). See Footnote 5 in the accompanying consolidated financial statements for more information. In accordance with generally accepted accounting principles, any unrealized gains associated with potential profit participation in our merchant development partnerships have not been reflected on our balance sheet or statement of operations. The income generated from our asset advisory business, both the current return as well as the future benefits through back-end interests and participations, will be a key factor in our ability to grow FFO at a faster pace than our peers over our ten year journey.

Portfolio of Irreplaceable Corners

During 2005, we acquired approximately 255,000 square feet of multi-tenant shopping centers, representing over $110 million in assets at an average cap rate of 6.8%. We take a very hands-on approach to ownership, and directly manage the operations and leasing at our properties. Our portfolio consists primarily of premier retail properties typically located on Main and Main intersections in high-traffic, highly populated affluent areas. Because of their location and exposure as central gathering places, these centers attract well-established tenants, and we believe they can withstand the test of time, providing our shareholders a dependable rental income stream.

As of December 31, 2005, we owned a real estate portfolio consisting of 49 properties located in 15 states. Of our 49 properties, 25 are located in Texas, with 19 being located in the greater Houston metropolitan statistical area. These 19 properties represented 64% of our rental income for the year ended December 31, 2005. Our multi-tenant shopping center properties are primarily located throughout Texas, with a concentration in the Houston area and are leased to national, regional and local tenants. Our single-tenant properties are located throughout the United States and are generally leased to corporate tenants where the lease is the direct obligation of the parent company, not just the local operator, and in most other cases, our leases are guaranteed by the parent company. The dependability of the lease payments is therefore based on the strength and viability of the entire company, not just the leased location. Properties that we acquire are generally newly constructed or recently constructed at the time of acquisition. We believe the locations of our properties, and the high barriers to entry at those locations allow us to maximize leasing income through comparatively higher rental rates and high occupancy rates. As of December 31, 2005, the occupancy rate at our operating properties was 96.4% based on leasable square footage compared to 96.6% as of December 31, 2004.

We invest in properties where we believe effective leasing and operating strategies, combined with cost-effective expansion and renovation programs, can improve the existing properties value while providing superior current economic returns. These fungible types of improvements allow us to place grocery-anchored shopping centers, strip centers and lifestyle centers onto our properties. We believe that investment in and operation of commercial retail real estate is a local business and we focus our investments in areas where we have strong knowledge of the local markets. The areas where a majority of our properties are located are densely populated, urban infill communities in and around Houston, Dallas and San Antonio.

Within these broad markets, we target locations that we believe have the best demographics and highest long term value. We refer to these properties as Irreplaceable Corners . Our criteria for an Irreplaceable Corner includes: high barriers to entry (typically infill locations in established communities without significant raw land available for development), significant population within a three mile radius (typically in excess of 100,000 people), located on the hard corner of an intersection guided by a traffic signal, ideal average household income in excess of $80,000 per year, strong visibility and significant traffic counts passing by the location (typically in excess of 30,000 cars per day). We believe that centers with these characteristics will provide for consistent leasing demand and rents that increase at or above the rate of inflation. Additionally, these areas have barriers to entry for competitors seeking to develop new properties due to the lack of available land.

Our shopping centers are primarily grocery-anchored, strip center, and lifestyle properties whose tenants consist of national, regional and local retailers. Our typical grocery anchored shopping center is anchored by an established major grocery store operator in the region such as Kroger. Our retail shopping centers are leased to national and regional tenants such as GAP, Starbucks, Bank of America, and Verizon Wireless as well as a mix of local and value retailers. Lifestyle centers, such as Uptown Park - Houston, are typically anchored by a combination of national and regional restaurant tenants that provide customer traffic and tenant draw for specialty tenants that support the local consumer. The balance of our retail properties are leased to national drug stores, national restaurant chains, national value-oriented retail stores and other regional and local retailers. The majority of our leases are either leased or guaranteed by the parent company, not just the operator of the individual location. All of our shopping centers are located in areas of substantial retail shopping traffic. Our properties generally attract tenants who provide basic staples and convenience items to local customers. We believe sales of these items are less sensitive to fluctuations in the business cycle than higher priced retail items. No single retail tenant represented more than 8% of total revenues for the year ended December 31, 2005.

We own, and may purchase in the future, fee simple retail properties (we own the land and the building), ground lease properties (we own the land, but not the building and receive rental income from the owner of the building) or leasehold estate properties (we own the building, but not the land, and therefore are obligated to make a ground lease payment to the owner of the land). We may also develop properties for our portfolio or enter into joint ventures, partnerships or co-ownership for the development of retail properties.

As of December 31, 2005, three properties individually accounted for more than 10% of the Company s year-end consolidated total assets Plaza in the Park in Houston, Texas, Uptown Park in Houston, Texas and MacArthur Park in Dallas, Texas accounted for 10%, 22% and 17%, respectively of total assets. For the year ended December 31, 2005, the top three tenants by rental income concentration were Kroger at 11.9%, IHOP at 9.2% and CVS/pharmacy at 4.4%. Consistent with our strategy of investing in areas that we know well, 19 of our properties are located in the Houston metropolitan area. These properties represented 64% of our rental income for the year ended December 31, 2005. Houston is Texas largest city and the fourth largest city in the United States. See Location of Properties in Item 2. Description of Property for further discussion regarding Houston s economy.

We are continuing to divest of properties which no longer meet our core criteria, and during 2005, we sold $16.6 million in single-tenant properties, resulting in a combined gain on sale of approximately $3.4 million. These proceeds were then used to acquire additional multi-tenant shopping centers where we have the ability to create long term value for shareholders.

Our strategy and our structure, as discussed herein, are reviewed by our Board of Trust Managers on a regular basis and may be modified or changed without a vote of our shareholders.

Competition

All of our properties are located in areas that include competing properties. The number of competitive properties in a particular area could have a material adverse affect on both our ability to lease space at any of its properties or at any newly developed or acquired properties and the rents charged. We may be competing with owners, including, but not limited to, other REITs, insurance companies and pension funds that have greater resources than us.

Compliance with Governmental Regulations

Under various federal and state environmental laws and regulations, as an owner or operator of real estate, we may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum product releases at our properties. We may also be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by those parties in connection with the 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 presence of contamination or the failure to remediate contaminations at any of our properties may adversely affect our ability to sell or lease the properties or to borrow using the properties as collateral. We could also be liable under common law to third parties for damages and injuries resulting from environmental contamination coming from our properties.

All of our properties will be acquired subject to satisfactory Phase I environmental assessments, which generally involve the inspection of site conditions without invasive testing such as sampling or analysis of soil, groundwater or other media or conditions; or satisfactory Phase II environmental assessments, which generally involve the testing of soil, groundwater or other media and conditions. Our board of trust managers may determine that we will acquire a property in which a Phase I or Phase II environmental assessment indicates that a problem exists and has not been resolved at the time the property is acquired, provided that (A) the seller has (1) agreed in writing to indemnify us and/or (2) established an escrow account with case funds equal to a predetermined amount greater than the estimated costs to remediate the problem; or (B) we have negotiated other comparable arrangements, including, without limitation, a reduction in the purchase price. We cannot be sure, however, that any seller will be able to pay under an indemnity we obtain or that the amount in escrow will be sufficient to pay all remediation costs. Further, we cannot be sure that all environmental liabilities have been identified or that no prior owner, operator or current occupant has created an environmental condition not known to us. Moreover, we cannot be sure that (1) future laws, ordinances or regulations will not impose any material environmental liability or (2) the current environmental condition of our properties will not be affected by tenants and occupants of the properties, by the condition of land or operations in the vicinity of the properties (such as the presence of underground storage tanks), or by third parties unrelated to us.

Employees

As of December 31, 2005, we had 50 full-time employees, 3 full-time contract personnel and 5 full-time dedicated brokers.

Financial Information

Additional financial information related to AmREIT is included in Item 8. Financial Statements and Supplementary Data.

Table of Contents

Item 1A. Risk Factors

Risks Associated with an Investment in AmREIT

Our class A common shares have limited average daily trading volume.

Our class A common shares are currently traded on the American Stock Exchange. Our class A common shares have been listed since July 2002, and as of December 31, 2005, the average daily trading volume was approximately 25,095 shares based on a 90-day average. As a result, the class A common shares currently have limited liquidity.

There may be significant fluctuations in our quarterly results.

Our quarterly operating results will fluctuate based on a number of factors, including, among others:

- interest rate changes;
- the volume and timing of our property acquisitions;
- the amount and timing of income generated by our real estate operating and development and securities company subsidiaries, as well as our retail partnerships;
- the recognitions of gains or losses on property sales;
- the level of competition in our market; and
- general economic conditions, especially those affecting the retail industries.

As a result of these factors, results for any quarter should not be relied upon as being indicative of performance in future quarters. The market price of our class A common shares could fluctuate with fluctuations in our quarterly results.

The conversion and conversion premium associated with the class C and class D common shares may dilute the interest of the Class A common shares.

At December 31, 2005, there were 4,119,923 class C common shares outstanding and 11,035,482 class D common shares outstanding.

