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AMREIT
Form 10QSB
May 15, 2003

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2003

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

For the transition period from to

Commission File Number: 0-28378

AMREIT
(Name of Small Business Issuer in its Charter)

TEXAS
(State or Other Jurisdiction of
Incorporation or Organization)

76-0410050
(I.R.S. Employer Identification No.)

8 GREENWAY PLAZA, SUITE 824
HOUSTON, TX
(Address of Principal Executive Offices)

77046
(Zip Code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes No

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

AMREIT AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
March 31,
(unaudited)

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ASSETS

Property:

Land
Buildings
Tenant improvements
Furniture, fixtures and equipment

Accumulated depreciation

Total property, net

Net investment in direct financing leases

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

Other assets:

Preacquisition costs
Loan acquisition cost, net of \$92,981 in accumulated amortization
Accrued rental income
Intangible lease cost, net of \$31,524 in accumulated amortization
Investment in non-consolidated affiliates

Total other assets

TOTAL ASSETS

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Notes payable
Accounts payable
Accounts payable - related party
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,
2,869,187 shares issued
Class B Common shares, \$.01 par value, 3,000,000 shares authorized,
2,432,729 shares issued
Capital in excess of par value
Accumulated distributions in excess of earnings
Deferred compensation
Cost of treasury shares, 90,322 shares

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

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See Notes to Condensed Consolidated Financial Statements.

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AMREIT AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Quarter ended March 2003	2002
Revenues:		
Rental income from operating leases	\$1,232,740	\$ 706,191
Earned income from direct financing leases	598,720	480,997
Service fees and other income	210,997	57,631
Management fees	57,631	91,282
Income from non-consolidated affiliates	40,305	1,839
Interest income	1,839	1,752,232
Total revenues	<u>2,142,232</u>	<u>1,752,232</u>
Expenses:		
General operating and administrative	774,686	778,194
Legal and professional	169,177	253,441
Interest	551,441	226,303
Depreciation and amortization	222,303	1,353,607
Total expenses	<u>1,717,607</u>	<u>1,353,607</u>
Income before federal income taxes and minority interest in net income of consolidated joint ventures	424,625	398,625
Federal income tax benefit (expense) for taxable REIT subsidiary	73,000	(84,788)
Minority interest in net income of consolidated joint ventures	(39,788)	(131,837)
Net income	457,837	182,000
Distributions paid to class B shareholders	(452,543)	(452,543)
Net income available to class A shareholders	<u>\$ 5,294</u>	<u>\$ 182,000</u>
Net income per common share - basic	<u>\$.002</u>	<u>\$.002</u>
Weighted average common shares used to compute net income per share, basic	<u>2,768,253</u>	<u>2,351,837</u>

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See Notes to Condensed Consolidated Financial Statements.

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AMREIT AND SUBSIDIARIES STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS (unaudited)

	Quarter ended March 31, 2003	2002
Cash flows from operating activities:		
Net income	\$ 457,837	\$ 182,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	229,697	126,848
Amortization of deferred compensation	59,928	5,152
Minority interest in net income of consolidated joint	39,788	131,845
Decrease in accounts receivable	38,020	187,944
(Increase) decrease in accounts receivable- related	(55,909)	297,894
Decrease in prepaid expenses, net	14,077	44,836
Cash receipts from direct financing leases more (less) than income recognized	17,060	(4,260)
Increase in accrued rental income	(49,519)	(2,225)
Decrease in other assets	83,091	23,711
Decrease in accounts payable	(547,924)	(671,656)
Decrease in accounts payable- related party	(33,986)	-
Net cash provided by operating activities	252,160	322,400
Cash flows from investing activities:		
Improvements to real estate	(155,763)	(300,005)
Acquisitions of real estate	(2,688,157)	-
Additions to furniture, fixtures and equipment	(24,040)	(3,938)
(Investment in) distributions from joint ventures	(161,771)	380,846
Increase in preacquisition costs	(26,713)	(12,912)
Net cash (used in) provided by investing activities	(3,056,444)	63,991
Cash flows from financing activities:		
Proceeds from notes payable	2,367,799	369,952
Payments of notes payable	(101,163)	(14,776)
Loan acquisition costs	-	21,730
Purchase of treasury shares	(315,719)	-
Common dividends paid	(759,622)	(161,540)
Distributions to minority interests	(68,319)	(149,572)
Net cash provided by financing activities	1,122,976	65,794
Net (decrease) increase in cash and cash equivalents	(1,681,308)	452,185
Cash and cash equivalents at January 1	2,506,868	227,117
Cash and cash equivalents at March 31	\$ 825,560	\$ 679,302

