

Edgar Filing: AMREIT - Form POS AM

AMREIT
Form POS AM
October 01, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 29, 2004
REGISTRATION NO. 333-114432

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 1
TO
FORM S-11
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMREIT
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS GOVERNING INSTRUMENT)

8 GREENWAY PLAZA, SUITE 1000
HOUSTON, TEXAS 77046
(713) 850-1400
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

H. KERR TAYLOR
CHIEF EXECUTIVE OFFICER
AMREIT
8 GREENWAY PLAZA, SUITE 1000
HOUSTON, TEXAS 77046
(713) 850-1400
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

BRYAN L. GOOLSBY
KENNETH L. BETTS
LOCKE LIDDELL & SAPP LLP
2200 ROSS AVENUE, SUITE 2200
DALLAS, TEXAS 75201-6776
(214) 740-8000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If this form is filed to register additional Securities for offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [] _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [] _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [] _____

Edgar Filing: AMREIT - Form POS AM

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. []

This Post-Effective Amendment No. 1 consists of the following:

1. The Registrant's final form of Prospectus dated June 25, 2004, previously filed on June 24, 2004 and refilled herewith.
2. Supplement No. 2 dated September 29, 2004 to the Registrant's Prospectus dated June 25, 2004, included herewith, which will be delivered as an unattached document along with the Prospectus dated June 25, 2004. Supplement No. 2 supersedes and replaces all prior supplements to the Prospectus.
3. Part II included herewith.
4. Signatures, included herewith.

THE FOLLOWING IS TEXT TO A STICKER TO BE ATTACHED TO THE FRONT COVER PAGE OF THE PROSPECTUS IN A MANNER THAT WILL NOT OBSCURE THE RISK FACTORS:

SUPPLEMENTAL INFORMATION - The prospectus of AmREIT consists of this prospectus dated June 24, 2004 and Supplement No. 2 dated September 29, 2004. Supplement No. 2 supersedes and replaces prior Supplement No. 1 (dated August 31, 2004).

[ORIGINAL PROSPECTUS]

AMREIT

SUPPLEMENT NO. TWO, DATED SEPTEMBER 29, 2004
TO PROSPECTUS, DATED JUNE 25, 2004
FOR UP TO 17,000,000 CLASS D COMMON SHARES OFFERED TO THE PUBLIC

This Supplement supplements, and should be read in conjunction with, the Prospectus dated June 25, 2004. This Supplement No. Two supercedes and replaces all prior supplements to the prospectus. Capitalized terms used in this Supplement have the same meanings as in the Prospectus unless otherwise stated herein.

Information as to the number and types of properties acquired by AmREIT is presented as of August 31, 2004 and all references to property acquisitions should be read in that context. Proposed properties for which AmREIT enters into initial commitments to acquire, as well as property acquisitions, that occur after August 31, 2004, will be reported in a subsequent Supplement.

The purpose of this Supplement is to describe the following:

- (1) the status of the offering of class D common shares in AmREIT;
- (2) revisions to the "Risk Factors" section of the prospectus;

Edgar Filing: AMREIT - Form POS AM

(3) revisions to the "Experts" section of the prospectus to update the information included in the prospectus relating to the acquisition of certain properties described in this Supplement;

(4) financial information relating to the acquisition of certain properties described in this Supplement; and

(5) all other material items that have been previously disclosed by supplement to the Prospectus.

STATUS OF THE OFFERING

As of August 31, 2004, AmREIT had received subscriptions from this offering for approximately 275,300 class D common shares, totaling \$2.75 million in gross proceeds. Of this amount, AmREIT has paid \$289 thousand to AmREIT Securities Company, the dealer manager of this offering and an affiliate of AmREIT, pursuant to the terms of the dealer manager agreement between AmREIT and AmREIT Securities. Additionally, AmREIT Securities has paid out approximately \$220 thousand in commissions to other non-affiliated NASD broker dealer firms.

RECENT DEVELOPMENTS

AmREIT has acquired four new properties: The Courtyard at Post Oak, Bakery Square Shopping Center, Plaza in the Park and Cinco Ranch Shopping Center. The first three are located in Houston, Texas and the last property is located in Katy, Texas, a suburb of Houston.

The Courtyard at Post Oak:

On June 15, 2004, AmREIT acquired The Courtyard at Post Oak, consisting of a 4,013 square foot, free standing building occupied by Verizon Wireless (NYSE: VZ) and a 9,584 square foot,

multi-tenant shopping center occupied by Ninfa's Restaurant and Dessert Gallery. The property was acquired for \$6.35 million in cash.

Plaza in the Park:

On July 1, 2004, AmREIT acquired Plaza in the Park, a 129,955 square foot Kroger (NYSE: KR) anchored shopping center located on approximately 14.3 acres of land. The property was acquired with approximately \$15.3 million in cash and the assumption of \$18.2 million in long term fixed rate debt.

Cinco Ranch Shopping Center:

On July 1, 2004, AmREIT acquired Cinco Ranch Shopping Center, a 97,297 square foot Kroger (NYSE: KR) anchored shopping center located on approximately 12.8 acres of land. The property was acquired with approximately \$6.4 million in cash and the assumption of \$8.6 million in long term fixed rate debt.

Bakery Square Shopping Center:

On July 21, 2004, AmREIT acquired Bakery Square Shopping Center, which is comprised of a free standing Walgreen's and a 19,494 square foot shopping center anchored by Bank of America (NYSE: BOA). The shopping center was acquired with approximately \$3.97 million in cash and the assumption of \$4.52 million in long term fixed rate debt.

Extension of Credit Facility:

Edgar Filing: AMREIT - Form POS AM

On September 3, 2004, AmREIT extended its \$35 million credit facility to October 4, 2004. AmREIT is in the process of documenting an extension of the credit facility to October 4, 2005, substantially under the same terms and conditions as the previous credit facility.

COVER PAGE

The last sentence of the first paragraph of the Cover Page is hereby amended to change the second reference of "\$10.00" to "\$9.50".

RISK FACTORS

The section of the prospectus entitled "Risk Factors" beginning on page 11 of the prospectus is supplemented with the following risk factors:

USE OF DESCRIPTIVE TERMS.

Throughout this prospectus, management of AmREIT has employed various favorable descriptive terms, including "synergistic," "rapidly growing," "premier," "unique combination," "dependable growth," "high-quality," "high-end" and "proven track record" to describe its properties, its historic growth and its business structure. These terms have not been defined in the prospectus and could, therefore, be interpreted too positively by prospective investors. Although these terms reflect management's beliefs concerning these matters, since they were not characterized as such, prospective investors are cautioned that the use of these descriptive terms is not intended to offer projections of the future operating performance of the properties or AmREIT as a whole. Further, no assurance can be given that the favorable characteristics ascribed by management to certain of its properties and/or AmREIT will prove to be accurate, or that AmREIT will perform as well as such terms may suggest.

2

OUR FINANCIAL PERFORMANCE WILL DEPEND ON THE HEALTH OF THE TEXAS ECONOMY.

At August 31, 2004, 17 and 22 of our properties, representing 69.7% and 73.4% of our annualized rental income, were located in the greater metropolitan Houston area and the State of Texas, respectively. Our performance is, therefore, highly dependent upon the economic conditions in Houston and Texas generally. A general downturn in the economy or the real estate market in Houston or Texas could have a material adverse effect on our results of operations and financial condition.

WE MAY CONTINUE TO RECOGNIZE IMPAIRMENT CHARGES FOR THE FORESEEABLE FUTURE.

We recognized an impairment charge during the second quarter of 2004. We anticipate that as we sell our older triple net properties, we may recognize additional impairment charges related to those properties in the future. Impairments result from our regular analysis of our real property assets to determine whether circumstances indicate that the book value of an asset may not be fully recoverable. Additionally, any time we market a property for sale at a price less than book value, we recognize an immediate charge. Impairments are non-cash expenses and impact both our net income and funds from operations for each fiscal quarter.

The risk factor entitled "AmREIT may increase its leverage without shareholder approval" on page 12 of the prospectus is hereby amended by deleting the second paragraph and replacing it in its entirety with the following:

At August 31, 2004, AmREIT had outstanding debt totaling \$85.03 million of which \$32.21 million was unsecured. This debt represented approximately 50% of AmREIT's total assets.

Edgar Filing: AMREIT - Form POS AM

BUSINESS AND PROPERTIES

PROPERTIES

Location of Properties.

The following paragraphs update and replace the paragraph under this caption on page 27 of the Prospectus.

AmREIT's focus is on property investments in Texas. Of our 54 properties, 23 are located in Texas, with 17 being located in the greater Houston Metropolitan statistical area. Our portfolio of assets tends to be located in areas we know well, and where we can keep our eye on them. For that reason, we believe AmREIT delivers an extra degree of hands on management to our real estate investments.

Houston is Texas' largest city and the fourth largest city in the United States. According to a US Census, 2003 population estimates for Houston are approximately 4,497,000, a 2.1% increase as compared to 2002, and a 27% increase compared to 1990. In 2003, the unemployment rates for both Texas and Houston were below the national average and inflation was less pronounced in Houston and Texas, compared to the national average. While still highly dependent on the petro-chemical industry, Houston has sought to diversify its business base so the local economy does not follow the drastic rise and fall of oil prices. The Port of Houston, one of the largest in the world, is the second busiest port in the United States in terms of annual tonnage.

3

The national economy showed marked improvement in 2003 and many indicators show that the Houston and Texas economies outperformed the national averages. The Houston economy is highly diversified, with over 50% of the workforce employed in sectors that are marginally, if at all, affected by changing energy prices. Houston's top ten employers include:

* Houston Independent School District	* Harris County
* City of Houston	* MD Anderson Cancer Center
* Administaff	* Halliburton
* Continental Airlines	* Kroger
* Memorial Herman Healthcare Center	* ARAMARK Corporation

According to RECON, Houston area retail sales per capita were reported to be \$13,525 for 2003, compared to the state average of \$12,859 per capita. The overall occupancy rate for retail during 2003 was 86% while the average occupancy rate for strip and shopping centers was approximately 89%.

Management believes that any downturn in the Houston 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 affected by economic changes.

DESCRIPTION.

The following sentence updates and replaces the table heading under this caption on page 30 of the Prospectus.

Information concerning the properties owned solely by AmREIT as of August 31, 2004, is presented in the following table:

AMREIT WHOLLY-OWNED PROPERTY INFORMATION (AUGUST 31, 2004)

Edgar Filing: AMREIT - Form POS AM

PROPERTY (LOCATION) -----	DATE ACQUIRED -----	PURCHASE PRICE -----	BUILDING LEASEABLE AREA -----
Radio Shack (Dallas, TX)	06/15/94	\$ 1,062,000	5,200
Transworld Entertainment (Independence, MO)	11/14/94	1,550,000	14,047
Copperfield Medical Plaza (Houston, TX)	07/01/95	1,680,000	14,000
Wherehouse Entertainment (Wichita, KS)	09/12/95	1,700,000	15,158
FootStar, Inc. (1) (Tucson, AZ)	09/11/96	3,351,000	19,550
Washington Mutual (The Woodlands, TX) (4)	09/23/96	500,000	--
Washington Mutual (Houston, TX) (4)	12/11/96	828,000	--

4

PROPERTY (LOCATION) -----	DATE ACQUIRED -----	PURCHASE PRICE -----	BUILDING LEASEABLE AREA -----
FootStar, Inc. (1) (Baton Rouge, LA)	06/09/97	\$ 2,806,000	20,575
Hollywood Video (Lafayette, LA)	10/31/97	1,124,000	7,488
Hollywood Video (Ridgeland, MS)	12/30/97	1,208,000	7,488
OfficeMax (Dover, DE)	04/14/98	2,548,000	23,500
Woodlands Plaza (The Woodlands, TX)	06/03/98	3,542,000	16,922
Sugar Land Plaza (Sugar Land, TX)	07/01/98	3,635,000	16,922
Dardin Restaurants (Peachtree City, GA) (4)	12/18/98	738,000	--
IHOP, Corp. (Sugarland, TX)	9/30/99	1,608,000	4,020
IHOP, Corp. (Topeka, KS)	9/30/99	1,335,000	4,020
Foodmaker (Dallas, TX)	7/23/02 (2)	715,100	2,238
Baptist Memorial Health (Memphis, TN)	7/23/02 (2)	2,079,200	15,000
Payless Shoes (Austin, TX)	7/23/02 (2)	698,300	4,000
Golden Corral (Houston, TX)	7/23/02 (2)	1,811,800	12,000

Edgar Filing: AMREIT - Form POS AM

Golden Corral (Houston, TX)	7/23/02 (2)	1,843,400	12,000
Eckerd (Houston, TX) (4)	1/10/03	2,646,900	--
TGI Friday's (Houston, TX)	7/23/02 (2)	2,036,900	8,500
Guitar Center (Minnesota, MN)	7/23/02 (2)	2,541,700	15,000
AFC, Inc. (Popeye's Chicken) (Atlanta, GA)	7/23/02 (2)	1,113,900	2,583
Memorial Herman Hospital (Houston, TX)	7/23/02 (2)	1,816,800	15,000
Blockbuster Video (Oklahoma City, OK)	7/23/02 (2)	973,800	15,000
Pier One (Longmont, CO)	7/23/02 (2)	1,423,600	8,014
IHOP, Corp. (Grand Prairie, TX)	4/15/03	1,940,400	4,020
TGI Friday's (Hanover, MD)	9/16/03	1,474,700	8,500
The Terrace Shops (Houston, TX)	12/15/03	4,800,000	16,395

5

PROPERTY (LOCATION) -----	DATE ACQUIRED -----	PURCHASE PRICE -----	BUILDING LEASEABLE AREA -----
Uptown Plaza (Houston, TX)	12/15/03	\$ 13,000,000	28,000
The Courtyard at Post Oak (Houston, TX)	6/15/04	6,350,000	13,597
Plaza in the Park (Houston, TX)	7/1/04	33,490,000	129,955
Cinco Ranch Shopping Center (Katy, TX)	7/1/04	14,990,000	97,297
Bakery Square (Houston, TX)	7/21/04	8,490,000	34,704
TOTAL		\$133,451,500	610,693

- (1) Footstar, Inc. filed for Chapter 11 Bankruptcy protection on March 2, 2004. In publicly released announcement, Footstar has indicated their intent to reject the lease on all Just For Feet locations, including the leases on our two properties.
- (2) These properties were acquired as part of the merger of the affiliated partnerships (Funds IX, X and XI) on July 23, 2002. The purchase price reflects the pro-rata portion of the negotiated price allocated to the properties that AmREIT paid the partnerships in common shares.
- (3) Warehouse Entertainment filed for Chapter 11 Bankruptcy protection, and as such, rejected the Warehouse Entertainment lease in Wichita, Kansas. At August 31, 2004, no rental income was being received on this

Edgar Filing: AMREIT - Form POS AM

property.

