AMREIT
Form POS AM
December 23, 2003

As filed with the Securities and Exchange Commission on December 23, 2003

Registration No. 333-104652

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 824
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 824
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. |_| ____________________

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

AMREIT

Supplement No. One, Dated December 23, 2003
To Prospectus, Dated August 12, 2003

This Supplement is part of, and should be read in conjunction with, the Prospectus dated August 12, 2003. Capitalized terms used in this Supplement have the same meanings as in the Prospectus unless otherwise stated herein.

Information as to proposed properties for which AmREIT has entered into initial commitments to acquire and as to the number and types of properties acquired by AmREIT is presented as of December 11, 2003 and all references to commitments or 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 December 11, 2003, will be reported in a subsequent Supplement.

RECENT DEVELOPMENTS

On November 17, 2003, AmREIT acquired San Felipe @ Winrock, a 2.0 acre tract of land located at the intersection of San Felipe and Winrock in the prestigious Tanglewood residential community in Houston, Texas. Situated on the property are 63 multifamily apartment units that are 50% occupied. All tenants are required to fully vacate the premise no later than December 31, 2003. Demolition and abatement of the apartment units is anticipated to begin January 15, 2004. Approximately 1.0 acre has been leased under a 20-year ground lease to Bank of America. The property was purchased for $4,555,000 in cash. Additionally, a $130,680 escrow was established for demolition and abatement, with any demolition and abatement costs is excess of that amount to be paid by the seller. Construction of the Bank of America branch is anticipated to begin during the first quarter of 2004.

The Bank of America ground lease, which encompasses approximately 45,000 square feet, is a 20-year lease and includes multiple 5-year extension options. The ground lease is anticipated to commence on October 15, 2004, upon construction completion, and initial annual rental payments will be $214,000. AmREIT is currently marketing the remaining 1.0 acre to a number of tenants including other banks and financial institutions as well as multiple drug store and general retail operators.

On December 11, 2003, AmREIT acquired Uptown Plaza, consisting of a 12,000 square foot CVS pharmacy and a 16,000 square foot shopping center, anchored by The Grotto, a Landry's restaurant concept. This property, which was constructed in 2002, is located at the intersection of Loop 610 and Westheimer in Houston, Texas. This intersection is one of the most visible, highest traffic count intersections in Houston. The property was acquired for $13 million in cash.

The CVS has a 22-year lease expiring in August 2025 and currently provides for annual rental payments of $546,600. CVS occupies approximately 12,000 square feet in a free standing building on the direct corner of Loop 610 and Westheimer. The Grotto has a 10-year lease expiring in September 2012 and

currently provides for annual rental payments of $310,000. The Grotto occupies approximately 8,000 square feet on the southeast corner of the shopping center. IS Images, a women's clothing boutique, has a five-year lease expiring in March 2008. IS Images occupies approximately 1,600 square feet of the shopping center. Nextel, a leading cellular and wireless company, has a seven-year lease expiring in March 2009. Nextel occupies approximately 1,600 square feet of the shopping center. There is approximately 4,800 square feet of vacant space that is being marketed for lease. Each lease contains various provisions for lease extensions, ranging from three to five years each, at the then prevalent market rental rate.

Neither AmREIT nor any of its affiliates received any compensation or fees as a result of the acquisition of this property.

On 12/19/03 AmREIT purchased Terrace Shops, a 16,395 square foot shopping center anchored by Starbucks Coffee. The purchase price for this property is $4,800,000, which will be payable $2,000,000 in cash and the assumption of a $2,800,000 loan held by Lehman Brothers. The loan is a non-recourse permanent loan which is secured by the property. The loan bears a fixed interest rate of 7.58% with a 10 year term and a 30 year debt amortization schedule. The center is located at the intersection of Westpark and Buffalo Speedway in Houston, Texas. This intersection is the gateway to the affluent West University residential community and within close proximity to the Texas Medical Center and Greenway Plaza business district. The table below summarizes the tenants and their respective lease terms:

Tenant	Square Footage	Lease Term	Expiration	Annual Rent
Starbucks Coffee	2,039	Ten Years	February 2011	$ 59,131
Style Boutique	1,465	Five Years	January 2007	$ 32,963
LeBon Cleaners	1,728	Ten Years	June 2010	$ 44,928
Q Designer Nails	1,425	Five Years	May 2005	$ 39,900
Sports Clips	1,443	Five Years	August 2005	$ 36,537
Copy Dr.	2,979	Five Years	June 2005	$ 78,944
Grand Panda	4,099	Ten Years	August 2011	$106,574
Vacant	1,217	--	--	--

On October 10, 2003, our board of trust managers declared a quarterly distribution of $.175 per share per class C common share, payable in equal monthly installments of $.0583 on October 31, 2003, November 28, 2003, and December 31, 2003 to shareholders of record on October 20, 2003, November 20, 2003 and December 19, 2003, respectively.

THE OFFERING

As of November 30, 2003, AmREIT had received subscriptions from this offering for approximately 885,485 class C common shares, totaling $8,854,850 in gross proceeds. Of this amount, AmREIT has paid $929,760 to AmREIT Securities Company, the dealer manager of this offering, pursuant to the terms of the dealer manager agreement between AmREIT and AmREIT Securities Company. Additionally, AmREIT Securities Company has paid out approximately $708,000 in commissions to other non-affiliated NASD broker dealer firms. As of November 30, 2003, AmREIT had issued 5,442 class C common shares pursuant to the Reinvestment Plan relating to this offering.

SUMMARY OF THE OFFERING

Prior Offering Summary

The following paragraph updates and replaces the paragraph on page 9 of the Prospectus.

AmREIT's affiliates have previously sponsored three publicly offered and 12 privately placed real estate limited partnerships, all of which were on an unspecified property or "blind pool" basis. As of September 30, 2003, AmREIT and its affiliates have raised approximately $82 million from 3,260 investors. The disclosure under the caption "Prior Performance" on page 43 of the Prospectus contains a discussion of the AmREIT program sponsored to date.

RISK FACTORS

Risks Associated with an Investment in AmREIT

AmREIT may increase its leverage without shareholder approval.

The following paragraph updates and replaces the second paragraph under this caption on page 13 of the Prospectus.

On September 30, 2003, AmREIT had outstanding debt totaling $38.3 million of which $19.2 million was unsecured. This debt represents approximately 47% of AmREIT's total assets.

AmREIT depends on a few major tenants.

The following sentence updates and replaces the fourth sentence under this caption on page 14 of the Prospectus.

IHOP, Corp. and Footstar, Inc. accounted for 32% and 13%, respectively, of AmREIT's total rental revenues for the year ended December 31, 2002 and 35.09% and 9.69%, respectively for the nine months ended September 30, 2003.

With the acquisition of Uptown Plaza, IHOP, Corp. and Footstar, Inc. are anticipated to account for approximately 29.91% and 8.77%, respectively, of AmREIT's total rental revenue as of December 31, 2003.

Anticipated Borrowing Creates Risks.

The following sentence updates and replaces the third sentence under this caption on page 20 of the Prospectus.

We currently have a revolving line of credit in an aggregate amount of up to $30 million to provide financing for the acquisition of assets, of which $15 million was outstanding as of September 30, 2003.

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BUSINESS AND PROPERTIES

General

The following sentence updates and replaces the last sentence of the first paragraph under this caption on page 30 of the Prospectus.

As of September 30, 2003, AmREIT has outstanding 2,812,502 million class A common shares, listed on the American Stock Exchange (AMEX: AMY), 2,384,002 million class B common shares, that are not listed on an exchange, which may be converted into class A common shares on a one-for-one basis at any time at the holder's option, and 339,455 class C common shares.

The following sentences update and replace the third, fourth and fifth sentences of the fourth paragraph under this caption on page 30 of the Prospectus.

