AMREIT
Form 8-K
September 14, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED)

SEPTEMBER 14, 2004

COMMISSION FILE NUMBER

0-28378

AmREIT

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

TEXAS	76-0410050
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)
8 GREENWAY PLAZA, SUITE 1000, HOUSTON, TEXAS 77046	713-850-1400
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(REGISTRANT'S TELEPHONE NUMBER)

[N/A]

(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

TABLE OF CONTENTS

2

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

On July 1, 2004, we acquired two grocery-anchored retail shopping centers - Cinco Ranch which is located in Katy, Texas and Plaza in the Park which is located in Houston, Texas. Material factors considered in each of the acquisitions made by us include historical and prospective financial performance of the center, credit quality of the tenancy, local and regional demographics, location and competition, ad valorem tax rates, condition of the property and the related anticipated level of capital expenditures required. The total investment in these acquisitions was $48.5 million. Audited financial statements for the properties (the "Acquired Properties"), are submitted in ITEM 9.01 below. Unaudited pro forma condensed consolidated financial information of AmREIT and Subsidiaries and the Acquired Properties is also submitted in ITEM 9.01 below.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

The following financial statements, pro forma financial statements and exhibits are filed as part of this report:

(a) Financial statements of businesses acquired:

1. Cinco Ranch

   (i) Report of Independent Registered Public Accounting Firm

   (ii) Historical Summary of Gross Income and Direct Operating Expenses for the period from June 4, 2003 to May 31, 2004

   (iii) Notes to Historical Summary of Gross Income and Direct Operating Expenses

2. Plaza in the Park

   (i) Report of Independent Registered Public Accounting Firm

   (ii) Historical Summary of Gross Income and Direct Operating Expenses for the period from June 4, 2003 to May 31, 2004

   (iii) Notes to Historical Summary of Gross Income and Direct Operating Expenses

3

(b) Pro Forma Condensed Consolidated Financial Statements (unaudited) of AmREIT and Subsidiaries and the Acquired Properties

1. Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2004

2. Pro Forma Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2004

3. Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2003

(c) Exhibits:

None

4

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trust Managers
AmREIT:

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses (Historical Summary) of Cinco Ranch Shopping Center (the Property) for the period June 4, 2003 through May 31, 2004. This Historical Summary is the responsibility of the management of AmREIT. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in the Current Report on Form 8-K. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses, as described in note 2, of Cinco Ranch Shopping Center for the period June 4, 2003 through May 31, 2004, in conformity with U.S. general accepted accounting principles.

KPMG LLP

Houston, TX
September 14, 2004

5

Cinco Ranch Shopping Center
Historical Summary of Gross Income
and Direct Operating Expenses
For the Period from June 4, 2003 through May 31, 2004

Gross Income	$1,374,246
Direct Operating Expenses:	
Operating expenses	132,270

Real estate taxes	101,231
Insurance	10,697
Interest	485,676
Total direct operating expenses	729,874
Excess of gross income over direct operating expenses	$ 644,372

See accompanying notes to historical summary of gross income and direct operating expenses.

Cinco Ranch Shopping Center
Notes to Historical Summary of Gross Income
and Direct Operating Expenses
for the Period from June 4, 2003 through May 31, 2004

(1) BUSINESS

The Cinco Ranch Shopping Center (the Property) is located in Katy, Texas. The property consists of approximately 97,297 square feet of gross leasable area and was 100% occupied at May 31, 2004. On July 1, 2004, AmREIT acquired the property for $15.5 million.

(2) BASIS OF PRESENTATION AND COMBINATION

The Historical Summary of Gross Income and Direct Operating Expenses (Historical Summary) has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in AmREIT's filing on Form 8-K, and is not intended to be a complete presentation of the Property's revenues and expenses. The seller purchased the Property on June 4, 2003. The Historical Summary has been prepared on the accrual basis of accounting. Management of the Property is required to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) GROSS INCOME

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area maintenance, real estate taxes, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal options at various periods at various rental rates. Certain of the leases contain provisions for contingent rentals. No contingent rent was earned during the period from June 4, 2003 through May 31, 2004.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exist in minimum lease payments over the term of the lease, rental income is recognized for the full period of occupancy on a straight-line basis.