- (4) Represents a land lease only, and as such, no building leasable area is reflected.

The following paragraphs are inserted following the first full paragraph on page 33 of the Prospectus.

RECENT ACQUISITIONS AND DISPOSITIONS.

On June 15, 2004, AmREIT acquired The Courtyard at Post Oak, consisting of a 4,013 square foot, free standing building occupied by Verizon Wireless (NYSE: VZ) and a 9,584 square foot, multi-tenant shopping center occupied by Ninfa's Restaurant and Dessert Gallery. The property was constructed in 1994 and is located at the northwest intersection of Post Oak and San Felipe in Houston, Texas. This is a lighted intersection in the heart of the Galleria area, the most significant retail corridor in the Greater Houston area. The property was acquired for \$6.35 million in cash. The weighted average remaining lease term for the project is 5.2 years.

TENANT -----	SQUARE FOOTAGE -----	LEASE TERM -----	EXPIRATION -----
Verizon Wireless	4,013	10 Years	November 2009
Ninfa's	7,606	15 Years	November 2009
Dessert Gallery	1,978	5 Years	August 2008

On July 21, 2004, AmREIT acquired Bakery Square Shopping Center, which is comprised of a free standing Walgreen's and a 19,494 square foot shopping center anchored by Bank of America (NYSE: BOA). The property was constructed in 1996 and is located at the southwest corner of Dunlavy and West Gray in Houston, Texas. This is a strong infill location just south of the central business district in Houston. The property was acquired with approximately \$3.97 million in cash and the assumption of \$4.52 million in long term fixed rate debt. The debt is evidenced by a note issued to New York Life

6

Insurance Company and has a current balance of \$4.52 million, bears interest at a rate of 8% per year and matures on February 10, 2017. The initial principal balance of the note was \$5.40 million. The loan has a term and amortization of 15-years, with principal and interest payments of \$47,617 due monthly. The weighted average remaining lease term for the shopping center is 4.9 years. The Walgreen's lease is for 60 years and will expire September, 2056. The shopping center is 100% occupied.

TENANT -----	SQUARE FOOTAGE -----	LEASE TERM -----	EXPIRATION -----
Blockbuster Video	6,484	10 years	October 2006
T-Mobile	1,416	10 years	September 2007
Fantastic Sam's	1,050	4 years	April 2008
River Oaks Nails	1,050	5 years	May 2009
Bell Cleaners	1,750	14 years	March 2010
Boston Market	2,816	10 years	May 2010
Bank of America	3,878	15 years	January 2012
Philly Connection	1,050	10 years	May 2014

Edgar Filing: AMREIT - Form POS AM

Walgreens

15,210

60 years

September 2056

On July 1, 2004, AmREIT acquired Plaza in the Park, a 129,955 square foot Kroger (NYSE: KR) anchored shopping center located on approximately 14.3 acres of land. The property was constructed in 1999 and is located at the southwest corner of Buffalo Speedway and Westpark in Houston, Texas. Plaza in the Park's Kroger is undergoing a 13,120 square foot expansion and, when completed, is expected to be the number one Kroger grocery store in both sales volume and size in the State of Texas. Additionally, Kroger is the number one grocer in the Houston marketplace, and enjoys over 26% of total market share. The property was acquired with approximately \$15.33 million in cash and the assumption of \$18.16 million in long term fixed rate debt. The debt is evidenced by a note issued to Teachers Insurance and Annuity Association of America and has a current balance of \$18.16 million, bears interest at a rate of 5.16% per year and matures in July 2013. The initial principal balance of the note was approximately \$18.43 million. The loan has a ten year term with a 30-year amortization. Principal and interest payments of \$105,802 are due monthly. The weighted average remaining lease term for the project is 9.2 years. The Kroger lease is for 20 years, containing approximately 69 thousand square feet, expiring in August 2017. The shopping center is 96.67% occupied.

TENANT -----	SQUARE FOOTAGE -----	LEASE TERM -----	EXPIRATION -----
Postal Annex	900	5 years	April 2006
Dervish Enterprises	2,427	5 years	June 2006
Quizno's	1,600	7 years	October 2006
Sprintcom, Inc.	2,500	5-Year	October 2006
The Root of You	2,850	5 years	December 2006
Hallmark Gold Crown	5,650	5-Year	February 2007
Siena Interiors	2,164	5 years	October 2007
Image America	2,276	5-Year	March 2008
Avenue Chocolates	1,200	5 years	March 2008
Tapioca Express	1,112	5 years	December 2008
Planet Beach	1,960	7 years	March 2009
Huntington Learning Center	2,518	5 years	March 2009
West University Wellness	2,400	5 years	April 2009
Dr. Daniel O. Howes	1,500	10 years	May 2009
Pilgrim Cleaners	1,200	10 years	June 2009

7

TENANT -----	SQUARE FOOTAGE -----	LEASE TERM -----	EXPIRATION -----
General Nutrition	900	10 years	June 2009
Bo Hwa Oh	1,295	5 years	July 2009
Brelian, Inc.	2,300	10 years	August 2009
Envision Nails	1,200	10 years	September 2009
Vietopia Restaurant	5,640	10 years	September 2009
Vision Optique	1,800	10 years	October 2009
Copperfield Liquor	3,400	10 years	December 2009
Buca di Beppo	7,573	10 years	August 2010
Household Finance Corp III	2,000	10 years	April 2011
Kroger Texas, LP	68,658	20 years	August 2017

Edgar Filing: AMREIT - Form POS AM

Vacant

2,932

On July 1, 2004, AmREIT acquired Cinco Ranch Shopping Center, a 97,297 square foot Kroger (NYSE: KR) anchored shopping center located on approximately 12.8 acres of land. The property was constructed in 2001 and is located at the northeast corner of Mason Road and Westheimer Parkway in Katy, Texas. The shopping center is positioned in the heart of the affluent Cinco Ranch master planned community, and is ranked by Kroger as one of the top 10 Kroger grocery stores in Texas. The property was acquired with approximately \$6.4 million in cash and the assumption of \$8.59 million in long term fixed rate debt. The debt is evidenced by a note issued to Teachers Insurance and Annuity Association of America and has a current balance of \$8.59 million, bears interest at a rate of 5.16% per year and matures in July 2003. The initial principal amount of the note was approximately \$8.72 million. The loan has a ten year term with a 30-year amortization. Principal and interest payments of \$50,060 are due monthly. The weighted average remaining lease term for the project is 14 years. The Kroger lease is for 20 years, containing approximately 63 thousand square feet, expiring in June 2023. The shopping center is 100% occupied.

TENANT -----	SQUARE FOOTAGE -----	LEASE TERM -----	EXPIRATION -----
Hallmark Gold Crown	4,500	5 years	February 2006
General Nutrition	1,400	5 years	March 2006
L'Aglio	1,720	5 years	April 2006
Sally Beauty Company	1,400	5 years	July 2006
State Farm Mutual	1,400	5 years	September 2006
I-cafe	1,000	5 years	February 2008
Uncle Lee's Cafe	1,600	5 years	June 2008
Itty Bitty City	2,600	5 years	December 2008
Pizza Hut of America	1,600	10 years	January 2011
Fashion Park Cleaners	1,400	10 years	February 2011
Nails Today	1,400	10 years	February 2011
Parkway Liquor	1,927	10 years	February 2011
eDentistry	1,750	10 years	February 2011
TGF Haircutters	1,400	10 years	March 2011
Wishnow-Sugar Vision Center	1,820	10 years	March 2011
Blockbuster Inc.	4,417	10 years	March 2011
Starbucks Corp.	1,400	10 years	June 2011
Mail Boxes Etc.	1,190	10 years	November 2011
Kroger Texas LP	63,373	20 years	June 2023

8

SELECTED HISTORICAL FINANCIAL DATA

The section of the prospectus entitled "Selected Historical Financial Data", beginning on page 58 of the prospectus is supplemented with the following tables:

9

AMREIT
SELECTED HISTORICAL

Edgar Filing: AMREIT - Form POS AM

CONSOLIDATED FINANCIAL AND OTHER DATA

	December 31, 2003 ----	December 31, 2002 ----	December 31, 2001 ----
BALANCE SHEET DATA (AT END OF PERIOD)			
Total Property	\$ 70,539,056	\$ 47,979,848	\$ 30,726,025
Accumulated depreciation	(2,520,633)	(2,136,376)	(2,066,067)
Total Property Held For Sale	4,384,342	--	--
Cash and cash equivalents	2,031,440	2,506,868	227,117
Total assets	101,326,607	73,975,753	38,828,393
Notes payable	48,484,625	33,586,085	16,971,549
Total liabilities	51,683,713	34,958,534	18,399,279
Minority interest	846,895	810,971	5,075,333
 Shareholders' equity	 48,795,999	 38,206,248	 15,353,781
 Fully diluted class A common shares issued	 6,704,714	 5,236,547	 2,384,117
 Treasury shares	 133,822	 65,379	 39,323
 OTHER DATA			
Cash flows provided by (used in):			
Operating	1,236,727	3,729,090	1,625,417
Investing	(22,031,014)	(15,268,195)	(2,332,891)
Financing	20,318,859	13,818,856	(1,276,000)
 Net increase (decrease) in cash and cash equivalents	 (475,428)	 2,279,751	 (708,750)
Funds from operations, available to class A (1)	602,000	(846,000)	978,565
Adjusted funds from operations, available to class A (2)	1,520,000	1,060,000	978,565
Book value per share	7.28	7.30	6.44

	December 31, 1999 ----	<u>Unaudited</u> June 30, 2004 ----	June 30, 2003 ----
BALANCE SHEET DATA (AT END OF PERIOD)			
Total Property	\$ 31,136,268	\$ 70,825,947	\$ 52,559,547
Accumulated depreciation	(1,148,503)	(2,707,431)	(2,525,907)
Total Property Held For Sale	--	11,031,821	--
Cash and cash equivalents	1,118,746	846,001	736,434
Total assets	37,018,186	108,712,381	80,440,990
Notes payable	15,480,378	32,534,450	40,996,381
Total liabilities	16,048,366	35,999,085	42,152,009
Minority interest	5,180,546	1,009,880	800,570
 Shareholders' equity	 15,789,274	 71,703,416	 37,488,411

Edgar Filing: AMREIT - Form POS AM

Fully diluted class A common shares issued	2,384,117	9,698,060	5,301,926
Treasury shares	11,373	25,127	101,822
OTHER DATA			
Cash flows provided by (used in):			
Operating	469,700	1,940,455	(4,091,016)
Investing	(2,439,262)	(7,909,933)	(3,096,161)
Financing	3,039,788	4,784,039	5,416,743
Net increase (decrease) in cash and cash			
equivalents	1,070,226	(1,185,439)	(1,770,434)
Funds from operations, available to class A (1)	1,605,091	(1,660,000)	643,000
Adjusted funds from operations, available to			
class A (2)	1,605,091	1,140,000	643,000
Book value per share	6.62	7.39	7.07

- (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. 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 the reconciliation of Net Income to FFO on Page 70.
- (2) Based on the adherence to the NAREIT definition of FFO, we have not added back the \$915 thousand \$1.90 million, and \$1.70 million charge to earnings during 2003, 2002 and the six months ended June 30, 2004 respectively, resulting from shares issued to Mr. Taylor as deferred merger cost stemming from the sale of his advisory company to AmREIT in June 1998. Additionally, the Company added back a \$1.1 million impairment charge to earnings related to the sale of a vacant property. Adding these charges back to earnings would result in Adjusted FFO of \$1.52 million, \$1.06 million and \$1.14 million, respectively

10

AMREIT
SELECTED HISTORICAL
CONSOLIDATED FINANCIAL AND OTHER DATA (3)
Unaudited

December 31, 2003 ----	December 31, 2002 ----	Dece
	(3)	

Edgar Filing: AMREIT - Form POS AM

OPERATING DATA

Revenues:

Rental income and earned income from DFL	\$ 7,584,166	\$ 5,193,147	\$ 3
Real estate fee income	1,031,201	1,222,944	
Gain on sale of real estate acquired for resale	787,244	--	
Securities commission income	2,958,226	846,893	
Asset management fee income	240,465	252,072	
Interest income	7,938	4,206	
Service fee, other income, and gain and loss on sale of property	--	--	2
	-----	-----	-----
Total revenues	12,609,240	7,519,262	5

Expenses:

General operating, administrative, and professional	3,936,546	2,801,946	2
Securities commissions	2,288,027	653,034	
Legal and professional	881,283	679,154	
Reimbursements and fees to related party	--	--	
Depreciation and amortization	835,987	611,084	
Merger related acquisition costs	--	--	
Bad debts	--	--	
Merger costs	--	--	
Deferred merger costs	914,688	1,904,370	
Potential acquisition costs	--	--	
	-----	-----	-----
Total expense	8,856,531	6,649,588	3
Operating income	3,752,709	869,674	2
Income from non-consolidated affiliates	312,147	416,904	
Federal income tax expense	(236,990)	(60,656)	
Interest	(2,354,159)	(1,774,973)	(1)
Minority interest in net income of consolidated joint ventures	(178,311)	(308,010)	
	-----	-----	-----
Income from continuing operations	1,295,396	(857,061)	
Income from discontinued operations (3)	391,480	245,840	
Gain (loss) on sale of real estate acquired for investment	311,873	(47,553)	
	-----	-----	-----
Net income (loss)	\$ 1,998,749	\$ (658,774)	\$ 1
Less distributions to class B & C shareholders	(1,942,656)	(865,293)	
	-----	-----	-----
Net income (loss) available to class A shareholders	\$ 56,093	\$ (1,524,067)	\$ 1
	=====	=====	=====
Basic and diluted (loss) income before discontinued operations per share	\$ (0.23)	\$ (0.70)	\$
Basic and diluted (loss) income from discontinued operations per share	0.25	0.08	
	-----	-----	-----
Net income (loss)	\$ 0.02	\$ (0.62)	\$
	=====	=====	=====
Distributions per share - class A	\$ 0.34	\$ 0.34	\$
Weighted average number of Series A common shares outstanding	2,792,190	2,469,725	2
Weighted average number of common shares plus dilutive potential common shares	2,792,190	2,469,725	2

Edgar Filing: AMREIT - Form POS AM

	December 31, 1999 ----	June 30, 2004 ----	Unaudited ----- J
	(3)		
OPERATING DATA			
Revenues:			
Rental income and earned income from DFL	\$ 3,373,374	\$ 4,210,961	\$ 2
Real estate fee income	--	948,566	
Gain on sale of real estate acquired for resale			
Securities commission income	--	3,552,867	
Asset management fee income	--	148,902	
Interest income	199,448	324,957	
Service fee, other income, and gain and loss on sale of property	754,059	--	
	-----	-----	-----
Total revenues	4,326,881	9,186,253	3
Expenses:			
General operating, administrative, and professional	1,290,433	3,008,026	1
Securities commissions	--	2,761,225	
Legal and professional	--	649,558	
Reimbursements and fees to related party	--	--	
Depreciation and amortization	444,072	503,594	
Merger related acquisition costs	262,495	--	
Bad debts	189,490	--	
Merger costs	--	--	
Deferred merger costs	--	1,681,870	
Potential acquisition costs	--	--	
	-----	-----	-----
Total expense	2,929,491	8,604,273	2
Operating income	1,397,390	581,980	1
Income from non-consolidated affiliates	--	186,805	
Federal income tax expense	--	(275,252)	
Interest	(1,134,919)	(1,163,005)	(1
Minority interest in net income of consolidated joint ventures	(526,052)	(93,451)	
	-----	-----	-----
Income from continuing operations	(263,581)	(762,923)	
Income from discontinued operations (3)	225,719	(354,701)	
Gain (loss) on sale of real estate acquired for investment	--	849,866	
	-----	-----	-----
Net income (loss)	\$ (37,862)	\$ (267,758)	\$ 1
Less distributions to class B & C shareholders	--	(1,918,870)	
	-----	-----	-----
Net income (loss) available to class A shareholders	\$ (37,862)	\$ (2,186,628)	\$
	=====	=====	=====

Edgar Filing: AMREIT - Form POS AM

Basic and diluted (loss) income before discontinued operations per share	\$	(0.11)	\$	(0.87)	
Basic and diluted (loss) income from discontinued operations per share		0.10		0.16	
		-----		-----	-----
Net income (loss)	\$	(0.02)	\$	(0.71)	\$
		=====		=====	=====
Distributions per share - class A	\$	0.55	\$	0.12	\$
Weighted average number of Series A common shares outstanding		2,372,744		3,094,216	2
Weighted average number of common shares plus dilutive potential common shares		2,372,744		3,094,216	2

- (3) In accordance with Financial Accounting Standard Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" issued by the Financial Accounting Standards Board, the consolidated statement of operations have been restated from those originally reported for the years ended December 31, 2003, 2002, 2001, 2000, 1999, and the six months ended June 30, 2003 to reflect separately the results of discontinued operations. The restatement had no impact on the consolidated balance sheet, statements of stockholders' equity or statement of cash flows. The restatement had no impact on net earnings or net earnings per share for the years ended December 31, 2003, 2002, 2001, 2000, 1999, and the six months ended June 30, 2003.

11

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The section of the prospectus entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 61 of the prospectus is supplemented with the following information. The following discussion should be read in conjunction with our accompanying financial statements and the notes thereto.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The results of operations and financial condition of AmREIT, as reflected in the accompanying 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 AmREIT's tenants. Management believes the most critical accounting policies in this regard are the accounting for lease revenues (including straight line rent), the regular evaluation of whether the value of a real estate asset has been impaired and the allowance for doubtful accounts. 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.

Rental Income Recognition - In accordance with accounting principles generally accepted in the United States of America, AmREIT accounts for rental income under the straight line method, whereby we record rental income based on the average of the total rent obligation due under the primary term of the lease. AmREIT prepares a straight line rent schedule for each lease entered into. Certain leases contain a provision for percentage rent. Percentage rent is recorded in the period when AmREIT can reasonably calculate the amount of

Edgar Filing: AMREIT - Form POS AM

percentage rent owed, if any. Generally, AmREIT records percentage rent in the period in which the percentage rent payment is made, and can thereby be calculated and verified. For the six months ended June 30, 2004, AmREIT collected and recorded percentage rent from tenants of \$65 thousand.

Real Estate Valuation - Real estate assets are stated at cost less accumulated depreciation, which, in the opinion of management, is not in excess of the individual property's estimated undiscounted future cash flows, including estimated proceeds from disposition. Depreciation is computed using the straight-line method, generally over estimated useful lives of 39 years for buildings and over the primary term of the lease for tenant improvements. Major replacements that extend the life of the property, or enhance the value of the property are capitalized and the replaced asset and corresponding accumulated depreciation are removed. All other maintenance items are charged to expense as incurred.

Upon the acquisition of real estate projects, AmREIT assesses the fair value of the acquired assets (including land, building as if vacant, acquired above and below market leases and in-place leases, and tenant relationships) and acquired liabilities, and allocates the purchase price based on these assessments. AmREIT assesses 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 current market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, up to 12 months depending

12

on the property location, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses.

Costs incurred in the development of new operating properties, including preacquisition costs directly identifiable with the specific project, development and construction costs, interest and real estate taxes are capitalized into the basis of the project. The capitalization of such costs ceases when the property, or any completed portion, becomes available for occupancy.

AmREIT's properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property may not be recoverable. In such an event, a comparison is made of the current and projected operating cash flows of each such property on an undiscounted basis, plus the residual value of the property upon disposition, to the carrying value of such property. The carrying value would then be adjusted, if needed, to estimate the fair value to reflect an impairment in the value of the asset. Following the bankruptcy of its sole tenant, and after a thorough remarketing during the quarter, AmREIT determined that it could not replace the previously existing value in its Warehouse Entertainment project located in Wichita, Kansas, and recorded an impairment charge to earnings of approximately \$1.10 million in the second quarter. Subsequent to the write-down in value, management sold the property during the current quarter.

Valuation of Receivables - An allowance for the uncollectible portion

Edgar Filing: AMREIT - Form POS AM

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. During the six months ended June 30, 2004, AmREIT wrote off receivables totaling approximately \$67 thousand. The receivable is attributable to the accrual of straight line rents associated with Just for Feet. The write off of the receivable from Just for Feet is included in income from discontinued operations. AmREIT maintains a receivable related to Wherehouse Entertainment of approximately \$126 thousand. Based on discussions with Wherehouse Entertainment and Blockbuster Entertainment Corporation, the guarantor of the lease, and legal proceedings involving Wherehouse Entertainment and Blockbuster Entertainment Corporation, AmREIT believes this receivable is collectable, and should be collected during 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities and financing activities have been the principal sources of capital to fund AmREIT's ongoing operations and dividends. As AmREIT deploys the capital raised, and expected to be raised from its equity offerings, into income producing real estate, we anticipate that cash flow from operations will provide adequate resources for future ongoing operations and dividends. AmREIT's 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, is expected to provide the necessary capital to maintain and operate our properties as well as execute and achieve our growth strategies.

SOURCES AND USES OF FUNDS

Cash provided by operating activities as reported in the Consolidated Statements of Cash Flows increased \$6.0 million for the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. Investment in real estate acquired for resale decreased by \$5.0 million. In addition,

13

proceeds from sales of real estate acquired for sale increased by \$714 thousand. AmREIT sold two properties for a profit that were acquired for sale, one in the first quarter and one in the second quarter of 2004.

The increase in net cash provided by operating activities was primarily due to a decrease in investment in real estate acquired for resale. During 2003, AmREIT invested in five IHOP properties that were purchased as acquired for resale. For the six months ended June 30, 2004, AmREIT has invested approximately \$2.2 million in real estate acquired for resale. This decrease in investment in real estate acquired for resale was somewhat offset by a \$1.1 million non-cash impairment charge related to the Wherehouse Entertainment property located in Wichita Kansas and a \$1.7 million non-cash increase in deferred merger costs. The deferred merger expense is a result of shares issued or payable to H. Kerr Taylor, our President and Chief Executive Officer, as a result of the merger, which shares represented a portion of consideration payable to Mr. Taylor as a result of the sale of his advisory company to AmREIT in 1998. Mr. Taylor has now earned 100% of the shares eligible under the deferred consideration agreement. Therefore, AmREIT's internal advisor has been fully paid for, 100% with Company shares as opposed to debt, and no further payments of shares or expense related to the issuance of shares will be made.

Edgar Filing: AMREIT - Form POS AM

Cash flows used in investing activities has been primarily related to the acquisition or development of retail properties. During the second quarter of 2004, AmREIT purchased The Courtyard at Post Oak, consisting of a free standing building occupied by Verizon Wireless and a multi-tenant center occupied by Ninfa's Restaurant and Dessert Gallery. During the first quarter of 2004, AmREIT through one its taxable REIT subsidiaries, acquired a 25% equity interest in a 45 acre retail redevelopment in Houston, Texas. The other partners are affiliated partnerships. The investment was funded through a combination of the \$14.3 million of capital (net of \$1.8 million in issuance costs) raised through the class C common share offering and debt financing.

In addition, AmREIT received \$694 thousand in proceeds during the second quarter of 2004 from the sale of its Warehouse Entertainment project located in Wichita, Kansas. Prior to the sale, AmREIT recorded an impairment charge to earnings of approximately \$1.1 million to reflect the impaired value of the property. Cash flows used in investing activities as reported in the Consolidated Statements of Cash Flows increased from \$3.1 million in the first six months of 2003 to \$7.9 million in the first six months of 2004.

Cash flows provided by financing activities decreased from \$5.4 million through June 30, 2003 to \$4.8 million through June 30, 2004. Cash flows provided by financing activities were primarily generated from our class C common share offering. AmREIT fully subscribed its class C commons share offering during the second quarter. 100% of the net proceeds have been used to purchase irreplaceable corners. AmREIT has begun to market its class D common share offering, a \$170 million common share offering, offered through the independent financial planning community. The class D common shares have a stated 6.5% annual dividend, paid monthly, are convertible into AmREIT's class A common shares at any time after a seven-year lock out period for a 7.7% premium on invested capital and are callable by AmREIT after one year. One advantage of raising capital through the independent financial planning marketplace is the capital is received on a monthly basis, allowing for a scaleable matching of real estate projects. Our first priority is to deploy the capital raised, and then to moderately leverage the capital, while maintaining our philosophy of a conservative balance sheet. AmREIT was able to reduce debt by almost \$25.1 million with the proceeds from it class C common share offering.

AmREIT has a \$35 million unsecured revolving credit facility, as amended in June 2004. The facility will mature on September 4, 2004, and AmREIT and Lender are in the process of renewing the Credit Facility for a one year period. Management believes that the Credit Facility will be renewed on

terms and conditions substantially the same as the current Credit Facility. The Credit Facility contains covenants which, among other restrictions, require AmREIT to maintain a minimum net worth, a maximum leverage ratio, specified interest coverage and fixed charge coverage ratios and allow the lender to approve all distributions. Furthermore, the Credit Facility contains concentration covenants and limitations, limiting property level net operating income for any one tenant to no more than 15% (35% for IHOP) of total property net operating income. At June 30, 2004, IHOP net operating income represented approximately 33% of total property net operating income. At June 30, 2004, AmREIT was in compliance with all financial covenants. The Credit Facility's annual interest rate varies depending upon AmREIT's debt to asset ratio, from LIBOR plus a spread of 1.40% to LIBOR plus a spread of 2.35%. As of June 30, 2004, the interest rate was LIBOR plus 2.0%. As of June 30, 2004, \$10.2 million was outstanding under the Credit Facility. Thus AmREIT has approximately \$24.8 million available under its line of credit, subject to Lender approval on the

Edgar Filing: AMREIT - Form POS AM

use of the proceeds. In addition to the credit facility, AmREIT utilizes various permanent mortgage financing and other debt instruments. As of June 30, 2004, AmREIT had the following contractual debt obligations:

	2004 -----	2005 -----	2006 -----	2007 -----	2008 -----	Therea -----
Unsecured debt:						
Revolving credit facility	\$ 10,168	\$ -	\$ -	\$ -	\$ -	\$ -
5.46% dissenter notes	-	-	-	-	-	-
Secured debt	230	490	530	573	620	19,
Non-cancelable operating lease payments	79	210	210	210	210	
Total contractual obligations	\$ 10,477 =====	\$ 700 =====	\$ 740 =====	\$ 783 =====	\$ 830 =====	\$ 20, =====

In order to continue to expand and develop its portfolio of properties and other investments, AmREIT intends to finance future acquisitions and growth through the most advantageous sources of capital available at the time. Such capital sources may include proceeds from public or private offerings of AmREIT's debt or equity securities, secured or unsecured borrowings from banks or other lenders, acquisitions of AmREIT's affiliated entities or other unrelated companies, or the disposition of assets, as well as undistributed funds from operations.