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Supplemental schedule of cash flow information:

Cash paid during the year for:

Interest	524,189	236,439
Income taxes	31,103	-

See Notes to Condensed Consolidated Financial Statements.

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AMREIT AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002 (Unaudited)

1. 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 generally accepted accounting principles. 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 three-month periods ended March 31, 2003 and 2002.

The 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, 2002.

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

AmREIT, formerly AmREIT, Inc. or American Asset Advisers Trust, Inc. (the "Company"), was organized in the state of Maryland in August 1993, is a real estate investment trust ("REIT") based in Houston, Texas and is listed on the American Stock Exchange (AMEX). AmREIT was re-organized in the state of Texas on December 22, 2002, and is a sponsor of real estate direct participation programs to the financial planning community. For more than 18 years, the Company has established a track record of investing in commercial real estate leased to parent companies in the retail, financial services and banking, medical and restaurant sectors. AmREIT's real estate team focuses on development, management, brokerage and ownership of freestanding credit tenant leased ("CTL") and frontage shopping centers ("FSC") that are located contiguous to major thoroughfares and traffic generators. AmREIT's customer list includes national and regional tenants such as: Walgreens, Goodyear Tire, Washington Mutual, IHOP, McDonald's, Herman Hospital, Radio Shack, Coldwell Banker, Guaranty Federal, Bennigan's, Chili's, Texas Children's Pediatric Associates, Discount Tire, tc.

AmREIT owns a real estate portfolio that consists of 47 properties located in 18 states. Its properties include single-tenant; free standing credit

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tenant leased projects and multi-tenant frontage projects. The single tenant projects are located from coast to coast and are primarily leased to corporate tenants where the lease is the direct obligation of the parent companies. In so doing, the dependability of the lease payments are based on the strength and viability of the entire company, not just that location. The multi-tenant projects are situated primarily throughout Texas. Supporting the real estate portfolio is an operating company subsidiary of AmREIT that provides a complete range of services including development, construction management, property management, brokerage and leasing.

On July 23, 2002, the Company completed a merger with three of its affiliated partnerships, AAA Net Realty Fund IX, Ltd., AAA Net Realty Fund X, Ltd., and AAA Net Realty Fund XI, Ltd. With the merger of the affiliated partnerships, AmREIT increased its real estate assets by approximately \$24.3 million and issued approximately 2.6 million Class B common shares to the limited partners in the affiliated partnerships. Approximately \$760 thousand in 8 year, interest only, subordinated notes were issued to limited partners of the affiliated partnerships who dissented against the merger. The acquired properties are unencumbered, single tenant, free standing properties on lease to national and regional tenants, where the lease is the direct obligation of the parent company. The following selected unaudited pro forma consolidated statement of operations for AmREIT and subsidiaries gives effect to the merger with its three affiliated partnerships, which assumes that the merger occurred on January 1, 2002. Additionally, we have presented a summary of assets acquired and liabilities assumed as of the date of the merger, July 23, 2002.

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Pro Forma Consolidated Statement of Operations For the Three Months Ended March 31, (Unaudited)

	2002
Revenues	
Rental income and earned income	\$ 1,519,368
Other income	774,183
Total Revenues	2,293,551
Total Expense	1,522,994
Proforma Income Before Minority Interest in Net Income of Consolidated Joint Ventures	770,557
Federal Income Tax Benefit from Non-Qualified Subsidiary	(84,000)
Minority Interest in Net Income of Consolidated Joint Ventures	(131,845)
Pro Forma Net Income	\$ 554,712

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Summary of Assets Acquired and Liabilities Assumed As of July 23, 2002, (Unaudited)

Assets

Buildings	\$	16,330,088
Land		7,560,231
Accounts receivable		1,105,612
Prepaid expenses		15,757
TOTAL ASSETS	\$	25,011,688