The class C common shares were issued at $10.00 per share and have the ability to convert into class A common shares based on 110% of original investment (i.e. $1,000 of original investment converts into $1,100 of class A common shares) after a seven-year lock out period from the date of issuance. The shares were issued between September 2003 and May 2004. The class C common shares are redeemable by the Company three years after issuance at 110% of original investment.

The class D common shares were issued at $10.00 per share and have the ability to convert into class A common shares based on 107.7% of original investment (i.e. $1,000 of original investment converts into $1,077 of class A common shares) after a seven-year lock out period from the date of issuance. The shares were issued between July 2004 and September 2005. The class D common shares are redeemable by the Company one year after issuance for 100% of original investment plus the pro rata portion of the 7.7% conversion premium.

The economic impact of the conversion of these non-traded shares can be affected by many factors, including the following:

- The price of our publicly traded class A common shares;
- The multiple and valuation at which our class A common shares trade;
- Our ability to grow earnings, net income and FFO as well as dividends; and
- Our ability to redeem these shares is based on our ability to access the debt and equity markets as well as on the liquidity in our balance sheet generated primarily by asset sales.

Conversion of class B common shares could put downward pressure on the market price of our class A common shares.

As of December 31, 2005, there were 2,148,649 class B common shares outstanding, each of which is currently convertible into class A common shares on a one-for-one basis. The class B common shares are not listed on any exchange, and no trading market presently exists for the class B common shares. As a result, holders of the class B common shares who convert to class A common shares may be doing so, in part, to be able to liquidate some or all of their investment in AmREIT. Due to the limited average trading volume of the class A common shares, substantial sales of class A common shares would result in short-term downward pressure on the price of the class A common shares.

Distribution payments in respect of our Class A common share are subordinate to payments on debt and other series of common shares.

We have paid distributions since our organization in 1993. Distributions to our shareholders, however, are subordinate to the payment of our current debts and obligations. If we have insufficient funds to pay our debts and obligations, future distributions to shareholders will be suspended pending the payment of such debts and obligations. Dividends may be paid on the class A common shares only if all dividends then payable on the class B common shares and class C common shares have been paid. As a result, the class A common shares are subordinate to the class B and class C common shares as to dividends.

The economic performance and value of our shopping centers depend on many factors, each of which could have an adverse impact on our cash flows and operating results.

The economic performance and value of our properties can be affected by many factors, including the following:

- Changes in the national, regional and local economic climate;
- Local conditions such as an oversupply of space or a reduction in demand for retail real estate in the area;
- The attractiveness of the properties to tenants;
- Competition from other available space;
- Our ability to provide adequate management services and to maintain our properties;
- Increased operating costs, if these costs cannot be passed through to tenants; and
- The expense of periodically renovating, repairing and releasing spaces.

Our properties consist primarily of neighborhood and community shopping centers, and, therefore, our performance is linked to general economic conditions in the market for retail space. The market for retail space

Table of Contents

has been and may continue to be adversely affected by weakness in the national, regional and local economies where our properties are located, the adverse financial condition of some large retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets and increasing consumer purchases through catalogues and the Internet. To the extent that any of these conditions occur, they are likely to affect market rents for retail space. In addition, we may face challenges in the management and maintenance of the properties or encounter increased operating costs, such as real estate taxes, insurance and utilities, which may make our properties unattractive to tenants.

Our dependence on rental income may adversely affect our ability to meet our debt obligations and make distributions to our shareholders.

The majority of our income is derived from rental income from our portfolio of properties. As a result, our performance depends on our ability to collect rent from tenants. Our income and therefore our ability to make distributions would be negatively affected if a significant number of our tenants, or any of our major tenants:

- Delay lease commencements;
- Decline to extend or renew leases upon expiration;
- Fail to make rental payments when due; or
- Close stores or declare bankruptcy.

Any of these actions could result in the termination of the tenant s leases and the loss of rental income attributable to the terminated leases. Lease terminations by an anchor tenant or a failure by that anchor tenant to occupy the premises could also result in lease terminations or reductions in rent by other tenants in the same shopping center under the terms of some leases. In addition, we cannot be sure that any tenant whose lease expires will renew that lease or that we will be able to re-lease space on economically advantageous terms. The loss of rental revenues from a number of our tenants and our inability to replace such tenants may adversely affect our profitability and our ability to meet debt and other financial obligations and make distributions to shareholders.

Tenant, geographic or retail product concentrations in our real estate portfolio could make us vulnerable to negative economic and other trends.

There is no limit on the number of properties that we may lease to a single tenant. However, under investment guidelines established by our board, no single tenant may represent more than 15% of AmREIT s total annual revenue unless approved by our board. Our board will review our properties and potential investments in terms of geographic and tenant diversification. Kroger, IHOP and CVS accounted for 8.3%, 6.5% and 3.0%, respectively, of AmREIT s total operating revenues for the year ended December 31, 2005. There is a risk that any adverse developments affecting either Kroger, IHOP or CVS could materially adversely affect our revenues (thereby affecting our ability to make distributions to shareholders).

Approximately 64% of our rental income for the year ended December 31, 2005, is generated from properties located in the Houston, Texas metropolitan area. Additionally, approximately 89% of our rental income for the year is generated from properties located throughout major metropolitan areas in the State of Texas. Therefore, we are vulnerable to economic downturns affecting Houston and Texas, or any other metropolitan area where we might in the future have a concentration of properties.

If, in the future, properties we acquire result in or extend geographic or tenant concentrations or concentration of product types, such acquisitions may increase the risk that our financial condition will be adversely affected by the poor judgment of a particular tenant s management group, by poor performance of our tenants brands, by a downturn in a particular market sub-segment or by market disfavor with a certain product type.

Our profitability and our ability to diversify our investments, both geographically and by type of properties

Table of Contents

purchased, will be limited by the amount of capital at our disposal. An economic downturn in one or more of the markets in which we have invested could have an adverse effect on our financial condition and our ability to make distributions.

We may increase our leverage without shareholder approval.

Our bylaws provide that we will not incur recourse indebtedness if, after giving effect to the incurrence thereof, aggregate recourse indebtedness, secured and unsecured, would exceed fifty-five percent (55%) of our gross asset value on a consolidated basis. However, our operating at the maximum amount of leverage permitted by our bylaws could adversely affect our cash available for distribution to our shareholders and could result in an increased risk of default on our obligations. We intend to borrow funds through secured and/or unsecured credit facilities to finance property investments in the future. These borrowings may require lump sum payments of principal and interest at maturity. Because of the significant cash requirements necessary to make these large payments, our ability to make these payments may depend upon our access to capital markets and/or ability to sell or refinance properties for amounts sufficient to repay such loans. At such times, our access to capital might be limited or non-existent and the timing for disposing of properties may not be optimal, which could cause us to default on our debt obligations and/or discontinue payment of dividends. In addition, increased debt service may adversely affect cash flow and share value.

At December 31, 2005, we had outstanding debt totaling $114.7 million, all of which was fixed-rate secured financing. This debt represented approximately 40% of our net real estate investments.

If we cannot meet our REIT distribution requirements, we may have to borrow funds or liquidate assets to maintain our REIT status.

REITs generally must distribute 90% of their taxable income annually. In the event that we do not have sufficient available cash to make these distributions, our ability to acquire additional properties may be limited. Also, for the purposes of determining taxable income, we may be required to include interest payments, rent and other items we have not yet received and exclude payments attributable to expenses that are deductible in a different taxable year. As a result, we could have taxable income in excess of cash available for distribution. In such event, we could be required to borrow funds or sell assets in order to make sufficient distributions and maintain our REIT status.

We will be subject to conflicts of interest.

We will be subject to conflicts of interest arising out of our relationships with our merchant development funds, including certain material conflicts discussed below.

We will experience competition for acquisition properties. In evaluating property acquisitions, certain properties may be appropriate for acquisition by either us or one of our merchant development partnerships. You will not have the opportunity to evaluate the manner in which these conflicts of interest are resolved before making your investment. Generally, we will evaluate each property, considering the investment objectives, creditworthiness of the tenants, expected holding period of the property, available capital and geographic and tenant concentration issues when determining the allocation of properties among us and our merchant development partnerships.

There will be competing demands on our management and board. Our management team and board are not only responsible for AmREIT, but also for our merchant development funds, which include entities that may invest in the same types of assets in which AmREIT may invest. For this reason, the management team and trust managers will divide their management time and services among those companies and AmREIT, will not

Table of Contents

devote all of their attention to AmREIT and could take actions that are more favorable to the other entities than to AmREIT.

We may invest along side our merchant development funds. We may also invest in joint ventures, partnerships or limited liability companies for the purpose of owning or developing retail real estate projects. In either event, we may be a general partner and fiduciary for and owe certain duties to our other partners in such ventures. The interests, investment objectives and expectations regarding timing of dispositions may be different for the other partners than those of our shareholders, and there are no assurances that your interests and investment objectives will take priority.