Through a wholly-owned subsidiary, we also provide advisory services to twelve real estate limited partnerships. As of September 30, 2003, AmREIT and its affiliated investment funds owned 63 properties (50 properties owned directly by AmREIT or a majority-controlled subsidiary and 13 properties owned through affiliated-invested funds). AmREIT currently has 2,900 shareholders and 800 partners in the limited partnerships.

Properties

Description.

The following sentence updates and replaces the fifth sentence in the first paragraph under this caption on page 31 of the Prospectus.

Information concerning the properties owned solely by AmREIT as of September 30, 2003, is presented in the following table:

AMREIT WHOLLY-OWNED PROPERTY INFORMATION

PROPERTY (LOCATION)	DATE ACQUIRED	PURCHASE PRICE	LEASEABLE AREA	CURRENT ANNUAL RENT
Radio Shack (Dallas, Texas).........	06/15/94	$1,062,000	5,200	$108,900

Wherehouse Entertainment (Independence, MO)	11/14/94	1,550,000	14,047	187,655
Copperfield Medical Plaza (Houston, TX)	07/01/95	1,680,000	14,000	201,072
Wherehouse Entertainment (Wichita, KS)	09/12/95	1,700,000	15,158	206,833
FootStar, Inc. (Tucson, AZ)	09/11/96	3,351,000	19,550	419,026
Washington Mutual (The Woodlands, TX)	09/23/96	500,000	3,685	59,461

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PROPERTY (LOCATION)	DATE ACQUIRED	PURCHASE PRICE	LEASEABLE AREA	CURRENT ANNUAL RENT
Washington Mutual (Houston, TX)	12/11/96	828,000	3,685	97,861
FootStar, Inc. (Baton Rouge, LA)	06/09/97	2,806,000	20,575	300,539
Hollywood Video (Lafayette, LA)	10/31/97	1,124,000	7,488	134,709
Hollywood Video (Ridgeland, MS)	12/30/97	1,208,000	7,488	138,453
OfficeMax (Dover, DE)	04/14/98	2,548,000	23,500	264,679
Woodlands Plaza (The Woodlands, TX).....	06/03/98	3,542,000	16,922	(1)
Sugar Land Plaza (Sugar Land, TX)	07/01/98	3,635,000	16,922	330,875
Dardin (Peachtree City, GA) ...	12/18/98	738,000	Land Lease	75,000
IHOP, Corp. (Sugarland, TX)	9/30/99	1,608,000	4,020	165,180
IHOP, Corp. (Topeka, KS)	9/30/99	1,335,000	4,020	137,340
Foodmaker (Dallas, TX)	7/23/02 (2)	715,100	2,238	68,998
Baptist Memorial Health (Memphis, TN)............	7/23/02 (2)	2,079,200	15,000	204,375
Payless Shoes (Austin, TX).............	7/23/02 (2)	698,300	4,000	82,000
Golden Corral (Houston, TX)............	7/23/02 (2)	1,811,800	12,000	182,994
Golden Corral (Houston, TX)............	7/23/02 (2)	1,843,400	12,000	181,688
TGI Friday's (Houston, TX)............	7/23/02 (2)	2,036,900	8,500	180,500
Goodyear Tire (Houston, TX)............	7/23/02 (2)	535,900	5,209	51,756
Guitar Center (Minneapolis, MN)........	7/23/02 (2)	2,541,700	15,000	246,750
AFC, Inc. (Popeye's				

Chicken) (Atlanta, GA)...	7/23/02 (2)	1,113,900	2,583	105,563
Memorial Herman Hospital (Houston, TX)............	7/23/02 (2)	1,816,800	15,000	171,360
Blockbuster Video (Oklahoma City, OK)......	7/23/02 (2)	973,800	15,000	92,610
Pier One (Longmont, CO)...........	7/23/02 (2)	1,423,600	8,014	135,560
IHOP. Corp. (Grand Prairie, TX)	4/15/03	1,940,400	4,020	174,332