Liabilities

\$ 132,630

Shareholders' equity

Class B common stock	\$	24,879,058
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	25,011,688
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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 November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on the

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Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002, however, these disclosure modifications are not applicable to the Company as the Company does not have stock based compensation other than restricted stock grants. Therefore adoption of SFAS 148 did not have a material impact on our consolidated financial position, results of operations, or cash flows.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The application of this Interpretation did not have a material effect on the Company's consolidated financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

RECLASSIFICATION

Certain amounts in the interim unaudited 2002 condensed consolidated financial statements have been reclassified to conform to the presentation used in the interim unaudited 2003 condensed consolidated financial statements.

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2. NOTES PAYABLE

In November 1998, the Company entered into an unsecured credit facility (the "Credit Facility"), which is being used to provide funds for the acquisition of properties and working capital, and repaid all amounts outstanding under the Company's prior credit facility. Under the Credit Facility, which had an original term of one year, and has been extended through June 2003, the Company may borrow up to \$20 million subject to the value of unencumbered assets. The Lender has given AmREIT a commitment to extend the Credit Facility for a period of 15 months from the date of execution. The Company and Lender are currently working through the documentation of the Credit Facility and expect that it will be finalized prior to June. 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

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coverage ratios and allow the lender to approve all distributions. At March 31, 2003, Company was in compliance with all applicable financial covenants. The Credit Facility bears interest at an annual rate of LIBOR plus a spread of 2.00% (3.30% as of March 31, 2003). As of March 31, 2003, \$14.1 million was outstanding under the Credit Facility. Thus the Company has approximately \$5.9 million available under its line of credit, subject to use of proceeds by the lender.

3. MAJOR TENANTS

There were no significant changes in the tenant make-up from year end December 31, 2002.

4. EARNINGS PER SHARE

Basic earnings per share has been computed by dividing net income 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 class A common shares outstanding plus dilutive potential common shares.

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

	For the Three Months 2003
BASIC EARNINGS PER SHARE	
Weighted average class A common shares outstanding	2,768,253 =====
Basic earnings per share	\$.002 =====
EARNINGS FOR BASIC COMPUTATION	
Net income available to class A common shareholders (basic earnings per share computation)	\$ 5,294 =====

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 such forward-looking statements are based upon reasonable assumptions, the

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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 following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the comparative summary of selected financial data appearing elsewhere in this report. Historical results and trends which might appear should not be taken as indicative of future operations. The results of operations and financial condition of the Company, as reflected in the accompanying 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. Each of these issues requires management to make judgments that are subjective in nature. Management relies on its experience, collects historical data and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates.

AmREIT, a Texas real estate investment trust, is listed on the American Stock Exchange (AMY), owns a portfolio of 47 properties, leased to 26 different tenants located in 18 states and is a sponsor of high quality real estate investment opportunities to the financial planning community. The Company researches, identifies and participates in real estate opportunities and works hand in hand with the broker-dealer community to sponsor real estate investment products and services.

For 18 years we have established a track record of investing in commercial real estate leased primarily to corporate tenants in the retail, financial services and banking, medical and restaurant sectors. AmREIT's real estate team focuses on development, management, brokerage and ownership of freestanding CTL and FSC properties that are located contiguous to major thoroughfares and traffic generators. AmREIT's real estate customer list includes national and regional tenants such as: Walgreen's, Goodyear Tire, Washington Mutual, IHOP, McDonald's, Herman Hospital, Radio Shack, Sprint, Coldwell Banker, Guaranty Federal, Bennigan's, Chili's, Texas Children's Hospital, Discount Tire, etc.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations has been the principal source of capital to fund the Company's ongoing operations. The Company's issuance of common stock and the use of the Company's credit facility have been the principal sources of capital required to fund its growth. Net cash provided by operating activities decreased for the three months ended March 31, 2003 and March 31, 2002 from \$322,400 in 2002 to \$252,160 in 2003. The decrease in cash provided by operating activities was due primarily to the following components: (1) a decrease in accounts receivable collections of \$150 thousand, from \$188 thousand in 2002 to \$38 thousand in 2003, and (2) a decrease in collections of accounts receivable - related party of \$354 thousand, from an increase of \$298 thousand in 2002 to a decrease of \$56 thousand in 2003. The above decreases are offset somewhat by (1) an increase in net income of \$276 thousand, from \$182 thousand in 2002 to \$458 thousand in 2003, and (2) the increase in the

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paydown of accounts payable of \$124 thousand, from \$672 thousand in 2002 to \$548 thousand in 2003.