We may, from time to time, purchase one or more properties from our merchant development partnerships. In such circumstances, we will work with the applicable merchant development partnership to ascertain, and we will pay, the market value of the property. By our dealing directly with our merchant development partnerships in this manner, generally no brokerage commissions will be paid; however, there can be no assurance that the price we pay for any property will be equal to or greater than the price we would have been able to negotiate from an independent third party. These property acquisitions from the merchant development partnerships will be limited to properties that the merchant development partnerships developed.

Risks Associated with an Investment in Real Estate

Real estate investments are relatively illiquid.

Real estate investments are relatively illiquid. Illiquidity limits the owner s ability to vary its portfolio promptly in response to changes in economic or other conditions. In addition, federal income tax provisions applicable to REITs may limit our ability to sell properties at a time which would be in the best interest of our shareholders.

Our properties are subject to general real estate operating risks.

If you become a shareholder of AmREIT, your investment will be subject to the risks of investing in real property. In general, a downturn in the national or local economy, changes in zoning or tax laws or the lack of availability of financing could adversely affect occupancy or rental rates. In addition, increases in operating costs due to inflation and other factors may not be offset by increased rents. If operating expenses increase, the local rental market for properties similar to ours may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates. If any of the above occurs, our ability to make distributions to shareholders could be adversely affected.

We may construct improvements, the cost of which may not be recoverable.

We may on occasion acquire properties and construct improvements or acquire properties under contract for development. Investment in properties to be developed or constructed is more risky than investments in fully developed and constructed properties with operating histories. In connection with the acquisition of these properties, we may advance, on an unsecured basis, a portion of the purchase price in the form of cash, a conditional letter of credit and/or a promissory note. We will be dependent upon the seller or lessee of the property under construction to fulfill its obligations, including the return of advances and the completion of construction. This party s ability to carry out its obligations may be affected by financial and other conditions which are beyond our control.

If we acquire construction properties, the general contractors and the subcontractors may not be able to control the construction costs or build in conformity with plans, specifications and timetables. The failure of a contractor to perform may necessitate our commencing legal action to rescind the construction contract, to compel performance or to rescind our purchase contract. These legal actions may result in increased costs to us. Performance may also be affected or delayed by conditions beyond the contractor s control, such as building restrictions, clearances and environmental impact studies imposed or caused by governmental bodies, labor strikes, adverse weather, unavailability of materials or skilled labor and by financial insolvency of the general contractor or any subcontractors prior to completion of construction. These factors can result in increased project costs and corresponding depletion of our working capital and reserves and in the loss of permanent mortgage loan commitments relied upon as a primary source for repayment of construction costs.

We may make periodic progress payments to the general contractors of properties prior to construction completion. By making these payments, we may incur substantial additional risks, including the possibility that the developer or contractor receiving these payments may not fully perform the construction obligations in accordance with the terms of his agreement with us and that we may be unable to enforce the contract or to recover the progress payments.

An uninsured loss or a loss that exceeds the policies on our properties could subject us to lost capital or revenue on those properties.

Under the terms and conditions of the leases currently in force on our properties, tenants generally are required to indemnify and hold us harmless from liabilities resulting from injury to persons, air, water, land or property, on or off the premises, due to activities conducted on the properties, except for claims arising from our negligence or intentional misconduct or that of our agents. Tenants are generally required, at the tenant s expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. We have obtained comprehensive liability, casualty, property, flood and rental loss insurance policies on our properties. All of these policies may involve substantial deductibles and certain exclusions. In addition, we cannot assure the shareholders that the tenants will properly maintain their insurance policies or have the ability to pay the deductibles. Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of the properties, which could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to the shareholders.

We will have no economic interest in leasehold estate properties.

We currently own properties, and may acquire additional properties, in which we own only the leasehold interest, and do not own or control the underlying land. With respect to these leasehold estate properties, we will have no economic interest in the land at the expiration of the lease, and therefore may lose the right to the use of the properties at the end of the ground lease.

We may invest in joint ventures.

Investments in joint ventures may involve risks which may not otherwise be present in our direct investments such as:

- the potential inability of our joint venture partner to perform;
- the joint venture partner may have economic or business interests or goals which are inconsistent with or adverse to ours;
- the joint venture partner may take actions contrary to our requests or instructions or contrary to our objectives or policies; and
- the joint venturers may not be able to agree on matters relating to the property they jointly own. Although

each joint owner will have a right of first refusal to purchase the other owner s interest, in the event a sale is desired, the joint owner may not have sufficient resources to exercise such right of first refusal.

We also may participate with other investors, possibly including investment programs or other entities affiliated with our management, in investments as tenants-in-common or in some other joint venture arrangement. The risks of such joint ownership may be similar to those mentioned above for joint ventures and, in the case of a tenancy-in-common, each co-tenant normally has the right, if an unresolvable dispute arises, to seek partition of the property, which partition might decrease the value of each portion of the divided property.

Our properties may be subject to environmental liabilities.

Under various federal and state environmental laws and regulations, as an owner or operator of real estate, we may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum product releases at our properties. We may also be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by those parties in connection with the contamination. In addition, some environmental laws create a lien in favor of the government on the contaminated site for damages and costs the government incurs in connection with the contamination. The presence of contamination or the failure to remediate contaminations at any of our properties may adversely affect our ability to sell or lease the properties or to borrow using the properties as collateral. We could also be liable under common law to third parties for damages and injuries resulting from environmental contamination coming from our properties.

Certain of our properties have had prior tenants such as gasoline stations and, as a result, have existing underground storage tanks and/or other deposits that currently or in the past contained hazardous or toxic substances. Other properties have known asbestos containing materials. The existence of underground storage tanks, asbestos containing materials or other hazardous substances on or under our properties could have the consequences described above. Also, we have not recently had environmental reports produced for many of our older properties, and, as a result, many of the environmental reports relating to our older properties are significantly outdated. In addition, we have not obtained environmental reports for five of our older properties. These properties could have environmental conditions with unknown consequences.

All of our future properties will be acquired subject to satisfactory Phase I environmental assessments, which generally involve the inspection of site conditions without invasive testing such as sampling or analysis of soil, groundwater or other media or conditions; or satisfactory Phase II environmental site assessments, which generally involve the testing of soil, groundwater or other media and conditions. Our board may determine that we will acquire a property in which a Phase I or Phase II environmental assessment indicates that a problem exists and has not been resolved at the time the property is acquired, provided that (A) the seller has (1) agreed in writing to indemnify us and/or (2) established in escrow cash equal to a predetermined amount greater than the estimated costs to remediate the problem; or (B) we have negotiated other comparable arrangements, including, without limitation, a reduction in the purchase price. We cannot be sure, however, that any seller will be able to pay under an indemnity we obtain or that the amount in escrow will be sufficient to pay all remediation costs. Further, we cannot be sure that all environmental liabilities have been identified or that no prior owner, operator or current occupant has created an environmental condition not known to us. Moreover, we cannot be sure that (1) future laws, ordinances or regulations will not impose any material environmental liability or (2) the current environmental condition of our properties will not be affected by tenants and occupants of the properties, by the condition of land or operations in the vicinity of the properties (such as the presence of underground storage tanks), or by third parties unrelated to us. Environmental liabilities that we may incur could have an adverse effect on our financial condition or results of operations.

Table of Contents

Risks Associated with Federal Income Taxation of AmREIT

Our failure to qualify as a REIT for tax purposes would result in taxation of us as a corporation and the reduction of funds available for shareholder distribution.

Although we believe we are organized and are operating so as to qualify as a REIT, we may not be able to continue to remain so qualified. In addition REIT qualification provisions under the tax laws may change. We are not aware, however, of any currently pending tax legislation that would adversely affect its ability to continue to qualify as a REIT.

For any taxable year that we fail to qualify as a REIT, we will be subject to federal income tax on our taxable income at corporate rates. In addition, unless entitled to relief under certain statutory provisions, we also will be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce the net earnings available for investment or distribution to shareholders because of the additional tax liability for the year or years involved. In addition, distributions no longer would qualify for the dividends paid deduction nor would there be any requirement that such distributions be made. To the extent that distributions to shareholders would have been made in anticipation of our qualifying as a REIT, we might be required to borrow funds or to liquidate certain of its investments to pay the applicable tax.

We may be liable for prohibited transaction tax and/or penalties.

A violation of the REIT provisions, even where it does not cause failure to qualify as a REIT, may result in the imposition of substantial taxes, such as the 100% tax that applies to net income from a prohibited transaction if we are determined to be a dealer in real property. Because the question of whether that type of violation occurs may depend on the facts and circumstances underlying a given transaction, these violations could inadvertently occur. To reduce the possibility of an inadvertent violation, the trust managers intend to rely on the advice of legal counsel in situations where they perceive REIT provisions to be inconclusive or ambiguous.

Changes in the tax law may adversely affect our REIT status.

The discussions of the federal income tax considerations are based on current tax laws. Changes in the tax laws could result in tax treatment that differs materially and adversely from that described in this registration statement.