The weighted average remaining lease term for the project is 14 years. Minimum rents to be received from tenants under operating leases, exclusive of common area maintenance reimbursements, which were $187 thousand for the period from June 4, 2003 through May 31, 2004, are as follows:

2005	$ 1,218,461
2006	1,207,697
2007	1,081,057
2008	1,064,256
2009	1,013,050
Thereafter	8,546,056
Total	$14,130,577

Adjustments to record rental income on a straight line basis increased gross income by $24 thousand during the period from June 4, 2003 through May 31, 2004. Additionally, adjustments to rental income increased gross income by $6 thousand for such period due to adjustments to reflect rental income at market rates related to leases acquired through acquisition.

As of May 31, 2004, 63,373 square feet was leased to one tenant, Kroger, under a noncancelable lease that expires June 3, 2023. This tenant accounted for approximately 42% of rental revenue during the period from June 4, 2003 through May 31, 2004.

(4) DIRECT OPERATING EXPENSES

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation and amortization are excluded from the Historical Summary.

(5) RELATED-PARTY TRANSACTIONS

During the period from June 4, 2003 through May 31, 2004, management fees and leasing commissions of $37,340 and $16,380, respectively, were paid or incurred. Such amounts were paid or owed to various entities related to the owner of the Property either by common ownership or control. Payments and amounts due to related parties represent amounts due under contracts for different services provided by the related party.

(6) PROJECT FINANCING

In June 2003, a $8,720,000 non-recourse note payable was entered into with a lender, secured by the Property. The note requires monthly installment payments of principal and interest through its maturity on July 10, 2013, at the fixed interest rate of 5.6%, based on a 30-year amortization. The Property is pledged as security under the terms of the note payable. The loan may not be prepaid before July 10, 2008 and requires prepayment fees of 5%, 4%, 3%, 2%, and 1% if it is prepaid during the sixth, seventh, eighth, ninth, or tenth year, respectively. In connection with the July 2004 acquisition of the Property by AmREIT, this note was assumed.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trust Managers
AmREIT:

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses (Historical Summary) of Plaza in the Park Shopping Center (the Property) for the period June 4, 2003 through May 31, 2004. This Historical Summary is the responsibility of the management of AmREIT. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in the Current Report on Form 8-K. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses, as described in note 2, of Plaza in the Park Shopping Center for the period June 4, 2003 through May 31, 2004, in conformity with U.S. general accepted accounting principles.

KPMG LLP

Houston, TX
September 14, 2004

Plaza in the Park Shopping Center
Historical Summary of Gross Income
and Direct Operating Expenses
For the Period from June 4, 2003 through May 31, 2004

Gross Income	$2,775,684
Direct Operating Expenses:	
Operating expenses	350,316
Real estate taxes	252,118
Insurance	34,142
Interest	1,026,493
Total direct operating expenses	1,663,069
Excess of gross income over direct operating expenses	$1,112,615

See accompanying notes to historical summary of gross income and direct operating expenses.

10

Plaza in the Park Shopping Center

Notes to Historical Summary of Gross Income

and Direct Operating Expenses

for the Period from June 4, 2003 through May 31, 2004

(1) BUSINESS

Plaza in the Park Shopping Center (the Property) is located in Houston, Texas. The Property consists of approximately 129,955 square feet of gross leasable area and was approximately 96.7% occupied at May 31, 2004. On July 1, 2004, AmREIT acquired the Property for $33.0 million.

(2) BASIS OF PRESENTATION AND COMBINATION

The Historical Summary of Gross Income and Direct Operating Expenses (Historical Summary) has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in AmREIT's filing on Form 8-K, and is not intended to be a complete presentation of the Property's revenues and expenses. The seller purchased the Property on June 4, 2003. The Historical Summary has been prepared on the accrual basis of accounting. Management of the Property is required to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) GROSS INCOME

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area maintenance, real estate taxes, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal options at various periods at various rental rates. Certain of the leases contain provisions for contingent rentals. No contingent rent was earned during the period from June 4, 2003 through May 31, 2004.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exist in minimum lease payments over the term of the lease, rental income is recognized for the full period of occupancy on a straight-line basis.

The weighted average remaining lease term for the project is 9.2 years. Minimum rents to be received from tenants under operating leases, exclusive of common area maintenance reimbursements, which were $480 thousand for the period from June 4, 2003 through May 31, 2004, are as follows:

2005	$2,443,901
2006	2,455,763
2007	2,291,814
2008	2,057,938
2009	1,918,793
Thereafter	13,409,044
Total	$24,577,253

Adjustments to record rental income on a straight line basis increased gross income by $44 thousand during the period from June 4, 2003 through May 31, 2004. Additionally, adjustments to rental income decreased

11

gross income by $66 thousand for such period due to adjustments to reflect rental income at market rates related to leases acquired through acquisition at other than market rates.