PROPERTY (LOCATION)	DATE ACQUIRED	PURCHASE PRICE	LEASEABLE AREA	CURRENT ANNUAL RENT
IHOP. Corp. (Bridgeton, MO)	4/15/03	1,846,800	4,020	182,593
IHOP. Corp. (Merriville, IN)	4/15/03	1,665,900	4,020	157,106
TGI Friday's (Hanover, MD)	9/16/03	1,474,700	8,500	134,962
TOTAL		$53,733,200	311,364	$5,180,730

(1) Due to the bankruptcy of Just For Feet, this property is being remodeled to accommodate multiple tenants with approximately 70% of the property currently leased.

(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.

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

Recent Acquisitions and Dispositions.

On November 17, 2003, AmREIT acquired San Felipe @ Winrock, a 2.0 acre tract of land located at the intersection of San Felipe and Winrock in the prestigious Tanglewood residential community in Houston, Texas. Situated on the property are 63 multifamily apartment units that are 50% occupied. All tenants are required to fully vacate the premise no later than December 31, 2003. Demolition and abatement of the apartment units is anticipated to begin January 15, 2004. Approximately 1.0 acre has been leased under a 20-year ground lease to Bank of America. The property was purchased for $4,555,000 in cash. Additionally, a $130,680 escrow was established for demolition and abatement, with any demolition and abatement costs is excess of that amount to be paid by the seller. Construction of the Bank of America branch is anticipated to begin during the first quarter of 2004.

The Bank of America ground lease, which encompasses approximately 45,000 square feet, is a 20-year lease and includes multiple 5-year extension options. The ground lease is anticipated to commence on October 15, 2004, upon construction completion, and initial annual rental payments will be $214,000. AmREIT is currently marketing the remaining 1.0 acre to a number of tenants including other banks and financial institutions as well as multiple drug store and general retail operators.

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The CVS has a 22-year lease expiring in August 2025 and currently provides for annual rental payments of $546,600. CVS occupies approximately 12,000 square feet in a free standing building on the direct corner of Loop 610 and Westheimer. The Grotto has a 10-year lease expiring in September 2012 and currently provides for annual rental payments of $310,000. The Grotto occupies approximately 8,000 square feet on the southeast corner of the shopping center. IS Images, a women's clothing boutique, has a five-year lease expiring in March 2008. IS Images occupies approximately 1,600 square feet of the shopping center. Nextel, a leading cellular and wireless company, has a seven-year lease expiring in March 2009. Nextel occupies approximately 1,600 square feet of the shopping center. There is approximately 4,800 square feet of vacant space that is being marketed for lease. Each lease contains various provisions for lease extensions, ranging from three to five years each, at the then prevalent market rental rate.

AmREIT has contracted to purchase Terrace Shops, a 16,395 square foot shopping center anchored by Starbucks Coffee. This acquisition, which is expected to close on or about December 19, 2003, is subject to a number of closing conditions, including common area maintenance agreements and reconfiguration of parking lot to allow for additional parking spaces. The purchase price for this property is $4,800,000, which will be payable $2,000,000 in cash and the assumption of a $2,800,000 loan held by Lehman Brothers. The loan is a non- recourse permanent loan which is secured by the property. The loan bears a fixed interest rate of 7.58% with a 10 year term and a 30 year debt amortization schedule. The center is located at the intersection of Westpark and Buffalo Speedway in Houston, Texas. This intersection is the gateway to the affluent West University residential community and within close proximity to the Texas Medical Center and Greenway Plaza business district. The table below summarizes the tenants and their respective lease terms:

Tenant	Square Footage	Lease Term	Expiration	Annual Rent
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Copy Dr.	2,979	Five Years	June 2005	$ 78,944
Grand Panda	4,099	Ten Years	August 2011	$106,574
Vacant	1,217	--	--	--

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In August AmREIT Fidelity Corporation, a wholly owned subsidiary of AmREIT, sold an IHOP property located in Milwaukee, Wisconsin. The property was purchased in April 2003 and has a net book value of approximately $1,780,000. In August 2003 the property was sold for approximately $2,017,000 net of all closing and financing costs, resulting in a net profit to AmREIT Fidelity Corporation of approximately $237,000.