In August 2003, AmREIT commenced the class C common share offering. This offering is being exclusively made through the NASD independent financial planning community. It was a \$44 million offering, of which \$4 million has been reserved for the dividend reinvestment plan. As of June 30, 2004, 4.04 million shares had been issued, including shares issued through the dividend reinvestment program, resulting in approximately \$40.4 million in gross proceeds. The proceeds are being and will be used to finance the acquisition and development of retail real estate projects, pay down the revolving credit facility and provide working capital for the on going operation of AmREIT and its properties.

For the quarters ended June 30, 2004 and 2003, AmREIT paid dividends to its shareholders of \$1.489 million, and \$749 thousand respectively. The class A and class C 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):

	Class A	Class B	Class C
2004			
Second quarter	\$383	\$429	\$677
First quarter	\$345	\$434	\$379
2003			
Fourth quarter	\$320	\$437	\$156
Third quarter	\$308	\$443	\$15
Second quarter	\$310	\$439	N/A

Edgar Filing: AMREIT - Form POS AM

Until properties are acquired by AmREIT, AmREIT's funds are held in short term, highly liquid investments which AmREIT believes to have appropriate safety of principal. This investment strategy has allowed, and continues to allow, high liquidity to facilitate AmREIT's use of these funds to acquire properties at such time as properties suitable for acquisition are located. At June 30, 2004, AmREIT's cash and cash equivalents totaled \$846 thousand.

Cash flows from operating activities, investing activities, and financing activities for the three and six months ended June 30, are presented below in thousands:

	QUARTER		YEAR TO DATE	
	2004	2003	2004	2003
	-----	-----	-----	-----
Operating activities	\$ 1,635	\$ (4,343)	\$ 1,940	\$ (4,0
Investing activities	(6,182)	(40)	(7,910)	(3,0
Financing activities	3,214	4,294	4,784	5,4

INFLATION

Inflation has had very little effect on income from operations. Management expects that increases in store sales volumes due to inflation as well as increases in the Consumer Price Index (C.P.I.), may contribute to capital appreciation of AmREIT properties. These factors, however, also may have an adverse impact on the operating margins of the tenants of the properties.

FUNDS FROM OPERATIONS

AmREIT considers FFO to be an appropriate measure of the operating performance of an equity REIT. The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income or loss computed in accordance with generally accepted accounting principles (GAAP), excluding gains from sales of property held for investment, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In addition, NAREIT recommends that extraordinary items not be considered in arriving at FFO. AmREIT calculates its FFO in accordance with this definition. Most industry analysts and equity REITs, including AmREIT, consider 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. There can be no assurance that FFO presented by AmREIT is comparable to similarly titled measures of other REITs. FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity.

Below is the calculation of FFO and the reconciliation to income (loss) before discontinued operations net income, which AmREIT believes is the most comparable GAAP financial measure to FFO, in thousands for the periods ended June 30:

Edgar Filing: AMREIT - Form POS AM

	QUARTER	
	2004	2003
Income (loss) before discontinued operations	\$ 308	\$ 1
Income (loss) from discontinued operations	(211)	63
Plus depreciation of real estate assets - from operations	257	17
Plus depreciation of real estate assets - from discontinued operations	26	3
Less class B and class C distributions	(1,106)	(43)
	\$ (726)	\$ 41
Total Funds From Operations available to class A shareholders *		
Cash dividends paid to class A shareholders	\$ 383	\$ 31
Dividends (in excess of) less than FFO *	\$(1,109)	\$ 10

* Based on the adherence to the NAREIT definition of FFO, we have not added back the \$362 thousand or \$1.7 million charge to earnings for the three and six months ended June 30, 2004, respectively, resulting from shares issued to Mr. Taylor. Additionally, we have not added back the \$1.1 million charge to earnings for the three and six months ended June 30, 2004, resulting from an asset impairment and corresponding write-down of value. Adding these charges back to earnings would result in adjusted funds from operations available to class A shareholders of \$739 thousand for the three months ended June 30, 2004 and \$1.1 million for the six months ended June 30, 2004. Adding the charge to earnings would also result in dividends paid being less than adjusted FFO of \$356 thousand for the three months ended June 30, 2004 and \$397 thousand for the six months ended June 30, 2004.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 2004 TO JUNE 30, 2003:

Rental revenue and earned income from direct financing leases increased by 42%, or \$619 thousand, for the three months ended June 30, 2004 when compared to the three months ended June 30, 2003. Of this increase, \$597 thousand is related to acquisitions made after the second quarter of 2003.

Securities commission income increased by \$1.2 million for the three months ended June 30, 2004 when compared to 2003. This increase in securities commission income is due to increased capital being raised through our broker dealer company, AmREIT Securities Company (ASC). As ASC raises capital for either AmREIT or its affiliated retail partnerships, ASC earns a securities commission of between 8% and 10.5% of the money raised. During the second quarter of 2004, AmREIT and its affiliated retail partnerships raised approximately \$15.3 million, as compared to approximately \$4.3 million during the second quarter of 2003. This increase in commission income is somewhat mitigated by a corresponding increase in commission expense paid to other third party broker dealer firms. Commission expense increased by \$1.0 million for the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Interest and other income increased approximately \$313 thousand primarily due to the negotiated claim on the lease of the Footstar location in Baton Rouge.

General and operating expense for the three months ended June 30, 2004 increased \$804 thousand when compared to 2003. The increase in general and operating expense is primarily due to additional personnel and the associated salary and benefits costs related to these individuals. Since the second quarter of 2003, AmREIT added members to each of the operating teams, two on the real

Edgar Filing: AMREIT - Form POS AM

estate

17

team (property management, legal, acquisitions and leasing), four on the securities team and three clerical and administrative support positions. By building our various teams, we have not only been able to grow revenue and Funds from Operations, but believe that we will be able to sustain and further enhance our growth. Compensation expense increased \$424 thousand in the three months ended June 30, 2004 as compared to the three months ended June 30, 2003. In addition, property expense increased \$126 thousand.

Deferred merger costs increased from \$0 in 2003 to \$362 thousand in 2004. The deferred merger cost is related to deferred consideration payable to Mr. Taylor as a result of the acquisition of our advisor, which was owned by Mr. Taylor in 1998. In connection with the acquisition, Mr. Taylor agreed to payment for this advisory company in the form of common shares, paid as AmREIT increases its outstanding equity. To date, Mr. Taylor has received 900 thousand class A common shares, which fulfills the shares that he is owed under the deferred consideration agreement.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2004 TO JUNE 30, 2003:

Rental revenue and earned income from direct financing leases increased by 43%, or \$1.3 million for the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. Of this increase, \$1.2 million is related to acquisitions made after the second quarter of 2003.

Securities commission income increased by \$3.0 million, from \$527 thousand in 2003 to \$3.6 million in 2004. This increase in securities commission income is due to increased capital being raised through our broker dealer company, AmREIT Securities Company (ASC). As ASC raises capital for either AmREIT or its affiliated retail partnerships, ASC earns a securities commission of between 8% and 10.5% of the money raised. During the six months ended June 30, 2004, AmREIT and its affiliated retail partnerships raised approximately \$33.3 million, as compared to approximately \$5.2 million during the six months ended June 30, 2003. This increase in commission income is somewhat mitigated by a corresponding increase in commission expense paid to other third party broker dealer firms. Commission expense increased by \$2.4 million, from \$396 thousand in 2003 to \$2.8 million in 2004.

General and operating expense increased \$1.5 million, from \$1.5 million in 2003 to \$3.0 million in 2004. The increase in general and operating expense is primarily due to additional personnel and the associated salary and benefits costs related to these individuals. Since the second quarter of 2003, AmREIT added members to each of the operating teams, two on the real estate team (property management, legal, acquisitions and leasing), four on the securities team and three clerical and administrative support positions. By building our various teams, we have not only been able to grow revenue and Funds from Operations, but believe that we will be able to sustain and further enhance our growth. Compensation expense increased \$882 thousand in the six months ended June 30, 2004 as compared to the six months ended June 30, 2003. In addition, property expense increased \$261 thousand.

Deferred merger costs increased from \$0 in 2003 to \$1.7 million in the six months ended June 30, 2004. The deferred merger cost is related to deferred consideration payable to Mr. Taylor as a result of the acquisition of our advisor, which was owned by Mr. Taylor in 1998. In connection with the acquisition, Mr. Taylor agreed to payment for this advisory company in the form of common shares, paid as AmREIT increases its outstanding equity. To date, Mr.

Edgar Filing: AMREIT - Form POS AM

Taylor has received 900 thousand class A common shares, which fulfills the shares that he is owed under the deferred consideration agreement.

18

REDEMPTION OF SHARES

The second paragraph under this caption on page 57 of the prospectus is hereby amended by addressing the following sentence at the end of such paragraph:

At any time prior to the repurchase of his or her shares, a shareholder may withdraw his or her shares from the Repurchase Plan by providing written notice of such intent to withdraw to AmREIT not later than five business days prior to the end of the applicable calendar quarter.

The first sentence of the third paragraph under this caption on page 57 of the prospectus is hereby deleted and replaced in its entirety with the following:

In the event there are insufficient funds to redeem all of the shares for which redemption requests have been submitted, AmREIT plans to redeem the shares on a pro rata basis.

The third sentence of the third paragraph under this caption on page 57 of the prospectus is hereby deleted and replaced in its entirety with the following:

In that case, the redemption request will be retained and those shares will be repurchased on a pro rata basis with all other shares submitted for repurchase at the end of the next quarter.

The fourth sentence of the third paragraph under this caption on page 57 of the prospectus is hereby deleted and replaced in its entirety with the following:

Alternatively, if a repurchase request is not satisfied and the shareholder does not make a subsequent request to repurchase its shares at such time, if any, as sufficient funds exist, the initial repurchase request will be treated by AmREIT as cancelled.

The following sentence updates and replaces the first sentence in the fifth paragraph under this caption on page 57 of the Prospectus.

Upon the Redemption Agent's receipt of notice for redemption of shares, the redemption price for this limited optional redemption right will initially be \$10.00 per share.

The second sentence of the fifth paragraph under this caption on page 57 of the prospectus is hereby deleted and replaced in its entirety with the following:

During periods when AmREIT is not engaged in an offering, the per share price of the class D common shares, for purposes of repurchase, will be based on periodic updates of the value of the class D common shares as our board reasonably determines based upon market conditions; provided, however, that during an offering of class D common shares the repurchase price will be equal to or below the price of the class D

Edgar Filing: AMREIT - Form POS AM

common shares issued in the offering. Accordingly, the repurchase prices paid to holders of class D common shares repurchased by AmREIT may vary over time. Our board of trust

19

managers will announce any price adjustment and the period of its effectiveness as part of its regular communications with shareholders.

The last sentence of the seventh paragraph under this caption on page 58 of the prospectus is hereby amended by adding the following at the end of such sentence:

or the class D common shares are listed on a securities exchange, the subject of bona fide quotes on any inter-dealer quotation system or electronic communications network or are the subject of bona fide quotes in the pink sheets.

DESCRIPTION OF AMREIT'S CAPITAL SHARES

DIVIDEND REINVESTMENT PLAN

The second paragraph under this caption on page 104 of the prospectus is hereby amended by deleting the second and third sentences of such paragraph in their entirety.

EXPERTS

The following paragraph updates and replaces the first paragraph under this caption on page 123 of the Prospectus.

The consolidated financial statements and schedule of AmREIT and subsidiaries as of and for the year ended December 31, 2003, and the historical summary of gross income and direct operating expenses of Cinco Ranch Shopping Center and Plaza in the Park Shopping Center for the period from June 4, 2003 through May 31, 2004 have been included herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

20

EXHIBIT B

DIVIDEND REINVESTMENT PLAN

Section 1(a) of the Dividend Reinvestment Plan is hereby deleted and replaced in its entirety with the following:

(a) The price at which the Shares will be issued under the Reinvestment Plan will be equal to the greater of \$9.50 per Share or 95% of the estimated value of one Share as estimated by the Company's Board of Trust Managers or other firm chosen by the Company's board for that purpose.

Edgar Filing: AMREIT - Form POS AM

Section 1(b) of the Dividend Reinvestment Plan is hereby deleted and replaced in its entirety with the following:

(b) The number of Shares authorized for issuance under the Reinvestment Plan is 2,000,000.