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Net cash used in investing activities increased \$3.1 million for the three month period ended March 31, 2003 when compared to the three month period ended March 31, 2002. The increase in cash used was primarily due to an increase in acquisitions of real estate from \$0 in 2002 to \$2.7 million in 2003. Additionally, \$162 thousand was invested in joint ventures in 2003, where as distributions from investments were \$381 thousand in 2002.

Net cash provided by financing activities increased \$1.1 million for the three month period ended March 31, 2003 compared to the three month period ended March 31, 2002. The increase was primarily due to proceeds from notes payable, which totaled \$2.4 million in 2003, compared to \$370 thousand in 2002. This increase was somewhat offset by an increase in common dividends paid, which was \$760 thousand in 2003, compared to \$162 thousand in 2002.

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 to the Company at the time. 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, a merger with certain affiliated partnerships or other unrelated companies, or the disposition of assets, as well as undistributed funds from operations.

On July 23, 2002, the Company completed a merger with the Affiliated Partnerships, which increased the Company's real estate assets by approximately \$24.3 million. Pursuant to the merger, the Company issued approximately 2.6 million class B common shares to the limited partners in the Affiliated Partnerships. Approximately \$760 thousand in 8 year, interest only, subordinated notes were issued to limited partners of the Affiliated Partnerships who dissented against the merger. The acquired properties are unencumbered, single tenant, free standing properties on lease to national and regional tenants, where the lease is the direct obligation of the parent company. The Company's leases typically provide that the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. In addition, the Company's leases generally provide that the tenant is responsible for roof and structural repairs. Some of the tenant's leases require the Company to be responsible for roof and structural repairs. In these instances, the Company normally requires warranties, and/or guarantees from the related vendors, suppliers and/or contractors, to mitigate the potential costs of repairs during the primary terms of the leases. Because many of the properties which are subject to leases that place these responsibilities on the Company are recently constructed, management anticipates that capital demands to meet obligations with respect to these properties will be minimal for the foreseeable future and can be met with funds from operations and working capital. The Company may be required to use bank borrowings or other sources of capital in the event of unforeseen significant capital expenditures.

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In November 1998, the Company entered into an unsecured credit facility (the "Credit Facility"), which is being used to provide funds for the acquisition of properties and working capital, and repaid all amounts outstanding under the Company's prior credit facility. Under the Credit Facility, which had an original term of one year, and has been extended through June 2003, the Company may borrow up to \$20 million subject to the value of unencumbered assets. The Lender has given AmREIT a commitment to extend the Credit Facility for a period of 15 months from the date of execution. The Company and Lender are currently working through the documentation of the Credit Facility and expect that it will be finalized prior to June. The Credit Facility contains covenants which, among other

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restrictions, require the Company to maintain a minimum net worth, a maximum leverage ratio, and specified interest coverage and fixed charge coverage ratios. At March 31, 2003, the Company was in compliance with all applicable financial covenants. The Credit Facility bears interest at an annual rate of LIBOR plus a spread of 2.00%, which resulted in an effective interest rate of 3.30% at March 31, 2003. As of March 31, 2003, \$14.1 million was outstanding under the Credit Facility. The Company has approximately \$5.9 million availability under its line of credit, subject to use of proceeds approval by the lender.

As of March 31, 2003, the Company owned 47 properties directly and, since its inception, had invested \$73.7 million, exclusive of any minority interests, including certain acquisition expenses related to the Company's investment in these properties. These expenditures resulted in a corresponding decrease in the Company's liquidity.

Until properties are acquired by the Company, cash is held in short-term, highly liquid investments that 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 March 31, 2003, the Company's cash and cash equivalents totaled \$826 thousand.

The Company paid aggregate cash dividends to the holders of its class A and class B common shares, for the three month ended of March 31, 2003 and 2002 of \$760 thousand and \$162 thousand, respectively.