Item 1B. Unresolved Staff Comments

The company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding December 31, 2005, that remain unresolved.

Table of Contents

Item 2. Properties

General

At December 31, 2005, we owned 49 properties located in 15 states. Reference is made to the Schedule III Consolidated Real Estate Owned and Accumulated Depreciation filed with this Form 10-K for a listing of the properties and their respective costs.

Since 1995, we have been developing and acquiring multi-tenant shopping centers in our asset advisory business. During this time, we believe we have sharpened our ability to recognize the ideal location of high-end shopping centers and single-tenant properties that can create long-term value which we define as Irreplaceable Corners. Multi-tenant shopping centers represent 81.2% of annualized rental income from properties owned as of December 31, 2005, with the balance being single-tenant properties primarily leased by parent companies throughout the United States.

Land - Our property sites, on which our leased buildings sit, range from approximately 34,000 to 1.0 million square feet, depending upon building size and local demographic factors. Our sites are in highly-populated, high traffic corridors and have been reviewed for traffic and demographic pattern and history.

Buildings **-** The buildings are multi-tenant shopping centers and freestanding single-tenant properties located at Main and Main locations throughout the United States. They are positioned for good exposure to traffic flow and are constructed from various combinations of stucco, steel, wood, brick and tile. Multi-tenant buildings are generally 14,000 square feet and greater, and single-tenant buildings range from approximately 2,000 to 20,000 square feet. Buildings are suitable for possible conversion to various uses, although modifications may be required prior to use for other operations.

Leases **-** Primary lease terms range from five to 25 years. Generally, leases also provide for one to four five-year renewal options. Our retail properties are primarily leased on a net basis whereby the tenants are responsible , either directly or through landlord reimbursement, for the property taxes, insurance and operating costs such as water, electric, landscaping, maintenance and security. Generally, leases provide for either percentage rents based on sales in excess of certain amounts, periodic escalations or increases in the annual rental rates or both.

Location of Properties

Based in Houston, our current focus is on property investments in Texas. Of our 49 properties, 25 are located in Texas, with 19 being located in the greater Houston metropolitan statistical area. These 19 properties represented 64% of our rental income for the year ended December 31, 2005. Our portfolio of assets tends to be located in areas we know well, and where we can monitor them closely. Because of our proximity and deep knowledge of our markets, we believe we can deliver an extra degree of hands-on management to our real estate investments. We expect over the long term we will outperform absentee landlords in these markets.

Because of our investments in the greater Houston area, and throughout Texas, the Houston and Texas economy have a significant impact on our business and on the viability of our properties. Accordingly, management believes that any downturn in the Houston and Dallas economy could adversely affect us; however, general retail and grocery anchored shopping centers, which we primarily own, provide basic necessity-type items, and tend to be less sensitive to macroeconomic downturns.

Additionally, according to the Greater Houston Partnership, Houston is the 4th most populous city in the nation,

Table of Contents

trailing only New York, Los Angeles and Chicago. If Houston was a state, it would rank 36th in population. It is among the nation s fastest-growing and most diverse metropolitan areas and is growing faster than both the state of Texas and the nation. Since 2000, approximately 49% of Houston s population growth has been from net migration with 80% of that growth attributed to international immigration. Houston s economic base has diversified, sharply decreasing its dependence on upstream energy. Diversifying, or energy-independent, sectors account for 88% of net job growth in the economic base since 1988. Oil and gas exploration and production accounts for 11% of Houston s Gross Area Product (GAP), down sharply from 21% as recently as 1985. The reduced role of oil and gas in Houston s GAP reflects the rapid growth of such sectors as engineering services, health services and manufacturing. The Port of Houston in 2004 ranked first among U.S ports in volume of foreign tonnage and is the world s 6th largest port. Two major railroads and 150 trucking lines connect the Port to the balance of the continental United States, Canada and Mexico. Europe and Latin America are Houston s top seaborne trading partners.

A listing of our properties by property type and by location as of December 31, 2005, follows based upon gross leasable area (GLA):

Multi-Tenant Shopping Centers	Major Tenants	City	State	Date Acquired	GLA	Annualized Base Rent as of December 31, 2005	% Leased
Uptown Park	McCormick & Schmick's	Houston	TX	06/01/05	169,110	$4,067,373	85%
Southbank Riverwalk	Hard Rock Café	San Antonio	TX	09/30/05	46,673	1,351,495	96%
MacArthur Park	Kroger	Dallas	TX	12/04 and 12/05	237,381	3,982,955	98%
Plaza in the Park	Kroger	Houston	TX	07/01/04	139,971	2,529,012	97%
Cinco Ranch	Kroger	Houston	TX	07/01/04	97,302	1,245,833	100%
Bakery Square	Walgreens & Bank of America	Houston	TX	07/21/04	34,614	849,460	100%
Uptown Plaza	CVS/pharmacy	Houston	TX	12/10/03	28,000	1,236,646	100%
Woodlands Plaza	FedEx/Kinkos & Rug Gallery	The Woodlands	TX	06/03/98	20,018	373,317	100%
Sugarland Plaza	Mattress Giant	Sugarland	TX	07/01/98	16,750	349,545	100%
Terrace Shops	Starbucks	Houston	TX	12/15/03	16,395	385,342	100%
Baptist Memorial Medical Plaza	Baptist Memorial & Auto Zone	Memphis	TN	07/23/02	15,000	222,643	100%
Courtyard at Post Oak	Verizon Wireless	Houston	TX	06/15/04	13,597	477,361	100%
San Felipe and Winrock (1) (2)	(1) (2)	Houston	TX	11/17/03	8,400		
Multi-Tenant Shopping Centers Total					843,211	$17,070,982	96%

Annualized

Single Tenant (Ground Leases)	City	State	Date Acquired	GLA	Base Rent as of December 31, 2005	% Leased
CVS Corporation	Houston	TX	01/10/03	13,824	$327,167	100%
Darden Restaurants	Peachtree City	GA	12/18/98	6,867	79,366	100%
Carlson Restaurants	Hanover	MD	09/16/03	6,802	150,421	100%
Citibank (1) (6)	San Antonio	TX	12/17/04	4,439		100%
Comerica Bank (1) (6)	The Woodlands	TX	04/30/04	4,277		100%
Washington Mutual	Houston	TX	12/11/96	3,685	98,160	100%
Washington Mutual	The Woodlands	TX	09/23/96	3,685	61,060	100%
Single Tenant (Ground Leases) Total				43,579	$716,174	100%

Table of Contents

Single Tenant (Fee Simple)	Major Tenants	City	State	Date Acquired	GLA	Annualized Base Rent as of December 31, 2005	% Leased
Energy Wellness		Sugarland	TX	07/23/02	15,000	$187,857	100%
Golden Corral		Houston	TX	07/23/02	12,000	182,994	100%
Golden Corral		Humble	TX	07/23/02	12,000	181,688	100%
Carlson Restaurants		Houston	TX	07/23/02	8,500	200,000	100%
IHOP Corporation		Sugarland	TX	09/22/99	4,020	188,664	100%
IHOP Corporation (5)		Centerville	UT	07/25/02	4,020	161,707	100%
IHOP Corporation (5)		Memphis	TN	08/23/02	4,020	177,780	100%
IHOP Corporation		Topeka	KS	09/30/99	4,020	157,892	100%
AFC, Inc.		Atlanta	GA	07/23/02	2,583	119,279	100%
Advance Auto (1) (2) (3) (4)		Various	Various	Various	21,000	107,414	
Single Tenant (Fee Simple) Total					87,163	$1,665,275	100%

Single Tenant (Leasehold)	City	State	Date Acquired	GLA	Annualized Base Rent as of December 31, 2005	% Leased
IHOP Corporation (5)	Various	Various	Various	60,300	$1,562,922	100%
	Company Total GLA/% Leased			1,034,253	$21,015,353	96%

(1) Under Development (GLA represents proposed leasable square footage)

(2) Held for Sale

(3) Held in joint venture of which we are the managing 50% owner

(4) Advance Auto properties are located in MO and IL. Each of the properties has a proposed GLA of 7,000 square feet.

(5) IHOP properties are located in NM, LA, OR, VA, TX, CA, TN CO, VA, NY, OR, KS and MO. Each of the properties has a GLA of 4,020 square feet. These properties are held by a consolidated subsidiary, 79.0% of which is owned by us, 19.6% of which is owned by AmREIT Income & Growth Corporation, one of our merchant development funds, and 1.4% of which is owned by unaffiliated third parties.

(6) These properties are 100% leased; however, rent does not commence until after December 31, 2005.