21

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AMREIT FINANCIAL STATEMENTS

Consolidated Balance Sheet as of June 30, 2004 (unaudited)

Consolidated Statements of Operations for the quarters ended June 30, 2004 and June 30, 2003 and for the periods from January 1, 2004 through June 30, 2004 and January 1, 2003 through June 30, 2003 (unaudited)

Consolidated Statements of Cash Flows for the quarters ended June 30, 2004 and June 30, 2003 and for the periods from January 1, 2004 through June 30, 2004 and January 1, 2003 through June 30, 2003 (unaudited)

Notes to Consolidated Financial Statements for the six months ended June 30, 2004 and 2003 (unaudited)

PROPERTIES ACQUIRED

Audited Financial Statements of Cinco Ranch Shopping Center

Report of Independent Registered Public Accounting Firm

Historical Summary of Gross Income and Direct Operating Expenses for the Period from June 4, 2003 through May 31, 2004

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

Audited Financial Statements of Plaza In The Park Shopping Center

Report of Independent Registered Public Accounting Firm

Historical Summary of Gross Income and Direct Operating Expenses for the Period from June 4, 2003 through May 31, 2004

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

Pro Forma Financial Information

Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2004 (Unaudited)

Notes to Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2004 (Unaudited)

Pro Forma Condensed Consolidated Statement of Operations for the Six Month Period Ended June 30, 2004 (Unaudited)

Edgar Filing: AMREIT - Form POS AM

Notes to Pro Forma Condensed Consolidated Statement of Operations for the Six Month Period Ended June 30, 2004 (Unaudited)

Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2003 (Unaudited)

Notes to Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2003 (Unaudited)

22

PART I - FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

AMREIT AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET JUNE 30, 2004 (UNAUDITED)

ASSETS

Property:

Land
Buildings
Tenant improvements

Less accumulated depreciation and amortization

Net real estate held for investment
Real estate held for sale, net

Net investment in direct financing leases held for investment

Cash and cash equivalents
Accounts receivable
Accounts receivable - related party
Notes receivable
Escrow deposits
Prepaid expenses, net

Other assets:

Preacquisition costs
Loan acquisition cost, net of \$166,365 in accumulated amortization
Leasing costs, net of \$78,189 in accumulated amortization
Furniture, fixtures and equipment, net of \$183,316 in accumulated depreciation
Accrued rental income
Intangible lease cost, net of \$105,808 in accumulated amortization
Investment in non-consolidated affiliates

Total other assets

TOTAL ASSETS

LIABILITIES AND SHAREHOLDERS' EQUITY

Edgar Filing: AMREIT - Form POS AM

Liabilities:

Notes payable
 Accounts payable
 Accounts payable - related party
 Construction payable
 Deferred gain
 Security deposit
 Prepaid rent

TOTAL LIABILITIES

Minority interest

Shareholders' equity:

Preferred shares, \$.01 par value, 10,000,000 shares authorized, none issued
 Class A Common shares, \$.01 par value, 50,000,000 shares authorized,
 3,347,030 shares issued
 Class B Common shares, \$.01 par value, 3,000,000 shares authorized,
 2,315,890 shares issued
 Class C Common shares, \$.01 par value, 4,400,000 shares authorized,
 4,035,140 shares issued
 Capital in excess of par value
 Accumulated distributions in excess of earnings
 Deferred compensation
 Cost of treasury shares, 25,127 shares

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

See Notes to Condensed Consolidated Financial Statements.

F-1

AMREIT AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Quarter ended June 30, 2004	2003
	-----	-----
Revenues:		
Rental income from operating leases	\$ 1,588,798	\$ 970,501
Earned income from direct financing leases	507,307	506,799
Real estate fee income	581,207	136,001
Securities commission income	1,648,326	441,052
Asset management fee income	73,622	46,616
Interest and other income	313,505	281
	-----	-----
Total revenues	4,712,765	2,101,250
	-----	-----
Expenses:		
General operating and administrative	1,587,601	783,210
Legal and professional	321,747	214,318

Edgar Filing: AMREIT - Form POS AM

Securities commissions	1,337,593	331,286
Depreciation and amortization	270,330	171,155
Deferred merger costs	362,037	-
	-----	-----
Total expenses	3,879,308	1,499,969
	-----	-----
Operating income	833,457	601,281
Income from non-consolidated affiliates	172,207	45,033
Federal income tax (expense) benefit for taxable REIT subsidiary	(104,347)	(57,700)
Interest expense	(543,974)	(532,503)
Minority interest in income of consolidated joint ventures	(49,186)	(43,161)
	-----	-----
Income (loss) before discontinued operations	308,157	12,950
(Loss) income from discontinued operations	(452,877)	357,110
Gain on sales of real estate acquired for resale	241,979	279,084
	-----	-----
(Loss) income from discontinued operations	(210,898)	636,194
	-----	-----
Net income (loss)	\$ 97,259	\$ 649,144
Distributions paid to class B and class C shareholders	(1,105,814)	(439,124)
	-----	-----
Net (loss) income available to class A shareholders	\$ (1,008,555)	\$ 210,020
	=====	=====
Net (loss) income per common share - basic and diluted		
Loss before discontinued operations	\$ (0.25)	\$ (0.15)
(Loss) income from discontinued operations	\$ (0.06)	\$ 0.23
	-----	-----
Net (loss) income	\$ (0.31)	\$ 0.08
	=====	=====
Weighted average class A common shares used to compute net income per share, basic and diluted	3,235,449	2,790,492
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

F-2

AMREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Quarter ended June 30, 2004	2003
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 97,259	\$ 649,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment in real estate acquired for resale	(1,533,452)	(7,233,907)

Edgar Filing: AMREIT - Form POS AM

Proceeds from sales of real estate acquired for sale	149,020	1,898,356
Gain on sales of real estate acquired for resale	(241,979)	-
Impairment charges	1,103,144	-
Depreciation and amortization	305,039	237,319
Amortization of deferred compensation	67,677	15,457
Minority interest in income of consolidated joint ventures	169,807	43,161
Deferred merger costs	362,037	-
Decrease (increase) in accounts receivable	436,392	(151,253)
Decrease (increase) in accounts receivable- related party	336,777	(22,966)
(Increase) decrease in prepaid expenses, net	(28,436)	(30,536)
Cash receipts from direct financing leases		
(less) more than income recognized	(4,554)	(4,265)
Increase in accrued rental income	(76,571)	(30,328)
(Increase) decrease in other assets	(334,707)	(76,447)
Increase (decrease) in accounts payable	743,923	270,726
Increase (decrease) in accounts payable- related party	4,778	7,561
Increase in security deposits	56,633	-
Increase in prepaid rent	22,355	84,802
	-----	-----
Net cash provided by (used in) operating activities	1,635,142	(4,343,176)
	-----	-----
Cash flows from investing activities:		
Improvements to real estate	(93,771)	(121,806)
Acquisition of investment properties	(6,388,715)	-
Notes receivable collections	65,777	-
Additions to furniture, fixtures and equipment	(222,647)	(17,553)
Investment in non-consolidating affiliates	(137,048)	80,939
Proceeds from sale of investment property	693,515	-
Increase in preacquisition costs	(99,021)	18,703
	-----	-----
Net cash used in investing activities	(6,181,910)	(39,717)
	-----	-----
Cash flows from financing activities:		
Proceeds from notes payable	6,142,154	6,892,959
Payments of notes payable	(10,593,346)	(1,749,299)
Purchase of treasury shares	-	(75,425)
Issuance of common shares	10,276,145	-
Issuance costs	(1,096,470)	-
Common dividends paid	(1,488,660)	(749,437)
Distributions to minority interests	(26,056)	(25,031)
	-----	-----
Net cash provided by financing activities	3,213,767	4,293,767
	-----	-----
Net decrease in cash and cash equivalents	(1,333,001)	(89,126)
Cash and cash equivalents, beginning of period	2,179,002	825,560
	-----	-----
Cash and cash equivalents, end of period	\$ 846,001	\$ 736,434
	=====	=====

Supplemental schedule of noncash investing and financing activities

In 2004 the Company issued 134,695 shares of restricted stock to employees and trust managers as part of their compensation plan. The restricted stock vests over a four and three period respectively. The Company recorded \$875,518 in deferred compensation related to the issuance of the restricted stock.

In 2003 the Company issued 24,257 shares of restricted stock to employees and trust managers as part of their compensation plan. The restricted stock vests over a four and three period respectively. The Company recorded \$152,819 in deferred compensation related to the issuance of the restricted stock.

Supplemental schedule of cash flow information:

Edgar Filing: AMREIT - Form POS AM

Cash paid during the year for:

Interest	528,604	603,232
Income taxes	-	-

See Notes to Condensed Consolidated Financial Statements.

F-3

AMREIT AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

AmREIT is a Texas real estate investment trust ("REIT") that has elected to be taxed as a REIT for federal income tax purposes. AmREIT is a self-managed, self-advised REIT with, along with its predecessor, a 19-year history and a record of investing in quality income producing retail real estate. AmREIT's class A common shares are traded on the American Stock Exchange under the symbol "AMY". AmREIT's business structure consists of the publicly traded REIT and three synergistic businesses that support the Company's platform of growth: a real estate operating and development business, a securities business and a retail partnership business. This unique combination provides AmREIT the opportunity to access capital through both Wall Street and the independent financial planning marketplace and strategically invest that capital in high quality properties for flexibility and more dependable growth.

We finance our growth and working capital needs with a combination of equity offerings and a conservative debt philosophy. Currently, the Company is raising capital through a series of publicly registered, non traded common share offerings, being offered exclusively through the independent financial planning community. As of June 30, 2004, the Company had raised approximately \$40.4 million through sales of its class C common shares since the offering commenced in August 2003, including shares issued through the dividend reinvestment program. On June 25, 2004, the Company launched its class D common share offering: a \$170 million publicly registered, non-traded common share offering with a stated yield of 6.5%. The class D common shares are convertible into the Company's class A common shares after a seven-year lock out period. Through its by-laws, the Company's debt is limited to 55% recourse debt as compared to its gross assets. As of June 30, 2004, the Company's debt to asset ratio was approximately 33%.

Our operating strategy and investment criteria 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.

Portfolio

We focus on acquiring "irreplaceable corners" - premier retail frontage properties in high-traffic, highly populated areas - which the Company expects will create dependable income and long-lasting value. These premium properties are expected to provide high leasing income and high occupancy rates for a strong income stream. As of June 30, 2004, the occupancy rate of our properties was 88.5%. Our properties attract a wide array of established commercial tenants, and offer attractive opportunities for dependable monthly income and potential capital appreciation. Management believes that the location and design of its properties provide flexibility in use and tenant selection and an increased likelihood of advantageous lease renewal terms.

Edgar Filing: AMREIT - Form POS AM

Our revenues are substantially generated by corporate retail tenants such as Starbucks, Landry's, CVS/pharmacy, International House of Pancakes ("IHOP"), Eckerd, Nextel, Washington Mutual, TGI Friday's, and others. 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). AmREIT may also develop properties for its portfolio or enter into joint ventures, partnerships or co-ownership for the development of retail properties.

F-4

AmREIT owns a real estate portfolio consisting of 53 properties located in 19 states at June 30, 2004. Our multi-tenant shopping center properties are primarily located throughout Texas 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. In so doing, the dependability of the lease payments is 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.

As of June 30, 2004, no single property accounted for more than 10% of the Company's total assets. For the year to date period ended June 30, 2004, IHOP accounted for 13.8% of the Company's total revenue and no other tenant accounted for more than 5% of the Company's total revenue.

Real Estate Operating and Development Company

AmREIT's real estate operating and development subsidiary, AmREIT Realty Investment Corporation ("ARIC"), comprised of a fully integrated real estate team, provides brokerage, leasing, construction management, development and property management services to our tenants as well as third parties. This operating subsidiary, which is a taxable REIT subsidiary, compliments our portfolio of retail properties by generating fee income from providing services to third parties and affiliated funds, providing a high level of service to our tenants, as well as maintaining our portfolio of properties to meet our standards.

Having an internal real estate group also helps secure strong tenant relationships for both us and our retail partnerships. Our growing roster of leases with well-known national and regional tenants includes Bank of America, Starbucks, TGI Friday's CVS/pharmacy, Nextel, Landry's, Eckerd, IHOP, Washington Mutual, and others. Equally important, we have affiliations with these parent company tenants that extend across multiple sites.

Not only does our real estate operating and development company 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 affiliated actively managed retail partnerships, as well as for third parties, our real estate team continues to generate fees and profits for us. Through ARIC, we are able to generate additional profits through the selective acquisitions and dispositions of properties within twelve to eighteen months. These assets are listed as real estate held for sale on our consolidated balance sheet, and at June 30, 2004, these assets represented approximately \$4.0 million of the \$11.0 million reported as real estate held for sale.

Securities Company

Edgar Filing: AMREIT - Form POS AM

The part of our business structure and operating strategy that really separates us from other publicly traded REITs is AmREIT Securities Company (ASC), a wholly owned subsidiary of ARIC. Through ASC, we are able to raise capital through the National Association of Securities Dealers (NASD) independent financial planning community. Traditionally, we have raised capital in two ways: first, for our actively managed retail partnerships, and second, directly for AmREIT through non-traded classes of common shares.

During 2003, ASC raised approximately \$15 million for AmREIT Monthly Income & Growth Fund, Ltd., an affiliated retail partnership sponsored by a subsidiary of AmREIT. Additionally, since August of 2003, ASC has raised approximately \$40.4 million, including shares issued through the dividend reinvestment program, directly for us through a class C common share offering. ASC is also the dealer manager on our newest offering, a \$170 million class D common share offering: publicly registered, non-traded common shares receiving a stated 6.5%

F-5

annual dividend paid monthly. The class D common shares are non-cumulative and can convert into the class A common shares at a 7.7% premium on invested capital after a seven-year lock out period. We anticipate raising approximately \$25-30 million during 2004 through this class D common share offering. Since capital is the lifeblood of any real estate company, having the unique opportunity to raise capital through both Wall Street and the independent financial planning community adds additional financial flexibility and dependability to our income stream.

Retail Partnerships

AmREIT has retail partnership subsidiaries that sell limited partnership interests to retail investors, in which AmREIT indirectly invests through both the general partner and as a limited partner. We wanted to create a structure that aligns the interest of our shareholders with that of our unit holders. Through our subsidiary general partners of the retail partnerships, value is created for AmREIT through managing money from the sponsored funds, and in return, receiving management fees and profit participation interests.

AmREIT's retail partnerships are structured so that an affiliate, as the general partner, receives a significant profit only after the limited partners in the retail partnerships have received their targeted return, again, linking AmREIT's success to that of its unit holders.

As of June 30, 2004, AmREIT directly managed, through its four actively managed and previously sponsored retail partnerships, over \$35 million in equity. These four partnerships have entered or will enter their liquidation phases in 2003, 2009, 2010, and 2011 respectively. As these partnerships enter into liquidation, we expect to receive economic benefit from our profit participation, after certain preferred returns have been paid to the partnership's limited partners. Unrealized gains associated with this potential profit participation, if any, have not been reflected on our balance sheet or statement of operations.

In August 2003 the Company began selling class C common shares. The offering is a \$44 million offering (\$40 million offered to the public and \$4 million reserved for the dividend reinvestment program), issued on a best efforts basis through the independent financial broker dealer community. The Company will primarily use the proceeds for the acquisition of new properties and to pay down existing debt. Since August 2003, the Company had issued approximately 4.04 million shares (including shares issued through the dividend reinvestment program), representing approximately \$40.4 million in proceeds from selling class C shares.