In December 2003, AmREIT sold an OfficeMax property located in Dover, Delaware. The property was purchased in April 1998 by AmREIT and has a net book value of approximately $2,570,000. In December 2003, the property was sold for approximately $3,112,000 net of all closing and financing costs, resulting in a net profit to AmREIT of approximately $542,000

AmREIT has contracted to sell a Goodyear Tire Store property located in Houston, Texas during January, 2004. The property was purchased in March 1994 and has a net book value of approximately $523,000. Estimated sales proceeds net of all closing and financing costs are anticipated to be $525,000, including a $135,000 lease buyout by Goodyear, resulting in a net profit to AmREIT of approximately $2,000.

AmREIT Fidelity Corporation has contracted to sell an IHOP property located in Merriville, Indiana during December 2003. The property was purchased in April 2003 and has a net book value of approximately $1,666,000. Estimated sales proceeds net of all closing and financing costs are anticipated to be $2,154,000, resulting in a net profit to AmREIT of approximately $488,000. Closing of this sale is subject to customary closing conditions.

Renovation and Improvements.

The following sentence updates and replaces the penultimate sentence of the paragraph under this caption on page 33 of the Prospectus.

Through September 30, 2003, approximately $147,000 thousand had been spent on renovation.

Significant Tenants.

The following sentence updates and replaces the first paragraph under this caption on page 35 of the Prospectus.

IHOP, Corp. and Footstar, Inc. individually accounted for 32% and 13%, respectively, of AmREIT's total rental revenues for the year ended December 31, 2002 and 35% and 10% for the nine months ended September 30, 2003.

Following the acquisition of Uptown Plaza, IHOP, Corp. and Footstar, Inc. are expected to individually account for approximately 29% and 9%, respectively, of AmREIT's total rental revenues as of December 31, 2003.

PRICE RANGE OF CLASS A COMMON SHARES

The following sentence updates and replaces the first sentence under this caption on page 56 of the Prospectus.

As of November 30, 2003, there were approximately 807 record holders of 2,832,733 class A common shares, net of 104,567 shares held in treasury.

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The following sentences update and replace the Third Quarter presentation under "2003" in the table appearing under this caption on page 56 of the Prospectus.

	High	Low	Dividend
Third Quarter.........................	$6.55	$6.15	$0.1120
Fourth Quarter (through December 1,2003)..................	$6.57	$6.30	$0.0758

SELECTED HISTORICAL FINANCIAL DATA

The following sentence updates and replaces the third sentence in the first paragraph under this caption on page 58 of the Prospectus.

The selected historical operating balance sheet and cash flow data for AmREIT for the nine months ended September 30, 2003 and 2002 are derived from AmREIT's unaudited financial statements and include, in management's opinion, all adjustments necessary to present fairly the data for such periods.

The following table updates and replaces the table under this caption on pages 59 and 60 of the Prospectus.

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AmREIT
Selected Historical
Consolidated Financial and Other Data

	December 31, 2002	December 31, 2001	Dec
Balance sheet data (at end of period)			
Total Property	$47,979,848	$ 30,726,025	$ 3
Accumulated depreciation	(2,136,376)	(2,066,067)	(
Total Property Held For Sale....................	-	-	
Cash and cash equivalents	2,506,868	227,117	
Total assets	73,975,753	38,828,393	3