19

Table of Contents

The rental income generated by our properties during 2005 by state is as follows ($ in thousands):

State/City		Rental Income	Rental Concentration
Texas	Houston	$14,365	63.8%
Texas	Dallas	5,054	22.4%
Texas	San Antonio	464	2.1%
Texas	other	228	1.0%
Total Texas		20,111	89.3%
Tennessee		518	2.3%
Louisiana		220	1.0%
Kansas		255	1.1%
Missouri		116	0.5%
Colorado		110	0.5%
Georgia		199	0.9%
Oregon		181	0.8%
Virginia		172	0.8%
Utah		162	0.7%
Maryland		150	0.7%
New York		125	0.6%
California		111	0.5%
New Mexico		84	0.3%
Total		$22,514	100.0%

Grocery-anchored Shopping Centers

Our grocery-anchored shopping centers comprise 36.9% of our annualized rental income from the properties owned as of December 31, 2005. These properties are designed for maximum retail visibility and ease of access and parking for the consumer. All of our grocery-anchored centers are anchored by Kroger and are supported by a mix of specialty national and regional tenants such as Barnes & Noble, GAP and Starbucks. They are leased in a manner that provides a complimentary array of services to support the local retail consumer. These properties are located in the Houston and Dallas metropolitan areas and are typically located at an intersection guided by a traffic light, with high visibility, significant daily traffic counts, and in close proximity to neighborhoods and communities with household incomes above those of the national average. We are dependent upon the financial viability of Kroger, and any downturn in Kroger s operating results could negatively impact our operating results. Refer to Kroger s filings with the SEC website at www.sec.gov.

All of our grocery-anchored center leases provide for the monthly payment of base rent plus operating expenses. This monthly operating expense payment is based on an estimate of the tenant s pro rata share of property taxes, insurance, utilities, maintenance and other common area maintenance charges. Annually these operating expenses are reconciled with any overage being reimbursed to the tenants, with any underpayment being billed to the tenant. Generally these are net lease terms and allow the landlord to recover all of its operating expenses, with the exception of expenses allocable to any vacant space.

Our grocery-anchored shopping center leases range from five to 20 years and generally include one or more five-year renewal options. Annual rental income from these leases ranges from $22 thousand to $1.0 million per year.

Neighborhood, Lifestyle and Community Shopping Centers

As of December 31, 2005, we owned ten shopping centers, excluding the grocery-anchored centers discussed above, representing approximately 369,000 leaseable square feet. Our shopping center properties are primarily neighborhood, lifestyle and community centers, ranging from 8,400 to 170,000 square feet. None of the centers have internal common areas, but instead are designed for maximum retail visibility and ease of access and parking for the consumer. These properties have a mix of national, regional and local tenants, leased in a manner to provide a complimentary array of services to support the local retail consumer. All of our centers are located in major metropolitan areas, are typically located at an intersection guided by a traffic light, with high visibility, significant daily traffic counts, and are in close proximity to neighborhoods and communities with household incomes above those of the national average.

All of our shopping center leases provide for the monthly payment of base rent plus operating expenses. This monthly operating expense payment is based on an estimate of the tenant s pro rata share of property taxes, insurance, utilities, maintenance and other common area maintenance charges. Annually these operating expenses are reconciled with any overage being reimbursed to the tenants, with any underpayment being billed to the tenant.

Our multi-tenant shopping center leases range from five to twenty years and generally include one or more five-year renewal options. Annual rental income from these leases ranges from $12 thousand to $409 thousand per year and typically allow for rental increases, or bumps, periodically through the life of the lease.

Single-tenant Properties

As of December 31, 2005, we owned 35 single-tenant properties, representing approximately 191,000 leaseable square feet. Our single-tenant leases typically provide that the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation of the property such as utilities, property taxes and insurance. Some of the leases require that we will be responsible for roof and structural repairs. In these instances, we normally require warranties and/or guarantees from the related vendors, suppliers and/or contractors to mitigate the potential costs of repairs during the primary term of the lease.

Because our leases are entered into with or guaranteed by the corporate, parent tenant, they typically do not limit the Company s recourse against the tenant and any guarantor in the event of a default. For this reason, these leases are designated by us as Credit Tenant Leases , because they are supported by the assets of the entire company, not just the individual store location.

The primary term of the single-tenant leases ranges from ten to 25 years. All of the leases also provide for one to four, five-year renewal options. Annual rental income ranges from $61,000 to $327,000 per year.

Land to be Developed

As part of our investment objectives, we will invest in land to be developed on Irreplaceable Corners. A typical investment in land to be developed will result in a six to 12 month holding period, followed by the execution of a ground lease with a national or regional retail tenant or by the development of a single-tenant property or multi-tenant strip center. During 2005, we completed the development of two sites, as further discussed below. As of

Table of Contents

December 31, 2005, we have no land that we plan to develop within our portfolio.

In 2005, we completed the development of 410 and Blanco, a 1.329 acre pad site located at the intersection of Loop 410 and Blanco Road in San Antonio, Texas, and entered into a ground lease on this property with Citibank. We also completed Research Forest @ Six Pines, a 1.608 acre pad site located at the intersection of Research Forest and Six Pines, in The Woodlands, Texas, and entered into a ground lease on this property with Comerica Bank.

Property Acquisitions and Dispositions

Shopping Centers

During 2005, AmREIT invested over $110 million through the acquisition of three shopping center properties. The acquisitions were accounted for as purchases and the results of their operations are included in the consolidated financial statements from the respective dates of acquisition.

On September 30, 2005, we acquired for cash The South Bank, a shopping center located on the San Antonio Riverwalk in San Antonio, Texas. The property is located at the corner of a major downtown intersection and is accessible from both the river and street levels. The property consists of approximately 47,000 square-feet and has a weighted average remaining lease term of 5.26 years. Tenants on the Property include, among others, Hard Rock Café, Starbucks, Ben & Jerry s, Harley-Davidson and The County Line Barbecue.

On June 1, 2005, we acquired Uptown Park, a 169,000 square foot lifestyle center located on approximately 16.85 acres of land. The property is located on the northwest corner of Loop 610 and Post Oak Boulevard in Houston, Texas in the heart of the Uptown Houston area. The property was developed in two phases phase one consists of approximately 147,000 square feet that was constructed in 1999, and construction was recently completed on phase two which consists of approximately 22,000 square feet. The property was funded with cash and the placement of long-term fixed-rate debt. The cash portion of the purchase consideration was substantially funded by the net proceeds from the offering of our class A common shares. The debt has a term of 10 years and is payable interest-only to maturity at a fixed interest rate of 5.37% with the entire principal amount due in 2015.

Additionally, on December 15, 2005, we used the net proceeds from the sale of the single-tenant non-core assets discussed below to acquire 39,000 square feet of multi-tenant retail projects located adjacent to the MacArthur Park Shopping Center in Las Colinas, an affluent residential and business community in Dallas, Texas. We purchased the MacArthur Park Shopping Center on December 27, 2004.

Single-tenant Properties

During 2005, we sold ten single-tenant non-core properties for $16.6 million in cash to unrelated third parties resulting in gains of $3.4 million. In addition, we completed the sale of six single-tenant retail properties that were acquired for resale for a total of approximately $11.5 million in cash.

Item 3. Legal Proceedings

The Company is not a party to any material pending legal proceedings.

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

No matters were submitted to shareholders during the fourth quarter of the fiscal year.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of March 21, 2006, there were approximately 737 holders of record for 6,513,541 of the Company s class A common shares outstanding on such date, net of 102,666 shares held in treasury. AmREIT s class A common shares are listed on the American Stock Exchange (AMEX) and traded under the symbol AMY. The following table sets forth for the calendar periods indicated high and low sale prices per class A common share as reported on the AMEX and the dividends paid per share for the two year period ended December 31, 2005.

Calendar Period	High	Low	Dividends
2005			
Fourth Quarter	$7.96	$6.70	$.1242
Third Quarter	$8.49	$7.25	$.1242
Second Quarter	$8.75	$7.90	$.1242
First Quarter	$8.75	$7.90	$.1236
2004			
Fourth Quarter	$8.32	$7.45	$ .122
Third Quarter	$8.20	$6.60	$ .120
Second Quarter	$7.35	$6.30	$ .118
First Quarter	$7.20	$6.25	$ .116

The payment of any future dividends on its class A common shares by AmREIT is dependent upon applicable legal and contractual restrictions, including the provisions of the class B and C common shares, as well as AmREIT s earnings and financial needs.

Class B Common Shares As of March 21, 2006, there were approximately 1,036 holders of record for 2,114,531 of the Company s class B common shares. The class B common shares are not listed on an exchange and there is currently no available trading market for the class B common shares. The class B common shares have voting rights, together with all classes of common shares, as one class of stock. The class B common shares were issued at $9.25 per share. They receive a fixed 8.0% cumulative and preferred annual dividend, paid in quarterly installments, and are convertible into the class A common shares on a one-for-one basis at any time, at the holder s option. Beginning in July 2005, we have the right to call the shares and, at the holder s option, either convert them on a one-for-one basis for class A shares or redeem them for $10.18 per share in cash plus any accrued and unpaid dividends.