As of May 31, 2004, 68,658 square feet was leased to one tenant, Kroger, under a noncancelable lease that expires August 31, 2021. This tenant accounted for approximately 41% of rental revenue during the period from June 4, 2003 through May 31, 2004.

(4) DIRECT OPERATING EXPENSES

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation and amortization are excluded from the Historical Summary.

(5) RELATED-PARTY TRANSACTIONS

During the period from June 4, 2003 through May 31, 2004, management fees and leasing commissions of $75,462 and $14,712, respectively, were paid or incurred. Such amounts were paid or owed to various entities related to the owner of the Property either by common ownership or control. Payments and amounts due to related parties represent amounts due under contracts for different services provided by the related party.

(6) PROJECT FINANCING

In June 2003, a $18,430,000 non-recourse note payable was entered into with a lender, secured by the Property. The note requires monthly installment payments of principal and interest through its maturity on July 10, 2013, at the fixed interest rate of 5.6%, based on a 30-year amortization. The Property is pledged as security under the terms of the note payable. The loan may not be prepaid before July 10, 2008 and requires prepayment fees of 5%, 4%, 3%, 2%, and 1% if it is prepaid during the sixth, seventh, eighth, ninth, or tenth year, respectively. In connection with the July 2004 acquisition of the Property by AmREIT, this note was assumed.

12

AMREIT AND SUBSIDIARIES
PRO FORMA FINANCIAL INFORMATION

(UNAUDITED)

The following pro forma financial statements have been prepared to provide pro forma information with regards to the properties described below (the "Properties") which AmREIT (the "Company") acquired from an unrelated third party.

On July 1, 2004, the Company acquired Plaza in the Park Shopping Center, a 129,955 square-foot Kroger anchored shopping center located on approximately 14.3 acres. The property is located in Houston, Texas and is 96.7% occupied. Also on July 1, 2004, the Company acquired Cinco Ranch Shopping Center, a 97,297 square-foot Kroger anchored shopping center located on approximately 12.8 acres of land. The property is located in Katy, Texas and is 100% occupied.

The unaudited Pro Forma Condensed Consolidated Balance Sheet presents the historical financial information of the Company as of June 30, 2004 as adjusted for the acquisition of the Properties which are assumed to have occurred on June 30, 2004.

The unaudited Pro Forma Condensed Consolidated Statements of Operations for the year ended December 31, 2003 and the six months ended June 30, 2004 combine the historical operations of the Company with the gross income and direct operating expenses of the Properties and are presented as if the acquisitions of the Properties occurred on January 1, 2003.

The unaudited pro forma condensed consolidated financial statements have been prepared by the Company's management based upon the historical financial statements of the Company and of the Properties. These pro forma statements may not be indicative of the results that actually would have occurred if the combination had been in effect on the dates indicated or which may be obtained in the future. In management's opinion, all adjustments necessary to reflect the effects of the property acquisitions have been made. These unaudited pro forma condensed consolidated financial statements should be read in conjunction with the historical financial statements included in the Company's previous filings with the Securities and Exchange Commission.

13

AMREIT AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2004
(unaudited)

(in thousands)

	AmREIT Historical (1)	Acquisit... Cinco Ranch
ASSETS		
Property:		
Land	$ 37,920	$ 2,660
Buildings	32,286	9,619
Tenant improvements	620	1,459
	70,826	13,738
Less accumulated depreciation and amortization	(2,707)	--
Net real estate held for investment	68,119	13,738
Real estate held for sale, net	11,032	--
Net investment in direct financing leases held for investment	19,222	--
Intangible lease cost, net	672	1,892
Other assets	9,667	44
TOTAL ASSETS	$ 108,712	$ 15,674
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable	$ 32,534	$ 15,504(3)
Other liabilities	3,465	170
TOTAL LIABILITIES	35,999	15,674
Minority interest	1,010	--
Shareholders' equity	71,703	--
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 108,712	$ 15,674

The accompanying notes are an integral part of this pro forma condensed consolidated financial statement.

14

AMREIT AND SUBSIDIARIES
NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2004

(UNAUDITED)

(1) Reflects the historical condensed consolidated balance sheet of the Company as of June 30, 2004. Please refer to the AmREIT's historical consolidated financial statements and notes thereto included in the Company's Quarterly Report on Form 10-QSB for the six months ended June 30, 2004.

(2) Reflects the acquisition of the Properties. The aggregate purchase price was $48.5 million and was allocated among land, buildings, tenant improvements, above- and below-market leases and intangible lease costs pursuant to Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141). The buildings are depreciated over a period of 39 years.