Edgar Filing: AMREIT - Form POS AM

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and include all of the disclosures required by accounting principles generally accepted in the United States of America. The condensed consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, necessary to present a fair statement of results for the six month periods ended June 30, 2004 and 2003. Operating results for the three and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the year ended December 31, 2004.

The condensed consolidated financial statements of AmREIT contained herein should be read in conjunction with the consolidated financial statements included in the Company's annual report on Form 10-KSB for the year ended December 31, 2003.

REAL ESTATE HELD FOR SALE

AmREIT constantly evaluates its real estate portfolio, identifying those assets that are non-core and no longer meet its investment objectives. Management has identified three portfolio properties that are considered non-core and

F-6

are listed for sale. Further, management anticipates identifying an additional five to seven properties that it will list for sale during 2004.

Properties are classified as real estate held for sale if the properties were purchased with intent to sell the properties within twelve to eighteen months or if the properties are listed for sale. Additionally, if management has made the determination to dispose of an operating property, the associated property is reclassified to real estate held for sale and depreciation is ceased. An evaluation for impairment is also performed. At June 30, 2004, AmREIT owned eight properties that are classified as real estate held for sale. The eight properties have a combined carrying value of \$11.0 million.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of AmREIT and its wholly or majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

NEW ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ("FIN 46"), which was amended in December 2003. This Interpretation, as amended requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual return or both. As amended the interpretation requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. The adoption of FIN 46 for small business filers is effective no later than December 31, 2004. Management anticipates the adoption of FIN 46 will not have an impact on our consolidated financial position, results of operations, or cash flows.

In May 2003, the Financial Accounting Standards Board issued Statement No. 150 ("Statement 150") "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". Statement 150 requires certain financial instruments that have characteristics of both liabilities and equity

Edgar Filing: AMREIT - Form POS AM

to be classified as a liability on the balance sheet. Statement 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Statement 150 will be effected by reporting the cumulative effect of a change in accounting principle for contracts created before the issuance date and still existing at the beginning of that interim period. The adoption of Statement 150 did not have an impact on our consolidated financial position, results of operations, or cash flows.

RECLASSIFICATION

Certain amounts in the interim unaudited 2003 condensed consolidated financial statements have been reclassified to conform to the presentation used in the interim unaudited 2004 condensed consolidated financial statements. Such reclassifications had no effect on previously reported net income or loss or shareholders' equity.

3. NOTES PAYABLE

In September 2003, the Company renewed its unsecured credit facility (the "Credit Facility"), which is being used to provide funds for the acquisition of properties and working capital. In June 2004, the Credit Facility was amended in order to increase the maximum availability and modify certain terms and conditions of the Credit Facility. Under the amended Credit Facility, which matures September 2004, the Company may borrow up to \$35 million subject to the value of unencumbered assets. The Company and the lender are in the process of renewing the Credit Facility for a one year period. Management believes that the Credit Facility will be renewed on terms and conditions substantially the same as the current Credit Facility. The Credit Facility contains covenants which, among other restrictions, require the Company to maintain a minimum net worth, a maximum leverage ratio,

F-7

specified interest coverage and fixed charge coverage ratios and allow the lender to approve all distributions. Furthermore, the Credit Facility contains concentration covenants and limitations, limiting property level net operating income for any one tenant to no more than 15% (35% for IHOP) of total property net operating income. For the six months ended June 30, 2004, IHOP net operating income represented approximately 33% of total property net operating income. On June 30, 2004, 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 1.40% to LIBOR plus a spread of 2.35%. As of June 30, 2004, the interest rate was LIBOR plus 2.0%. As of June 30, 2004, \$10.2 million was outstanding under the Credit Facility. Thus the Company has approximately \$24.8 million available under its line of credit, subject to Lender approval on the use of the proceeds.

4. MAJOR TENANTS

As of June 30, 2004, there have been no significant changes in the tenant make-up from year end December 31, 2003, other than those delineated in Note 10.

5. EARNINGS PER SHARE

Basic earnings per share has been computed by dividing net income (loss) available to class A shareholders by the weighted average number of class A common shares outstanding. Diluted earnings per share has been computed by dividing net income (as adjusted) by the weighted average number of common shares outstanding plus the weighted average number of potentially dilutive common shares. Diluted earnings per share information is not applicable due to the anti-dilutive nature of the common class B and class C shares.

Edgar Filing: AMREIT - Form POS AM

The following table presents information necessary to calculate basic and diluted earnings per share for the periods indicated:

	Quarter		Year to Date	
	2004	2003	2004	2003
BASIC EARNINGS PER SHARE				
Weighted average class A common shares outstanding (in thousands)	3,235	2,790	3,094	2,779
Basic and diluted (loss) earnings per share*	\$ (0.31)	\$ 0.08	\$ (0.71)	\$ 0.08
EARNINGS (LOSS) FOR BASIC AND DILUTIVE COMPUTATION				
(Loss) earnings to class A common shareholders (in thousands)	\$(1,009)	\$ 210	\$(2,187)	\$ 215

* The operating results for the three and six months ended June 30, 2004 include a charge to earnings of \$362 thousand and \$1.7 million, respectively, which represents the market value of the class A common shares issued to H. Kerr Taylor, President and CEO, related to the sale of his advisory company to AmREIT in 1998. The charge was for the deferred merger cost due from this sale that was triggered by the issuance of additional class C common shares. Additionally, these operating results include an impairment charge of \$1.1 million, which represents a write-down in value of the vacant Warehouse Entertainment property located in Wichita, Kansas, which was sold during the quarter. For additional information see Footnote 6 - DISCONTINUED OPERATIONS.

F-8

6. DISCONTINUED OPERATIONS

The operations of fifteen properties were reported as discontinued operations for the six months period ended June 30, 2004. Eight of the properties were listed as held for sale at June 30, 2004, three of the properties were sold in the current year, and five of the properties were sold in 2003. The following is a summary of our discontinued operations (in thousands, except for per share data):

	Quarter		Year to Date	
	2004	2003	2004	2003
Rental revenue	\$ 176	\$ 294	\$ 317	\$ 558
Earned income from direct financing leases	34	164	143	269
Interest and other income	639	--	639	--
Gain on sale of real estate held for sale	242	279	850	279
General operating and administrative	(51)	(2)	(150)	(6)
Legal and professional	--	--	--	(1)

Edgar Filing: AMREIT - Form POS AM

Depreciation and amortization	(25)	(38)	(39)	(76)
Interest expense	(2)	(61)	(41)	(89)
Minority interest	(121)	--	(121)	--
Impairment charge	(1,103)	--	(1,103)	--
	-----	-----	-----	-----
(Loss) income from discontinued operations	(211)	636	495	934
	=====	=====	=====	=====
Basic and diluted (loss) income from discontinued operations per common share	\$ (0.07)	\$0.23	\$ 0.16	\$0.34
	=====	=====	=====	=====

On June 21, 2004, the Company sold its Warehouse Entertainment project located in Wichita, Kansas. The Company recorded an impairment charge to earnings of approximately \$1.10 million in the second quarter to reflect the loss incurred upon sale of the property, following the bankruptcy of its sole tenant. After a thorough remarketing during the quarter, the Company could not replace the previously existing value and determined to sell the asset and redeploy the proceeds into more productive investments.

Gain on real estate held for sale is a result of selling two properties, one acquired in 2003 and one acquired in 2004, with the intent to resell after a short holding period. Through a taxable REIT subsidiary, AmREIT actively seeks properties where there is an opportunity to purchase undervalued assets, and after a short holding period and value creation, dispose of the asset and capture the value created.

7. COMMITMENTS

The Company has signed a 63 month lease for office space. The lease commenced on May 14, 2004. The annual rent will be \$210 thousand. Rental expense for the six months ended June 30, 2004 and 2003 was \$60 thousand and \$45 thousand, respectively.

As of June 30, 2004, the Company has contracted to purchase approximately \$57.0 million of multi-tenant real estate projects that are anticipated to close during the third quarter of 2004. The acquisitions will be funded by cash and the assumption of debt.

8. SEGMENT REPORTING

The operating segments presented are the segments of AmREIT for which separate financial information is available, and revenue and operating performance is evaluated regularly by senior management in deciding how to allocate resources and in assessing performance.

F-9

AmREIT evaluates the performance of its operating segments primarily on revenue. Because the real estate development and operating segment and securities and retail partnership segment are both revenue and fee intensive, management considers revenue the primary indicator in allocating resources and evaluating performance.

The portfolio segment consists of our portfolio of single and multi-tenant shopping center projects. This segment consists of 53 properties located in 19 states. Expenses for this segment include depreciation, interest, minority interest, legal cost directly related to the portfolio of properties and the property level expenses. The consolidated assets of AmREIT are substantially all in this segment. Included in Corporate and Other are those costs and expenses

Edgar Filing: AMREIT - Form POS AM

related to general overhead and personnel that are not solely responsible for one of the reporting segments.

	Portfolio	Real estate operating & development	Securities & retail partnerships	Corporate and other
Six months ended June 30, 2004:				
Revenue	\$ 4,211	\$ 949	\$ 3,702	\$ 325
Income from non-consolidated affiliates	--	--	187	--
Expenses	(1,760)	(95)	(2,942)	(3,658)
Deferred merger cost	--	--	--	(1,682)
	-----	-----	-----	-----
Net income (loss) before discontinued operations	2,451	854	947	(5,015)
Six months ended June 30, 2003:				
Revenue	\$ 2,941	\$ 267	\$ 624	\$ 3
Income from non-consolidated affiliates	--	--	86	--
Expenses	(1,495)	11	(392)	(1,872)
	-----	-----	-----	-----
Net income (loss) before discontinued operations	1,446	278	318	(1,869)
	Portfolio	Real estate operating & development	Securities & retail partnerships	Corporate and other
Three months ended June 30, 2004:				
Revenue	\$ 2,096	\$ 581	\$ 1,722	\$ 313
Income from non-consolidated affiliates	--	--	172	--
Expenses	(863)	(20)	(1,422)	(1,909)
Deferred merger cost	--	--	--	(362)
	-----	-----	-----	-----
Net income (loss) before discontinued operations	1,233	561	472	(1,958)
Three months ended June 30, 2003:				
Revenue	\$ 1,477	\$ 136	\$ 488	\$ --
Income from non-consolidated affiliates	--	45	--	45
Expenses	(747)	(41)	(348)	(997)
	-----	-----	-----	-----
Net income (loss) before discontinued operations	730	95	185	(997)

F-10

9. PROPERTY ACQUISITIONS AND DISPOSITIONS

Edgar Filing: AMREIT - Form POS AM

On June 15, 2004, AmREIT acquired The Courtyard at Post Oak, consisting of a 4,013 square-foot, free standing building occupied by Verizon Wireless (NYSE: VZ) and a 9,584 square-foot, multi-tenant shopping center occupied by Ninfa's Restaurant and Dessert Gallery. The property is located at the northwest intersection of Post Oak and San Felipe in Houston, Texas which is the heart of the Uptown Houston area, the most significant retail corridor in the Greater Houston area. The property was acquired for cash. The weighted average remaining lease term for the project is 5.2 years. The anticipated combined net operating income contribution is approximately \$450 thousand annually. Following is a summary of assets acquired and liabilities assumed as of the date of the Courtyard at Post Oak acquisition.

Summary of Assets Acquired and Liabilities Assumed
as of June 15, 2004
(In Thousands)

Assets	
Buildings	\$1,874
Land	4,376
Intangible lease costs	101

TOTAL ASSETS	\$6,351
	=====
Liabilities	\$ 91
Net assets acquired	\$6,260

The following selected unaudited pro forma consolidated statement of operations for AmREIT and subsidiaries gives effect to the acquisition of Uptown Plaza, which assumes that the acquisition occurred on January 1, 2003. Uptown Plaza, acquired in December 2003, is a 28,000 square foot retail complex located in Houston, Texas, including a free-standing CVS/pharmacy drugstore and a retail shopping center anchored by Grotto, a new concept of Landry's Restaurant, Inc.

	Three months ended June 30, 2003	Six months ended June 30, 2003
	-----	-----
Revenues		
Rental income and earned income	\$ 1,778	\$ 3,502
Other income	624	894
	-----	-----
Total Revenues	2,402	4,396
	-----	-----
Total Expenses	1,573	2,752
	-----	-----
Operating income	829	1,644

Edgar Filing: AMREIT - Form POS AM

	Three months ended June 30, 2003	Six months ended June 30, 2003
	-----	-----
Income before discontinued operations	241	606
Income from discontinued operations	636	934
Pro forma net income	877	1,540
Distributions paid to class B and class C shareholders	(439)	(892)
	-----	-----
Net income available to class A shareholders	\$ 438	\$ 648
	=====	=====
Net income per common share - basic and diluted		
Loss before discontinued operations	(0.07)	(0.10)
Income from discontinued operations	0.23	0.34
	-----	-----
Net income	0.16	0.24
Weaverage common shares used to compute net income per share, basic and diluted	2,790	2,779
	=====	=====

10. SUBSEQUENT EVENTS

On July 1, 2004, AmREIT acquired Plaza in the Park, a 129,955 square-foot Kroger (NYSE: KR) anchored shopping center located on approximately 14.3 acres. The property is located at the southwest corner of Buffalo Speedway and Westpark in Houston, Texas. Plaza in the Park's Kroger is undergoing a 13,120 square-foot expansion. The property was acquired for cash and the assumption of long-term fixed rate debt. The weighted average remaining lease term for the project is 9.2 years. The Kroger lease is for 20 years, containing approximately 71,000 square feet, expiring in August 2017. The shopping center is 96.67 percent occupied.