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.

FUNDS FROM OPERATIONS

Funds from operations (FFO) increased \$376 thousand or 127% to \$672 thousand for the three months ended March 31, 2003 from \$296 thousand for the three months ended March 31, 2002. Management considers FFO to be an appropriate measure of performance for an equity REIT. The Company 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

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amortization of real estate assets, and excluding results defined as "extraordinary items" under generally accepted accounting principles. We believe that in order to facilitate a clear understanding of our historic operating results, FFO should be examined in conjunction with net income as presented in the consolidated statement of operations and data included elsewhere in this report. FFO should not be considered an alternative to cash flows from operating, investing and financing activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to meet cash needs. The Company'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 the Company's performance.

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Below is the reconciliation of net income to funds from operations for the three months ended March 31:

	2003	2002
Net income	\$ 457,837	\$ 182,311
Plus depreciation and amortization	214,245	113,365
Total funds from operations	\$ 672,082	\$ 295,676
Cash distributions paid	759,622	\$ 161,540
Distributions (more) less than FFO	\$ (87,540)	\$ 134,136

Cash flows from operating activities, investing activities, and financing activities for the three months ended March 31 are presented below:

	2003	2002
Operating activities	\$ 252,160	\$ 322,400
Investing activities	(3,056,444)	63,991
Financing activities	1,122,976	65,794

RESULTS OF OPERATIONS

Comparison of the Three Months Ended March 31, 2003 to March 31, 2002:

During the three months ended March 31, 2003 and March 31, 2002, the Company earned \$1.8 million and \$898 thousand, respectively, in rental income from operating leases and earned income from direct financing leases. The additional properties purchased by AAA as well as the newly merged properties from the three affiliated partnerships resulted in the increased income from rents and earned income from direct financing

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leases. Service fees and other income decreased \$269 thousand, from \$480 thousand in 2002 to \$211 thousand in 2003. The decrease in service fees and other income was primarily due to a decrease in advisory fees, which decreased because the affiliated partnerships involved in the merger paid advisory fees to AmREIT during the first quarter of 2002. However, after the merger, the affiliated partnerships are no longer paying advisory fees to AmREIT.

During the three months ended March 31, 2003 and March 31, 2002, the Company's expenses were \$1.7 million and \$1.4 million respectively. The \$364 thousand increase in expenses is primarily attributable to interest expense, which increased \$297 thousand, from \$254 thousand in 2002 to \$551 thousand in 2003. The increase in interest expense is due to additional debt used to finance the acquisition of additional properties. Additionally, depreciation and amortization increased by \$95 thousand, from \$127 thousand in 2002 to \$222 thousand in 2003.

SUBSEQUENT EVENTS

On April 23, 2003, the Company filed an S-11 registration statement with the Securities and Exchange Commission, in which it registered \$44 million in class C common shares to be issued.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

NONE

Item 2. Changes in Securities and Use of Proceeds

NONE

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

NONE

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AmREIT

(Issuer)

May 15, 2003
Date

/s/ H. Kerr Taylor

H. Kerr Taylor, President

May 15, 2003
Date

/s/ Chad C. Braun

Chad C. Braun
(Principal Accounting Officer)

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FORM OF SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, H. Kerr Taylor, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AmREIT;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for

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establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /s/ H. Kerr Taylor

H. Kerr Taylor, Chief Executive Officer

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FORM OF SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Chad C. Braun, Executive Vice President of Finance, certify that:

7. I have reviewed this quarterly report on Form 10-QSB of AmREIT;

8. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements

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were made, not misleading with respect to the period covered by this quarterly report;

9. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

10. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

11. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

12. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /s/ Chad C. Braun

Chad C. Braun, Executive Vice President of Finance

EXHIBITS

99.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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99.2 Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AmREIT (the "Company") on Form 10-QSB for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Kerr Taylor, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ H. Kerr Taylor

H. Kerr Taylor
Chief Executive Officer
May 15, 2003

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EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AmREIT (the "Company") on Form 10-QSB for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chad C. Braun, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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3. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

4. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Chad C. Braun

Chad C. Braun
Chief Financial Officer
May 15, 2003