(3) In conjunction with the acquisition of the Properties, the Company assumed $26.8 million of secured debt with a fixed rate of 5.6%. Additionally, $21.7 million of the acquisition consideration was funded through the Company's credit facility (rate of 3.375% on the acquisition date). The terms of the debt assumed approximated market on the date of the acquisition; accordingly, no adjustments were made to the carrying value of the debt in allocating the purchase price of the Properties.

15

AMREIT AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Unaudited)

(in thousands, except per share amounts)

		Acquisitions (2)	
	AmREIT Historical(1)	Cinco Ranch	Plaza in the Park
Revenues			
Rental income and earned income	$ 4,211	$ 687	$ 1,388
Other income	4,975	--	--
Total Revenues	9,186	687	1,388
Expenses			
General operating and administrative	3,008	122	318
Depreciation and amortization	504	--	--
Other expenses	5,093	--	--
Total Expenses	8,605	122	318
Operating income	581	565	1,070
Interest expense	(1,163)	(243)	(513)
Other income/expense	(182)	--	--
Income (loss) from continuing operations	(763)	322	557
Distributions paid to class B and class C shareholders	(1,919)	--	--
Loss from continuing operations available to class A shareholders	($ 2,682)	$ 322	$ 557

Loss from continuing operations - basic and diluted	(0.87)
Weighted average common shares used to compute net income per share, basic and diluted	3,094

The accompanying notes are an integral part of this pro forma condensed consolidated financial statement.

16

AmREIT AND SUBSIDIARIES
NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2004

(UNAUDITED)

(1) Reflects the historical condensed consolidated statement of operations of the Company for the six months ended June 30, 2004. Please refer to AmREIT's historical consolidated financial statements and notes thereto included in the Company's Quarterly Report on Form 10-QSB for the six months ended June 30, 2004.

(2) The historical statements of operations for the Properties represent a historical summary of gross income and direct operating expenses for the period from January 1, 2004 through June 30, 2004. Costs such as depreciation and amortization were excluded from the historical summary. See Note 3 below.

(3) Represents the depreciation of the building (over 39 years) and tenant improvements (over the terms of the respective lease agreements) as well as the amortization of the intangible assets based on the preliminary purchase price allocation in accordance with SFAS No. 141.

(4) Represents the incremental interest expense related to the portion of the acquisition consideration that was financed via the Company's credit facility, assuming an interest rate of 3.375%.

17

AMREIT AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2003
(Unaudited)

(in thousands, except per share amounts)

		Acquisitions(2)		
	AmREIT Historical(1)	Cinco Ranch	Plaza in the Park	Pro F Adjust

Revenues				
Rental income and earned income	$ 7,584	$ 1,143	$ 2,798	$
Other income	5,025	-	-	
Total Revenues	12,609	1,143	2,798	
Expenses				
General operating and administrative	3,937	245	642	
Depreciation and amortization	836	-	-	1,
Other expenses	4,084	-	-	
Total Expenses	8,857	245	642	1,
Operating income	3,752	898	2,156	(1,
Interest expense	(2,354)	(491)	(1,037)	(
Other expense	(102)	-	-	
Income (loss) before discontinued operations	1,295	407	1,119	(2,
Distributions paid to class B and class C shareholders	(1,943)	-	-	
Income (loss) from continuing operations available to class A shareholders	$ (648)	$ 407	$ 1,119	$ (2,
Loss from continuing operations- basic and diluted	(0.23)			
Weighted average common shares used to compute net income per share, basic and diluted	2,792			

The accompanying notes are an integral part of this pro forma condensed consolidated financial statement.

AmREIT AND SUBSIDIARIES
NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

(UNAUDITED)

(1) Reflects the historical condensed consolidated statement of operations of the Company for the year ended December 31, 2003. Please refer to AmREIT's historical consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003.

(2) The historical statements of operations for the Properties represent a historical summary of gross income and direct operating expenses for the year ended December 31, 2003. Costs such as depreciation and amortization were excluded from the historical summary. See Note 3 below.

(3) Represents the depreciation of the building (over 39 years) and tenant

improvements (over the terms of the respective lease agreements) as well as the amortization of the intangible assets based on the preliminary purchase price allocation in accordance with SFAS No. 141.

(4) Represents the incremental interest expense related to the portion of the acquisition consideration that was financed via the Company's credit facility, assuming an interest rate of 3.375%.

19

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AmREIT

By: /s/ Chad C. Braun

Chad C. Braun, Chief Financial Officer

Dated: September 14, 2004

20