On July 1, 2004, AmREIT acquired Cinco Ranch - Kroger, a 97,297 square-foot Kroger (NYSE: KR) anchored shopping center located on approximately 12.8 acres of land. The property is located at the northeast corner of Mason Road and Westheimer Parkway in Katy, Texas. The property was acquired for cash and the assumption of long-term fixed rate debt. The weighted average remaining lease term for the project is 14 years. The Kroger lease is for 20 years, containing approximately 63,000 square-feet, expiring in June 2023. The shopping center is 100 percent occupied.

On July 21, 2004, AmREIT acquired Bakery Square Shopping Center, a 34,704 square-foot retail project including a free standing Walgreen's and a shopping center anchored by Bank of America (NYSE:BOA). This is an infill property located just west of downtown Houston and includes other national tenants such as T-Mobile, Blockbuster Video and Boston Market. The property as acquired for cash and the assumption of long-term fixed rate debt. The weighted average remaining lease term for the shopping center is 4.9 years. The Walgreen's lease is for 60 years and will expire in October 2056. The shopping center is 100 percent occupied.

On July 21, 2004, AmREIT sold the IHOP property located in Grand Prairie, Texas. The project was sold to an unaffiliated, buyer for cash. The project generated approximately \$202 thousand in annual rental income from operating leases and earned income from direct financing leases, and was sold for a profit of approximately \$800 thousand.

Edgar Filing: AMREIT - Form POS AM

F-12

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

Certain information presented in this Form 10-QSB 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 these 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 and the ability of tenants to make payments under their respective leases.

The condensed consolidated financial statements of AmREIT, and the following discussion contained herein should be read in conjunction with the consolidated financial statements and discussion included in the Company's annual report on Form 10-KSB for the year ended December 31, 2003. Historical results and trends which might appear should not be taken as indicative of future operations.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the comparative summary of selective 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 (AMEX: AMY) is a rapidly growing, self-managed and self-advised REIT with a 19-year history of delivering results to its investors. Its business model consists of a publicly traded REIT that is supported by three synergistic businesses - a real estate operating and development business, NASD-registered broker dealer securities business and a retail partnership business. This unique structure gives AmREIT access to the intellectual and financial capital required to support a rapid growth platform.

Operated as a wholly owned subsidiary, AmREIT's real estate operating and development business focuses on the development, acquisition, management, brokerage and ownership of high quality commercial retail real estate to generate monthly income and growth for our investors. The Company's in-house NASD-registered securities group gives the company direct access to the independent financial planning market, broadening AmREIT's avenues to raise capital. The retail partnership business combines the skills of our real estate team and our securities group to actively acquire and develop high quality properties, creating potential for increasing income and capital appreciation by opportunistically selling the properties within a defined time horizon.

The self-managed REIT focuses on the acquisition and development of "irreplaceable corners" - premier retail frontage properties in high-traffic, highly populated areas - to hold for long-term value. These properties are leased to tenants located in high-end multi-tenant shopping centers, grocery anchored centers and regional and national single tenants. AmREIT's retail partnership business incorporates an "active management" strategy to acquire, develop and sell high quality free-standing and shopping center properties to create shorter-term added value.

AmREIT's goal is to deliver increasing, dependable, monthly income for its

Edgar Filing: AMREIT - Form POS AM

shareholders. In so doing, AmREIT strives to increase and maximize Funds From Operations ("FFO") by issuing long term capital through both the NASD independent financial planning marketplace as well as through Wall Street, and investing the capital in

F-13

accretive real estate properties, acquired or developed, on irreplaceable corners. Additionally, we strive to maintain a conservative balance sheet. To that regard, we strive to maintain a debt to total asset ratio of less than 55%. As of June 30, 2004, our debt to total asset ratio was 33%.

At June 30, 2004, AmREIT owned a portfolio of 53 properties located in 19 states, subject to long term leases with retail tenants, either directly or through its interests in joint ventures or partnerships. Forty seven of the properties are single tenant properties, and represent approximately 74% of the rental income for the six months ended June 30, 2004. Six of the properties are multi-tenant and represent approximately 26% of the rental income for the six months ended June 30, 2004. In assessing the performance of the Company's properties, management evaluates the occupancy of the Company's portfolio. Occupancy for the total portfolio was 88.5% based on leaseable square footage as of June 30, 2004. Additionally, the Company anticipates that the majority of its rental income will consist of rental income generated from multi-tenant shopping centers by the end of 2004. We have been developing and acquiring multi-tenant shopping centers for over ten years in our retail partnership business. During that time, we believe we have developed the ability to recognize the high-end multi-tenant properties that can create long-term value, and with the downward pressure on single tenant cap rates, resulting in higher priced real estate, management anticipates strategically increasing its holdings of multi-tenant shopping centers.

Management intends to increase total assets from \$101 million as of December 31, 2003 to approximately \$200 million at the end of 2004. Through June 30, 2004, the Company fully subscribed its \$40 million class C common share offering and began marketing its \$170 million class D common share offering. With the proceeds of the class C common share offering and the assumption of debt, the Company has purchased approximately \$70 million in real estate assets since December 31, 2003 including acquisitions subsequent to June 30, 2004 (see Footnote 10.).

Management intends to fund future acquisitions and development projects through a combination of equity offerings and debt financing. During 2004, the Company anticipates raising an additional \$25 to \$30 million of equity from various sources including Wall Street and the independent financial planning community.

Management expects that single tenant, credit leased properties, will continue to experience cap rate pressure during 2004 due to the low interest rate environment and increased buyer demand. Therefore, as it has been, our continued strategy will be to divest of properties which no longer meet our core criteria, and replace them with multi-tenant projects or the development of single tenant properties located on irreplaceable corners. With respect to additional growth opportunities, we have purchased approximately \$57.0 million in grocery anchored and multi-tenant shopping center projects subsequent to June 30, 2004 and have over \$50 million of projects in our pipeline at various stages of evaluation. 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 anticipates, and has budgeted for, an increase in interest rates during 2004. As of June 30, 2004, approximately 69% of our outstanding debt had a long term fixed interest rate with an average term of seven years. Our philosophy continues to be matching long term leases with long term debt structures while keeping our debt

Edgar Filing: AMREIT - Form POS AM

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 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 the accounting for lease revenues (including the straight line rent), the regular evaluation of whether the value of a real estate asset has been impaired and the allowance for doubtful accounts. 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.

F-14

Rental Income Recognition - In accordance with accounting principles generally accepted in the United States of America, the Company accounts for rental income under the straight line method, whereby we record rental income based on the average of the total rent obligation due under the primary term of the lease. The Company prepares a straight line rent schedule for each lease entered into. Certain leases contain a provision for percentage rent. Percentage rent is recorded in the period when the Company can reasonably calculate the amount of percentage rent owed, if any. Generally, the Company records percentage rent in the period in which the percentage rent payment is made, and can thereby be calculated and verified. For the six months ended June 30, 2004, the Company collected and recorded percentage rent from tenants of \$65 thousand.

Real Estate Valuation - Real estate assets are stated at cost less accumulated depreciation, which, in the opinion of management, is not in excess of the individual property's estimated undiscounted future cash flows, including estimated proceeds from disposition. Depreciation is computed using the straight-line method, generally over estimated useful lives of 39 years for buildings and over the primary term of the lease for tenant improvements. Major replacements that extend the life of the property, or enhance the value of the property are capitalized and the replaced asset and corresponding accumulated depreciation are removed. All other maintenance items are charged to expense as incurred.

Upon the acquisition of real estate projects, the Company assesses the fair value of the acquired assets (including land, building, acquired, above and below market leases and in-place leases, as if vacant property value and tenant relationships) and acquired liabilities, and allocates the purchase price based on these assessments. The Company assesses 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 current market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, up to 12 months depending on the property location, tenant demand and other economic conditions. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses.

Costs incurred in the development of new operating properties, including preacquisition costs directly identifiable with the specific project,

Edgar Filing: AMREIT - Form POS AM

development and construction costs, interest and real estate taxes are capitalized into the basis of the project. The capitalization of such costs ceases when the property, or any completed portion, becomes available for occupancy.

AmREIT's properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property may not be recoverable. In such an event, a comparison is made of the current and projected operating cash flows of each such property on an undiscounted basis, plus the residual value of the property upon disposition, to the carrying value of such property. The carrying value would then be adjusted, if needed, to estimate the fair value to reflect an impairment in the value of the asset. Following the bankruptcy of its sole tenant, and after a thorough remarketing during the quarter, the Company determined that it could not replace the previously existing value in its Warehouse Entertainment project located in Wichita, Kansas, and recorded an impairment charge to earnings of approximately \$1.10 million in the second quarter. Subsequent to the write-down in value, management sold the property during the current quarter.

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

F-15

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. During the six months ended June 30, 2004, the Company wrote off receivables totaling approximately \$67 thousand. The receivable is attributable to the accrual of straight line rents associated with Just for Feet. The write off of the receivable from Just for Feet is included in income from discontinued operations. The Company maintains a receivable related to Warehouse Entertainment of approximately \$126 thousand. Based on discussions with Warehouse Entertainment and Blockbuster Entertainment Corporation, the guarantor of the lease, and legal proceedings involving Warehouse Entertainment and Blockbuster Entertainment Corporation, the Company believes this receivable is collectable, and should be collected during 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities and financing activities have been the principal sources of capital to fund the Company's ongoing operations and dividends. As AmREIT deploys the capital raised, and expected to be raised from its equity offerings, into income producing real estate, we anticipate that cash flow from operations will provide adequate resources for future ongoing operations and dividends. AmREIT's 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, is expected to provide the necessary capital to maintain and operate our properties as well as execute and achieve our growth strategies.

SOURCES AND USES OF FUNDS

Cash provided by operating activities as reported in the Consolidated Statements of Cash Flows increased \$6.0 million for the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. Investment in real estate acquired for resale decreased by \$5.0 million. In addition, proceeds from sales of real estate acquired for sale increased by \$714 thousand. AmREIT sold two properties for a profit that were acquired for sale, one in the first quarter

Edgar Filing: AMREIT - Form POS AM

and one in the second quarter of 2004.

The increase in net cash provided by operating activities was primarily due to a decrease in investment in real estate acquired for resale. During 2003, the Company invested in five IHOP properties that were purchased as acquired for resale. For the six months ended June 30, 2004, the Company has invested approximately \$2.2 million in real estate acquired for resale. This decrease in investment in real estate acquired for resale was somewhat offset by a \$1.1 million non-cash impairment charge related to the Warehouse Entertainment property located in Wichita Kansas and a \$1.7 million non-cash increase in deferred merger costs. The deferred merger expense is a result of shares issued or payable to H. Kerr Taylor, our President and Chief Executive Officer, as a result of the merger, which shares represented a portion of consideration payable to Mr. Taylor as a result of the sale of his advisory company to AmREIT in 1998. Mr. Taylor has now earned 100% of the shares eligible under the deferred consideration agreement. Therefore, AmREIT's internal advisor has been fully paid for, 100% with Company shares as opposed to debt, and no further payments of shares or expense related to the issuance of shares will be made.

Cash flows used in investing activities has been primarily related to the acquisition or development of retail properties. During the second quarter of 2004, AmREIT purchased The Courtyard at Post Oak, consisting of a free standing building occupied by Verizon Wireless and a multi-tenant center occupied by Ninfa's Restaurant and Dessert Gallery. During the first quarter of 2004, AmREIT through one its taxable REIT subsidiaries, acquired a 25% equity interest in a 45 acre retail redevelopment in Houston, Texas. The other partners are affiliated partnerships. The investment was funded through a combination of the \$14.3 million of capital (net of \$1.8 million in issuance costs) raised through the class C common share offering and debt financing.

F-16

In addition, the Company received \$694 thousand in proceeds during the second quarter of 2004 from the sale of its Warehouse Entertainment project located in Wichita, Kansas. Prior to the sale, the Company recorded an impairment charge to earnings of approximately \$1.1 million to reflect the impaired value of the property. Cash flows used in investing activities as reported in the Consolidated Statements of Cash Flows increased from \$3.1 million in the first six months of 2003 to \$7.9 million in the first six months of 2004.

Cash flows provided by financing activities decreased from \$5.4 million through June 30, 2003 to \$4.8 million through June 30, 2004. Cash flows provided by financing activities were primarily generated from our class C common share offering. AmREIT fully subscribed its class C commons share offering during the second quarter. 100% of the net proceeds have been used to purchase irreplaceable corners. AmREIT has begun to market its class D common share offering, a \$170 million common share offering, offered through the independent financial planning community. The class D common shares have a stated 6.5% annual dividend, paid monthly, are convertible into the Company's class A common shares at any time after a seven-year lock out period for a 7.7% premium on invested capital and are callable by the Company after one year. One advantage of raising capital through the independent financial planning marketplace is the capital is received on a monthly basis, allowing for a scaleable matching of real estate projects. Our first priority is to deploy the capital raised, and then to moderately leverage the capital, while maintaining our philosophy of a conservative balance sheet. The Company was able to reduce debt by almost \$25.1 million with the proceeds from it class C common share offering.