Class C Common Shares As of March 21, 2006, there were approximately 1,304 holders of record for 4,131,817 of the Company s class C common shares. The class C common shares are not listed on an exchange and there is currently no available trading market for the class C common shares. The class C common shares have voting rights, together with all classes of common shares, as one class of stock. The class C common shares were issued at $10.00 per share. They receive a fixed 7.0% preferred annual dividend, paid in monthly installments, and are convertible into the class A common shares after a 7-year lock out period based on 110% of invested capital, at the holder s option. After three years and beginning in August 2006, subject to the issuance date of the respective shares, we have the right to force conversion of the shares into class A shares at the 10% conversion premium or to redeem the shares at a cash redemption price of $11.00 per share. Currently, there is a class C dividend reinvestment program that allows investors to reinvest their dividends into additional

Table of Contents

class C common shares. These reinvested shares are also convertible into the class A common shares after the 7-year lock out period and receive the 10% conversion premium upon conversion. As of March 21, 2006, 872 holders are participating in the dividend reinvestment plan.

Class D Common Shares As of March 21, 2006, there were approximately 3,539 holders of record for 11,032,852 of the Company s class D common shares. The class D common shares are not listed on an exchange and there is currently no available trading market for the class D common shares. The class D common shares have voting rights, together with all classes of common shares, as one class of stock. The class D common shares were issued at $10.00 per share. They receive a fixed 6.5% annual dividend, paid in monthly installments, subject to payment of dividends then payable to class B and class C common shares. The class D common shares are convertible into the class A common shares at a 7.7% premium on original capital after a 7-year lock out period, at the holder s option. After one year and beginning in July 2005, subject to the issuance date of the respective shares, we have the right to force conversion of the shares into class A shares at the 7.7% conversion premium or to redeem the shares at a cash price of $10.00. In either case, the conversion premium will be pro rated based on the number of years the shares are outstanding. Currently, there is a class D dividend reinvestment program that allows investors to reinvest their dividends into additional class D common shares. These reinvested shares are also convertible into the class A common shares after the 7-year lock out period and receive the 7.7% conversion premium upon conversion. As of March 21, 2006, 2,524 holders are participating in the dividend reinvestment plan.

Table of Contents

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data with respect to AmREIT and should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and accompanying Notes in Item 8. Financial Statements and Supplementary Data and the financial schedule included elsewhere in this Form 10-K.

AmREIT
Selected Historical
Consolidated Financial and Other Data

	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001
Balance sheet data (at end of period)					
Real estate investments before accumulated depreciation	$ 290,097	$ 198,744	$ 98,128	$ 72,192	$ 38,714
Total assets	314,971	203,151	101,327	73,976	38,828
Notes payable	114,687	105,964	48,485	33,586	16,972
Shareholders equity	187,285	88,370	48,796	38,207	15,354
Other data					
Funds from operations, available to class A (1)	3,644	(2,003)	607	(845)	979
Operating Data (for the year ended)					
Revenues (4)	34,686	15,266	7,402	5,161	3,311
Operating expenses (2) (4)	24,268	13,305	6,923	6,366	3,167
Other expenses (income)	6,871	2,371	1,692	1,492	1,626
Income (loss) from discontinued operations (3)	3,356	(829)	2,425	2,038	2,273
Gain on sale of real estate acquired for resale	3,223	1,827	787		
Net income (loss)	$ 10,126	$ 588	$ 1,999	$ (659)	$ 791
Net income (loss) available to class A shareholders	$ 881	$ (3,866)	$ 56	$ (1,524)	$ 2,526
Net (loss) income per common share basic and diluted					
(Loss) income before discontinued operations	$ (1.09)	$ (1.50)	$ (1.13)	$ (1.44)	$ (0.63)
(Loss) income from discontinued operations	1.26	0.31	1.15	0.83	0.97
Net income (loss)	$ 0.17	$ (1.19)	$ 0.02	$ (0.61)	$ 0.34

Distributions per share	class A	$	0.50	$	0.48	$	0.45	$	0.35	$	0.26

25

Table of Contents

(1) AmREIT has adopted the National Association of Real Estate Investment Trusts (NAREIT) definition of FFO. FFO is calculated as net income (computed in accordance with generally accepted accounting principles) excluding gains or losses from sales of depreciable operating property, depreciation and amortization of real estate assets, and excluding results defined as extraordinary items under generally accepted accounting principles. The Company considers FFO to be an appropriate supplemental measure of operating performance because, by excluding gains or losses on dispositions and excluding depreciation, FFO is a helpful tool that can assist in the comparison of the operating performance of a company s real estate between periods, or as compared to different companies. FFO should not be considered an alternative to cash flows from operating, investing and financing activities in accordance with general accepted accounting principles and is not necessarily indicative of cash available to meet cash needs. AmREIT s computation of FFO may differ from the methodology for calculating FFO utilized by other equity REITs and, therefore, may not be comparable to such other REITS. FFO is not defined by generally accepted accounting principles and should not be considered an alternative to net income as an indication of AmREIT s performance, or of cash flows as a measure of liquidity. Please see reconciliation of Net Income to FFO in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations . For the year ended December 31, 2004, FFO includes an impairment charge of $2.4 million related to two single-tenant, non-core assets. For the years ended December 31, 2004, 2003 and 2002, FFO includes deferred merger costs of $1.7 million, $915 thousand and $1.9 million resulting from shares issued to our CEO from the sale of his advisory company to AmREIT in June 1998.

(2) Operating expenses for the years ended December 31, 2004, 2003 and 2002 include a charge of $1.7 million, $915 thousand and $1.9 million, respectively, resulting from shares issued to our CEO as deferred merger cost stemming from the sale of his advisory company to AmREIT in June 1998.

(3) Income from discontinued operations in 2004 includes an impairment charge of $2.4 million, resulting from two asset impairments and corresponding write-downs of value.

(4) Revenues and operating expenses for 2004 and 2003 have been reduced to reflect as issuance costs the capital-raising activities of our securities operations related to our class C and class D common shares. These reclassifications had no impact on our net income for either of these periods.

Table of Contents

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

Forward-Looking Statements

Certain information presented in this Form 10-K constitutes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company s actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include the following: changes in general economic conditions, changes in real estate market conditions, continued availability of proceeds from the Company s debt or equity capital, the ability of the Company to locate suitable tenants for its properties, the ability of tenants to make payments under their respective leases, timing of acquisitions, development starts and sales of properties and the ability to meet development schedules.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the comparative summary of selected financial data appearing elsewhere in this report. Historical results and trends which might appear should not be taken as indicative of future operations.

Executive Overview

AmREIT (the Company) (AMEX: AMY) is an established real estate company that at its core is a value creator which has delivered results to our investors for 21 years and has elected to be taxed as a real estate investment trust (REIT) for federal income tax purposes. Our mission is to build a real estate business that can realize profitable growth year over year regardless of market cycles. We have developed three distinct businesses that provide earnings power from multiple sources. First, as a *real estate development and operating company*, we provide value through offering an array of services to our tenants and properties, to our asset advisory group s portfolios and to third parties. Second, our *asset advisory group* broadens our avenues to capital and raises private equity for a series of merchant development partnership funds. And third, we own an *institutional-grade portfolio of Irreplaceable Corners* premier retail properties in high-traffic, highly populated areas which are held for long-term value and provide a foundation to our FFO growth through a steady stream of rental income. These three business segments have grown into self-sustaining operations that add value to the overall Company. These operations give us the flexibility to achieve our financial objectives over the long-term as we navigate the changing market cycles that come our way.

As of December 31, 2005, we have over 1.3 million square feet of shopping centers in various stages of development or in the pipeline for our advisory group and for third parties. Since listing on the AMEX in July 2002, our total assets have grown from a book value of $48 million to $315 million, including 49 properties located in 15 states. Within our asset advisory business we manage an additional $129 million in assets, representing 21 properties in 3 states, and equity within our asset advisory group has grown from $15 million to $61 million.

Real Estate Development and Operating Group

Our real estate development and operating business, AmREIT Realty Investment Corporation and subsidiaries (ARIC), is a fully integrated and wholly-owned business, consisting of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, general contracting, asset and property management services to our portfolio of properties, to our asset advisory group, and to third parties. This operating subsidiary, which is a taxable REIT subsidiary, is a transaction-oriented subsidiary that is very active in the real estate market and generates profits and fees on an annual basis. This business can provide significant

27

long-term and annual growth; however, its quarter to quarter results will fluctuate, and therefore its contributions to our quarterly earnings will be volatile.

Asset Advisory Group

The part of our business model and operating strategy that distinguishes us from other publicly-traded REITs is our asset advisory business, or AmREIT Securities Company (ASC), a National Association of Securities Dealers (NASD) registered broker-dealer which is a wholly-owned subsidiary of ARIC. For the past 21 years, we have been raising private capital for our merchant development funds and building relationships in the financial planning and broker-dealer community, earning fees and sharing in profits from those activities. Historically, our advisory group has raised capital in two ways: first, directly for AmREIT through non-traded classes of common shares, and second, for our actively managed merchant development partnership funds.

The asset advisory group invests in and actively manages five merchant development partnership funds which were formed to develop, own, manage, and add value to properties with an average holding period of two to four years. We invest as both the general partner and as a limited partner, and our in-house securities group sells limited partnership interests in these partnership funds to retail investors. We, as the general partner, manage the partnerships and, in return, receive management fees as well as potentially significant profit participation interests. However, we strive to create a structure that aligns the interests of our shareholders with those of our limited partners. In this spirit, the partnerships are structured so that the general partner receives a significant profit only after the limited partners in the funds have received their targeted return which links our success to that of the limited partners.

Portfolio of Irreplaceable Corners

Our portfolio consists primarily of premier retail properties typically located on Main and Main intersections in high-traffic, highly populated affluent areas. Because of their location and exposure as central gathering places, we believe that these centers will continue to attract well-established tenants and can withstand the test of time, providing our shareholders a steady rental income stream.

During 2005, we acquired approximately 255,000 square feet of multi-tenant shopping centers, representing over $110 million in assets at an average cap rate of 6.8%. We take a very hands-on approach to ownership, and directly manage the operations and leasing at all of our wholly-owned properties.

As of December 31, 2005, we owned a real estate portfolio consisting of 49 properties located in 15 states. The areas where a majority of our properties are located are densely populated, urban communities in and around Houston, Dallas and San Antonio. Within these broad markets, we target locations that we believe have the best demographics and highest long term value. We refer to these properties as Irreplaceable Corners . Our criteria for an Irreplaceable Corner includes: high barriers to entry (typically infill locations in established communities without significant raw land available for development), significant population within a three mile radius (typically in excess of 100,000 people), located on the hard corner of an intersection guided by a traffic signal, ideal average household income in excess of $80,000 per year, strong visibility and significant traffic counts passing by the location (typically in excess of 30,000 cars per day). We believe that centers with these characteristics will provide for consistent leasing demand and rents that increase at or above the rate of inflation. Additionally, these areas have barriers to entry for competitors seeking to develop new properties due to the lack of available land.

We expect that single-tenant, credit leased properties, will continue to experience cap rate pressure during 2006 due to the low interest rate environment and increased buyer demand. Therefore, we will continue to divest of properties which no longer meet our core criteria, and, to the extent that we can do so accretively in the current seller s market, replace them with high-quality grocery-anchored, lifestyle, and multi-tenant shopping centers or the development of single-tenant properties located on Irreplaceable Corners. Each potential acquisition is subjected to a rigorous due diligence process that includes site inspections, financial underwriting, credit analysis and market and demographic studies. Therefore, there can be no assurance that any or all of these projects will ultimately be purchased by AmREIT. Management has budgeted for an increase in interest rates during 2006. As of December 31, 2005, all of our outstanding debt had a long-term fixed interest rate with an average term of 7.7 years. Our philosophy continues to be matching long-term leases with long-term debt structures while keeping our debt to total assets ratio less than 55%.

Summary of Critical Accounting Policies

The results of operations and financial condition of the Company, as reflected in the accompanying consolidated financial statements and related footnotes, are subject to management s evaluation and interpretation of business conditions, retailer performance, changing capital market conditions and other factors, which could affect the ongoing viability of the Company s tenants. Management believes the most critical accounting policies in this regard are revenue recognition, the regular evaluation of whether the value of a real estate asset has been impaired, the allowance for uncollectible accounts and accounting for real estate acquisitions. We evaluate our assumptions and estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable based on the circumstances.

Revenue Recognition We lease space to tenants under agreements with varying terms. The majority of the leases are accounted for as operating leases with revenue being recognized on a straight-line basis over the terms of the individual leases. Accrued rents are included in tenant receivables. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recorded. Additionally, certain of the lease agreements contain provisions that grant additional rents based on tenants sales volumes (contingent or percentage rent). Percentage rents are recognized when the tenants achieve the specified targets as defined in their lease agreements. The terms of certain leases require that the building/improvement portion of the lease be accounted for under the direct financing method. Such method requires that a portion of such cash flows be recognized as earned income over the life of the lease so as to produce a constant periodic rate of return.

We have been engaged to provide various services, including development, construction, construction management, property management, leasing and brokerage. The fees for these services are recognized as services are provided and are generally calculated as a percentage of revenues earned or to be earned or of property cost, as appropriate. Revenues from fixed-price construction contracts are recognized on the percentage-of-completion method, measured by the physical completion of the structure. Revenues from cost-plus-percentage-fee contracts are recognized on the basis of costs incurred during the period plus the percentage fee earned on those costs. Construction management contracts are recognized only to the extent of the fee revenue.

Construction contract costs include all direct material and labor costs and any indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from any contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Any profit incentives are included in revenues when their realization is reasonably assured. An amount equal to contract costs attributable to any claims is included in revenues when realization is probable and the amount can be reliably estimated.

Unbilled construction receivables represent reimbursable costs and amounts earned under contracts in progress as of the date of our balance sheet. Such amounts become billable according to contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project. Advance billings represent billings to or collections from clients on contracts in advance of revenues earned thereon. Unbilled construction receivables are generally billed and collected within the twelve months following the date of our balance sheet, and advance billings are generally earned within the twelve months following the date of our balance sheet. Securities commission income is recognized as units of our merchant development funds are sold through AmREIT Securities Company. Securities commission income is earned as the services are performed and pursuant to the corresponding prospectus or private offering memorandum. Generally, it includes a selling commission of between 6.5% and 7.5%, a dealer manager fee of between 2.5% and 3.25% and offering and organizational costs of 1.0% to 1.50%. The selling commission is then paid out to the unaffiliated selling broker dealer and reflected as securities commission expense.

Real Estate Valuation Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges, acquisition costs and development costs. Carrying charges, primarily interest and loan acquisition costs, and direct and indirect development costs related to buildings under construction are capitalized as part of construction in progress. The capitalization of such costs ceases at the earlier of one year from the date of completion of major construction or when the property, or any completed portion, becomes available for occupancy. The Company capitalizes acquisition costs once the acquisition of the property becomes probable. Prior to that time, the Company expenses these costs as acquisition expenses. Depreciation is computed using the straight-line method over an estimated useful life of up to 50 years for buildings, up to 20 years for site improvements and over the term of lease for tenant improvements. Leasehold estate properties, where the Company owns the building and improvements but not the related ground, are amortized over the life of the lease.

Management reviews its properties for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, including accrued rental income, may not be recoverable through operations. Management determines whether an impairment in value occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the property, with the carrying value of the individual property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value.

Valuation of Receivables An allowance for the uncollectible portion of accrued rents, property receivables and accounts receivable is determined based upon an analysis of balances outstanding, historical payment history, tenant credit worthiness, additional guarantees and other economic trends. Balances outstanding include base rents, tenant reimbursements and receivables attributed to the accrual of straight line rents. Additionally, estimates of the expected recovery of pre-petition and post-petition claims with respect to tenants in bankruptcy are considered in assessing the collectibility of the related receivables.

Real Estate Acquisitions We account for real estate acquisitions pursuant to Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141). Accordingly, we allocate the purchase price of the acquired properties to land, building and improvements, identifiable intangible assets and to the acquired liabilities based on their respective fair values. Identifiable intangibles include amounts allocated to acquired out-of-market leases, the value of in-place leases and customer relationships, if any. We determine fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends and specific market and economic conditions that may affect the property. Factors considered by management in our analysis of determining the as-if-vacant property value include an estimate of carrying costs during the expected lease-up periods considering market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and estimates of lost rentals at market rates during the expected lease-up periods, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses. Intangibles related to out-of-market leases and in-place lease value are recorded as acquired lease intangibles and are amortized as an adjustment to rental revenue or amortization expense, as appropriate, over the remaining terms of the underlying leases. Premiums or discounts on acquired out-of-market debt are amortized to interest expense over the remaining term of such debt.

Liquidity and Capital Resources

At December 31, 2005 and 2004, the Company s cash and cash equivalents totaled \$5.9 million and \$3.0 million, respectively. Cash flows from operating activities, investing activities and financing activities for the three years ended December 31, are as follows (in thousands):

	2005	2004	2003
Operating activities	$ 14,069	$ 7,250	$ 924
Investing activities	(107,519)	(99,801)	(21,719)
Financing activities	96,405	93,480	20,319

Cash flows from operating activities and financing activities have been the principal sources of capital to fund our ongoing operations and dividends. Our cash on hand, internally-generated cash flow, borrowings under our existing credit facilities, issuance of equity securities, as well as the placement of secured debt and other equity alternatives, are expected to provide the necessary capital to maintain and operate our properties as well as execute our growth strategies.

Additionally, as part of our investment strategy, we constantly evaluate our property portfolio, systematically selling off any non-core or underperforming assets, and replacing them with Irreplaceable Corners™ and other core assets. As we continue to raise capital, we anticipate increasing our operating cash flow by selling the underperforming assets and deploying the capital generated into high-quality income-producing retail real estate assets. During 2004, this was evidenced through our acquisition of approximately 500,000 square feet of multi-tenant shopping centers, representing over \$100 million in assets. Each of the five centers purchased during 2004 was a premier frontage property located on an intersection in highly populated, high-traffic, affluent areas. During 2005, we further executed this strategy through the acquisition of over \$110 million of multi-tenant centers, comprising three premier properties with approximately 255,000 square feet. We completed our acquisition of Uptown Park, a 169,000 square foot multi-tenant shopping center, in June 2005, and our acquisition of The South Bank, a 47,000 square foot multi-tenant retail center located on the San Antonio Riverwalk, in September 2005. Additionally, in December 2005 we used the net proceeds from our sale of eight single-tenant non-core assets to acquire 39,000 square feet of multi-tenant retail projects located adjacent to our MacArthur Park Shopping Center in Las Colinas, an affluent residential and business community in Dallas, Texas.