AmREIT has a \$35 million unsecured revolving credit facility, as amended in June 2004. The facility will mature on September 4, 2004, and the Company and Lender are in the process of renewing the Credit Facility for a one year period. Management believes that the Credit Facility will be renewed on terms and

Edgar Filing: AMREIT - Form POS AM

conditions substantially the same as the current Credit Facility. The Credit Facility contains covenants which, among other restrictions, require the Company to maintain a minimum net worth, a maximum leverage ratio, specified interest coverage and fixed charge coverage ratios and allow the lender to approve all distributions. Furthermore, the Credit Facility contains concentration covenants and limitations, limiting property level net operating income for any one tenant to no more than 15% (35% for IHOP) of total property net operating income. At June 30, 2004, IHOP net operating income represented approximately 33% of total property net operating income. At June 30, 2004, 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 1.40% to LIBOR plus a spread of 2.35%. As of June 30, 2004, the interest rate was LIBOR plus 2.0%. As of June 30, 2004, \$10.2 million was outstanding under the Credit Facility. Thus the Company has approximately \$24.8 million available under its line of credit, subject to Lender approval on the use of the proceeds. In addition to the credit facility, AmREIT utilizes various permanent mortgage financing and other debt instruments. As of June 30, 2004, the Company had the following contractual debt obligations:

	2004 -----	2005 ----	2006 ----	2007 ----	2008 ----	Therea -----
Unsecured debt:						
Revolving credit facility	\$10,168	\$ --	\$ --	\$ --	\$ --	\$
5.46% dissenter notes	--	--	--	--	--	
Secured debt	230	490	530	573	620	19,
Non-cancelable operating lease payments	79	210	210	210	210	
Total contractual obligations	\$10,477 =====	\$700 =====	\$740 =====	\$783 =====	\$830 =====	\$20, =====

In order to continue to expand and develop its portfolio of properties and other investments, the Company intends to finance future acquisitions and growth through the most advantageous sources of capital available at the time.

F-17

Such capital sources may include proceeds from public or private offerings of the Company's debt or equity securities, secured or unsecured borrowings from banks or other lenders, acquisitions of the Company's affiliated entities or other unrelated companies, or the disposition of assets, as well as undistributed funds from operations.

In August 2003, the Company commenced the class C common share offering. This offering is being exclusively made through the NASD independent financial planning community. It was a \$44 million offering, of which \$4 million has been reserved for the dividend reinvestment plan. As of June 30, 2004, 4.04 million shares had been issued, including shares issued through the dividend reinvestment program, resulting in approximately \$40.4 million in gross proceeds. The proceeds are being and will be used to finance the acquisition and development of retail real estate projects, pay down the revolving credit facility and provide working capital for the on going operation of the company and its properties.

Edgar Filing: AMREIT - Form POS AM

For the quarters ended June 30, 2004 and 2003, the Company paid dividends to its shareholders of \$1.489 million, and \$749 thousand respectively. The class A and class C 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):

		Class A -----	Class B -----	Class C -----
2004	Second quarter	\$383	\$429	\$677
	First quarter	\$345	\$434	\$379
2003	Fourth quarter	\$320	\$437	\$156
	Third quarter	\$308	\$443	\$15
	Second quarter	\$310	\$439	N/A

Until properties are acquired by the Company, the Company's funds are held in short-term, highly liquid investments which the Company believes to have appropriate safety of principal. This investment strategy has allowed, and continues to allow, high liquidity to facilitate the Company's use of these funds to acquire properties at such time as properties suitable for acquisition are located. At June 30, 2004, the Company's cash and cash equivalents totaled \$846 thousand.

Cash flows from operating activities, investing activities, and financing activities for the three and six months ended June 30, are presented below in thousands:

	QUARTER		YEAR TO DATE	
	2004 -----	2003 -----	2004 -----	2003 -----
Operating activities	\$ 1,635	\$(4,343)	\$ 1,940	\$(4,091)
Investing activities	(6,182)	(40)	(7,910)	(3,096)
Financing activities	3,214	4,294	4,784	5,417

INFLATION

Inflation has had very little effect on income from operations. Management expects that increases in store sales volumes due to inflation as well as increases in the Consumer Price Index (C.P.I.), may contribute to capital appreciation of the Company properties. These factors, however, also may have an adverse impact on the operating margins of the tenants of the properties.

F-18

FUNDS FROM OPERATIONS

AmREIT considers FFO to be an appropriate measure of the operating performance of an equity REIT. The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income or loss computed in accordance with generally

Edgar Filing: AMREIT - Form POS AM

accepted accounting principles (GAAP), excluding gains from sales of property, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In addition, NAREIT recommends that extraordinary items not be considered in arriving at FFO. AmREIT calculates its FFO in accordance with this definition. Most industry analysts and equity REITs, including AmREIT, consider 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. There can be no assurance that FFO presented by AmREIT is comparable to similarly titled measures of other REITs. FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity.

Below is the calculation of FFO and the reconciliation to net income, which the Company believes is the most comparable GAAP financial measure to FFO, in thousands for the three months ended June 30:

	QUARTER		YEAR TO
	2004	2003	2004
Income (loss) before discontinued operations	\$ 308	\$ 13	\$ (763)
Income from discontinued operations	(211)	636	495
Plus depreciation of real estate assets - from operations	257	170	488
Plus depreciation of real estate assets - from discontinued operations	26	38	39
Less class B and class C distributions	(1,106)	(439)	(1,919)
	-----	-----	-----
Total Funds From Operations available to class A shareholders*	\$ (726)	418	(1,660)
Cash dividends paid to class A shareholders	\$ 383	\$ 310	\$ 728
Dividends (in excess of) less than FFO*	\$ (1,109)	\$ 108	\$ (2,388)

* Based on the adherence to the NAREIT definition of FFO, we have not added back the \$362 thousand or \$1.7 million charge to earnings for the three and six months ended June 30, 2004, respectively, resulting from shares issued to Mr. Taylor. Additionally, we have not added back the \$1.1 million charge to earnings for the three and six months ended June 30, 2004, resulting from an asset impairment and corresponding write-down of value. Adding these charges back to earnings would result in adjusted funds from operations available to class A shareholders of \$739 thousand for the three months ended June 30, 2004 and \$1.1 million for the six months ended June 30, 2004. Adding the charge to earnings would also result in dividends paid being less than adjusted FFO of \$356 thousand for the three months ended June 30, 2004 and \$397 thousand for the six months ended June 30, 2004.

F-19

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 2004 TO JUNE 30, 2003:

Edgar Filing: AMREIT - Form POS AM

Rental revenue and earned income from direct financing leases increased by 42%, or \$619 thousand, for the three months ended June 30, 2004 when compared to the three months ended June 30, 2003. Of this increase, \$597 thousand is related to acquisitions made after the second quarter of 2003.

Securities commission income increased by \$1.2 million for the three months ended June 30, 2004 when compared to 2003. This increase in securities commission income is due to increased capital being raised through our broker dealer company, AmREIT Securities Company (ASC). As ASC raises capital for either AmREIT or its affiliated retail partnerships, ASC earns a securities commission of between 8% and 10.5% of the money raised. During the second quarter of 2004, AmREIT and its affiliated retail partnerships raised approximately \$15.3 million, as compared to approximately \$4.3 million during the second quarter of 2003. This increase in commission income is somewhat mitigated by a corresponding increase in commission expense paid to other third party broker dealer firms. Commission expense increased by \$1.0 million for the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Interest and other income increased approximately \$313 thousand primarily due to the negotiated claim on the lease of the Footstar location in Baton Rouge.

General and operating expense for the three months ended June 30, 2004 increased \$804 thousand when compared to 2003. The increase in general and operating expense is primarily due to additional personnel and the associated salary and benefits costs related to these individuals. Since the second quarter of 2003, the Company added members to each of the operating teams, two on the real estate team (property management, legal, acquisitions and leasing), four on the securities team and three clerical and administrative support positions. By building our various teams, we have not only been able to grow revenue and Funds from Operations, but believe that we will be able to sustain and further enhance our growth. Compensation expense increased \$424 thousand in the three months ended June 30, 2004 as compared to the three months ended June 30, 2003. In addition, property expense increased \$126 thousand.

Deferred merger costs increased from \$0 in 2003 to \$362 thousand in 2004. The deferred merger cost is related to deferred consideration payable to Mr. Taylor as a result of the acquisition of our advisor, which was owned by Mr. Taylor in 1998. In connection with the acquisition, Mr. Taylor agreed to payment for this advisory company in the form of common shares, paid as the Company increases its outstanding equity. To date, Mr. Taylor has received 900 thousand class A common shares, which fulfills the shares that he is owed under the deferred consideration agreement.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2004 TO JUNE 30, 2003:

Rental revenue and earned income from direct financing leases increased by 43%, or \$1.3 million for the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. Of this increase, \$1.2 million is related to acquisitions made after the second quarter of 2003.

Securities commission income increased by \$3.0 million, from \$527 thousand in 2003 to \$3.6 million in 2004. This increase in securities commission income is due to increased capital being raised through our broker dealer company, AmREIT Securities Company (ASC). As ASC raises capital for either AmREIT or its affiliated retail partnerships, ASC earns a securities commission of between 8% and 10.5% of the money raised. During the six months ended June 30, 2004, AmREIT and its affiliated retail partnerships raised approximately \$33.3 million, as compared to approximately \$5.2 million during the six months ended June 30, 2003. This increase in commission income is somewhat mitigated by a corresponding increase in commission expense paid to other third party broker dealer firms. Commission expense increased by \$2.4 million, from \$396 thousand in 2003 to \$2.8 million in 2004.

Edgar Filing: AMREIT - Form POS AM

General and operating expense increased \$1.5 million, from \$1.5 million in 2003 to \$3.0 million in 2004. The increase in general and operating expense is primarily due to additional personnel and the associated salary and

F-20

benefits costs related to these individuals. Since the second quarter of 2003, the Company added members to each of the operating teams, two on the real estate team (property management, legal, acquisitions and leasing), four on the securities team and three clerical and administrative support positions. By building our various teams, we have not only been able to grow revenue and Funds from Operations, but believe that we will be able to sustain and further enhance our growth. Compensation expense increased \$882 thousand in the six months ended June 30, 2004 as compared to the six months ended June 30, 2003. In addition, property expense increased \$261 thousand.

Deferred merger costs increased from \$0 in 2003 to \$1.7 million in the six months ended June 30, 2004. The deferred merger cost is related to deferred consideration payable to Mr. Taylor as a result of the acquisition of our advisor, which was owned by Mr. Taylor in 1998. In connection with the acquisition, Mr. Taylor agreed to payment for this advisory company in the form of common shares, paid as the Company increases its outstanding equity. To date, Mr. Taylor has received 900 thousand class A common shares, which fulfills the shares that he is owed under the deferred consideration agreement.

F-21

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

Edgar Filing: AMREIT - Form POS AM

F-22

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.

F-23

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

Edgar Filing: AMREIT - Form POS AM

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
	=====

F-24

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.

Edgar Filing: AMREIT - Form POS AM

F-25

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

F-26

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
	=====

Edgar Filing: AMREIT - Form POS AM

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

F-27

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
	=====

Edgar Filing: AMREIT - Form POS AM

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 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.

F-28

(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.

F-29

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.

Edgar Filing: AMREIT - Form POS AM

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.

F-30

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

(in thousands)

	AmREIT Historical (1)	Acquisiti 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
	-----	-----

Edgar Filing: AMREIT - Form POS AM

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.

F-31

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.

F-32

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

Edgar Filing: AMREIT - Form POS AM

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	(764)	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.

F-33

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%.

F-34

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

Edgar Filing: AMREIT - Form POS AM

(Unaudited)

(in thousands, except per share amounts)

	Acquisitions (2)			Pro F Adjust
	AmREIT Historical (1)	Cinco Ranch	Plaza in the Park	
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	1,296	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	\$ (647)	\$ 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.

F-35

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.

Edgar Filing: AMREIT - Form POS AM

(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%.

F-36

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 31 through 35 and Item 37 of Part II are incorporated by reference from Amendment No. 1 to the Registrant's Registration Statement on Form S-11, as filed on June 24, 2004.

ITEM 36. FINANCIAL STATEMENTS AND EXHIBITS

(a) FINANCIAL STATEMENTS.

[TO COME]

(b) EXHIBITS (SEE EXHIBIT INDEX).

EXHIBIT

NO.	EXHIBIT
1.1	Form of Dealer Manager Agreement*
3.1	Amended and Restated Declaration of Trust (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-KSB for the fiscal year ended December 31, 2002)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-KSB for the fiscal year ended December 31, 2002)
3.3	Form of Statement of Designation for class D common shares*
4.1	Form of Subscription Agreement and Subscription Agreement Signature Page (included as Exhibit A to the Prospectus)
5.1	Opinion of Locke Liddell & Sapp LLP regarding legality of the securities*
8.1	Opinion of Locke Liddell & Sapp LLP regarding tax matters*
21.1	Subsidiaries of the Registrant*
23.1	Consent of Locke Liddell & Sapp LLP (included in Exhibits 5.1 and 8.1)*
23.2	Consent of KPMG LLP
24.1	Power of Attorney*

* Previously filed

Edgar Filing: AMREIT - Form POS AM

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on the 29 day of September, 2004.

AMREIT
(Registrant)
By: /s/ H. Kerr Taylor

Name: H. Kerr Taylor
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature -----	Title -----	
/s/ H. Kerr Taylor ----- H. Kerr Taylor	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	Sep
/s/ Chad C. Braun ----- Chad C. Braun	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	Sep
* ----- Robert S. Cartwright	Trust Manager	Sep
* ----- G. Steven Dawson	Trust Manager	Sep
* ----- Bryan L. Goolsby	Trust Manager	Sep
* ----- Philip W. Taggart	Trust Manager	Sep
*By: /s/ Chad C. Braun ----- Chad C. Braun Attorney-in-Fact		

Edgar Filing: AMREIT - Form POS AM

EXHIBIT INDEX

EXHIBIT NO. -----	EXHIBIT -----
1.1	Form of Dealer Manager Agreement*
3.1	Amended and Restated Declaration of Trust (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-KSB for the fiscal year ended December 31, 2002)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-KSB for the fiscal year ended December 31, 2002)
3.3	Form of Statement of Designation for class D common shares*
4.1	Form of Subscription Agreement and Subscription Agreement Signature Page (included as Exhibit A to the Prospectus)
5.1	Opinion of Locke Liddell & Sapp LLP regarding legality of the securities*
8.1	Opinion of Locke Liddell & Sapp LLP regarding tax matters*
21.1	Subsidiaries of the Registrant*
23.1	Consent of Locke Liddell & Sapp LLP (included in Exhibits 5.1 and 8.1)*
23.2	Consent of KPMG LLP
24.1	Power of Attorney*

* Previously filed