In June 2004, we began marketing our class D common share offering, a \$170 million publicly-registered, non-traded common share offering, offered through the independent financial planning community. We have utilized the proceeds from the sale of the class D shares primarily to pay down debt and to acquire additional properties. We determined during the third quarter of 2005 that we were in position to meet our real estate acquisition goals for the year with our existing capital. We therefore closed our class D common share offering after having raised approximately $110 million, including shares issued through the dividend reinvestment program.

Cash provided by operating activities as reported in the Consolidated Statements of Cash Flows increased by $6.8 million for the year ended December 31, 2005 when compared to the year ended December 31, 2004. The increase was primarily attributable to an increase of $4.7 million in our income before the effect of gains on property sales, depreciation and amortization, impairment charges and merger costs during 2005 compared to 2004. This increase was driven by the significant multi-tenant property acquisitions made during the second half of 2004 as well as the 2005 acquisitions Uptown Park in June 2005 and The South Bank in September 2005. Another driver of this increase was our 2005 activities related to real estate acquired for resale. On the acquisition side, we invested $1.7 million less in such real estate due to the continued compression of single-tenant cap rates during 2005. In turn, we generated increased proceeds of $4.8 million over 2004 from the sale of real estate acquired for resale in order to capitalize on these compressed single-tenant cap rates. During 2005, we sold six properties for aggregate proceeds of $11.5 million, whereas during 2004, we sold three properties for aggregate proceeds of $6.7 million. These increases were partially offset by a $5.9 million reduction in working capital cash flow resulting from timing differences between the revenue and expense accruals and their related cash receipts or payments.

Cash flows from investing activities as reported in the Consolidated Statements of Cash Flows increased from a net investing outflow of $99.8 million in 2004 to a net investing outflow of $107.5 million in 2005. This $7.7 million increase in investing outflows is attributable to an increase of $6.3 million in acquisitions of investment properties during 2005 coupled with loans made to certain affiliates during 2005 of $11.2 million. These increases in investing outflows were partially offset by a $10.8 million increase in proceeds from the sale of investment property. We acquired over $110 million of property in 2005 versus approximately $104 million in 2004. As discussed above, our 2005 acquisitions include our Uptown Park acquisition on June 1, 2005, our acquisition of The South Bank on September 30, 2005 and our follow-on acquisition of the MacArthur Park pad sites on December 15, 2005 which are adjacent to our MacArthur Park Shopping Center, one of our 2004 acquisitions. Uptown Park is a 169,000 square foot lifestyle center located in Houston, Texas in the Galleria shopping district. Uptown Park was funded with fixed-rate debt and cash, substantially all of which was generated by the offering of our class A common shares as further described below. The South Bank, a 47,000 square foot multi-tenant center located on the San Antonio Riverwalk, was purchased for cash. With respect to loans made to affiliates, during 2005, we loaned $11.2 million to two of our affiliates as part of our treasury management function whereby we placed excess cash in a short term bridge loan for these affiliates related to the acquisition or development of properties. We typically provide such financing to our affiliates as a way of efficiently deploying our excess cash and earning a higher return than we would in other short term investments or overnight funds. In most cases, the funds have a construction lender in place, and we simply step in as the lender and provide financing on the same terms as the third party lender. In so doing, we are able to access these funds as needed by having our affiliate then draw down on their construction loans. These loans bear a market rate of interest and are due upon demand. With respect to the increase in proceeds from the sale of investment property, during 2005, we sold ten properties held for investment, generating proceeds from sale of $16.6 million; however, during 2004, we sold two properties held for investment, generating proceeds from sale of $5.9 million.

Cash flows provided by financing activities increased from $93.5 million during the 2004 period to $96.4 million during the 2005 period. This $2.9 million increase was primarily attributable to an increase of $56.7 million in equity proceeds (net of issuance costs) which was substantially offset by a reduction in debt proceeds of $51.4 million during the year and an increase in dividends to shareholders of $2.7 million during the year. Equity proceeds of $97.6 million, net of issuance costs, were generated during 2005. These proceeds, as further described below, allowed us to fully pay down our line of credit which had a $38.0 million balance at yearend 2004. Further, such proceeds allowed us to purchase The South Bank and the MacArthur Park pad sites for cash, thereby reducing the amount of debt proceeds that would otherwise have been required to consummate these transactions. We placed $49.0 million of fixed-rate debt in conjunction with our acquisition of Uptown Park in June 2005 which represents our only debt placement during 2005. Dividends paid to shareholders increased during the period due to the increase in the number of class D common shareholders during 2004 and 2005.

The $97.6 million net equity proceeds were raised through the offering of 2.76 million of our class A common shares, including 360,000 over-allotment shares exercised by the underwriters as well as through our class D common share offering, a $170 million offering which was being offered through the independent financial planning community. The class A common share offering was priced at $8.10, and the net proceeds of the offering, after underwriting discounts, commissions and offering expenses, were approximately $20.4 million. The balance of the capital was raised through our class D offering which we closed during the third quarter of 2005 as described above.

The Company has an unsecured credit facility (the Credit Facility) in place which is being used to provide funds for the acquisition of properties and working capital. The Credit Facility matures in November 2007 and provides that the Company may borrow up to $40 million subject to the value of unencumbered assets. Effective November 2005, the Company renewed its Credit Facility on terms and conditions substantially the same as the previous facility. The Credit Facility contains covenants which, among other restrictions, require the Company to maintain a minimum net worth, a maximum leverage ratio, maximum tenant concentration ratios, specified interest coverage and fixed charge coverage ratios. At December 31, 2005, the Company was in compliance with all financial covenants. The Credit Facility s annual interest rate varies depending upon the Company s debt to asset ratio, from LIBOR plus a spread of 1.35% to LIBOR plus a spread of 2.35%. As of December 31, 2005, the interest rate was LIBOR plus 1.55%. As of December 31, 2005, there was no balance outstanding under the Credit Facility. The Company has approximately $38.0 million available under its line of credit, subject to the covenant provisions discussed above and lender approval on the use of the proceeds. In addition to the credit facility, AmREIT utilizes various permanent mortgage financing and other debt instruments.

Contractual Obligations

As of December 31, 2005, the Company had the following contractual debt obligations (see also Note 7 the consolidated financial statements for further discussion regarding the specific terms of our debt):

	2006	2007	2008	2009	2010	Thereafter	Total
Unsecured debt:							
Revolving credit facility *	$	$	$	$	$	$	$
5.46% dissenter notes**	760						760
Secured debt ***	1,171	1,257	14,759	1,448	1,560	92,626	112,821
Interest *	6,589	6,705	6,614	5,686	2,955	35,259	63,808
Non-cancelable operating lease payments	295	305	299	193			1,092
Total contractual obligations	$8,815	$8,267	$21,672	$7,327	$4,515	$127,885	$178,481

* Interest expense does not include any interest obligation on our revolving credit facility as we have no balance outstanding on

the facility as of December 31, 2005. This table assumes that we will continue to have no balance outstanding throughout all periods presented. Our revolving credit facility is a variable-rate debt instrument, and the outstanding balance tends to fluctuate throughout the year based on our liquidity needs.

** Subsequent to December 31, 2005, we paid the 5.46% dissenter notes in full.

*** Secured debt as shown above is $1.1 million less than total secured debt as reported due to the premium recorded on above-market debt assumed in conjunction with certain of our property acquisitions.

During 2005, we paid dividends to our shareholders of $11.8 million, compared with $6.0 million in 2004. The class A, C and D shareholders receive monthly dividends and the class B shareholders receive quarterly dividends. All dividends are declared on a quarterly basis. The dividends by class follow (in thousands):

Table of Contents

	Class A	Class B	Class C	Class D
2005				
Fourth Quarter	$802	$398	$716	$1,783
Third Quarter	$797	$400	$713	$1,556
Second Quarter	$550	$404	$713	$ 931
First Quarter	$430	$410	$698	$ 523
2004				
Fourth Quarter	$419	$416	$727	$ 223
Third Quarter	$410	$425	$710	$ 33
Second Quarter	$383	$429	$677	N/A
First Quarter	$345	$434	$379	N/A

Until properties are acquired by the Company, the Company s funds are used to pay down outstanding debt under the Credit Facility. Thereafter, any excess cash is provided first to our affiliates in the form of short-term bridge financing for development or acquisition of properties and then is invested in short-term investments or overnight funds. This investment strategy allows us to manage our interest costs and provides us with the liquidity to acquire properties at such time as those suitable for acquisition are located.