Notes payable	33,586,085	16,971,549	1
Total liabilities	34,958,534	18,399,279	1
Minority interest	810,971	5,075,333	
Shareholders' equity	38,206,248	15,353,781	1
Fully diluted class A common shares issued	5,236,547	2,384,117	
Treasury shares	65,379	39,323	
Other data			
Cash flows provided by (used in):			
Operating	3,729,090	1,625,417	
Investing	(15,268,195)	(2,332,891)	
Financing	13,818,856	(1,276)	
Net increase (decrease) in cash and cash equivalents	2,279,751	(708,750)	
Funds from operations (1)	6,000	978,565	
Adjusted funds from operations (2)	1,910,370	978,565	
Book value per share	13.78	6.44	

		"Un-Audited"	
	December 31, 1998	September 30, 2003	Sep
Balance sheet data (at end of period)			
Total Property	$ 29,574,366	$ 48,581,530	$5
Accumulated depreciation	(696,384)	(2,731,637)	(
Total Property Held For Sale.....................	-	8,850,670	
Cash and cash equivalents	48,520	1,348,385	
Total assets	33,137,546	80,771,842	7
Notes payable	10,580,110	38,308,124	3
Total liabilities	10,796,439	39,697,066	3
Minority interest	5,218,999	821,380	
Shareholders' equity	17,122,108	40,253,396	3
Fully diluted class A common shares issued	2,384,117	2,917,924	
Treasury shares	11,373	105,422	
Other data			
Cash flows provided by (used in):			
Operating	1,510,069	(1,435,112)	
Investing	(7,687,454)	(4,517,354)	(1
Financing	4,824,165	4,793,983	1
Net increase (decrease) in cash and cash equivalents	(1,353,220)	(1,158,483)	
Funds from operations (1)	1,436,063	2,408,000	
Adjusted funds from operations (2)	1,436,063	2,408,000	
Book value per share	7.18	13.80	

(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 15.

(2) Based on the adherence to the NAREIT definition of FFO, we have not added back the $1.90 million charge to earnings in the third quarter of 2002 resulting from shares issued to Mr. Taylor as deferred merger cost stemming from the sale of his advisory company to AmREIT in June 1998. Adding this $1.90 million charge back to earnings would result in Adjusted FFO of $1.91 million.

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AmREIT
Selected Historical
Consolidated Financial and Other Data (3)

	December 31, 2002 (revised)(3)	December 31, 2001 (revised)(3)
Operating Data		
Revenues:		
Rental income and earned income from DFL	$ 5,193,147	$ 3,009,330
Interest income	4,206	10,555
Service fee, other income, and gain and loss on sale of property....................................	2,691,260	2,650,113
Total revenues	7,888,613	5,669,998
Expenses:		
General operating, administrative, legal and professional	4,134,134	2,956,061
Reimbursements and fees to realted party................	-	-
Interest	1,774,973	1,063,574
Depreciation and amortization	611,084	413,583

Merger related acquisition costs	-	-
Bad debts	-	-
Merger costs	-	-
Deferred merger costs....................................	1,904,370	-
Potential acquisition costs	-	-
Total expense	8,424,561	4,433,218
Income (loss) before federal income taxes and minority interest in net income of consolidated joint ventures	(535,948)	1,236,780
Federal income tax expense	60,656	144,420
Minority interest in net income of consolidated joint ventures	(308,010)	(527,571)
Income from continuing operations........................	(904,614)	564,789
Income from discontinued operations (3)..................	245,841	225,719
Net income (loss)	(658,773)	$ 790,508
Less distributions to class B & C shareholders.............	(865,293)	-
Net income (loss) available to class A shareholders.........	(1,524,066)	790,508
Basic and diluted income (loss) from continuing operations per share..$	(0.72)	$ 0.24
Net income (loss) per common share - basic and diluted......	(0.62)	$ 0.34
Distributions per share - class A ....$	0.34	$ 0.26
Weighted average number of Series A common shares outstanding	2,469,725	2,354,572
Weighted average number of common shares plus dilutive potential common shares	2,469,725	2,354,572

	December 31, 1998 (revised)(3)	"Un-Audited September 30, 2003	S
Operating Data			
Revenues:			
Rental income and earned income from DFL ....$	2,544,964	$ 5,526,601	$ 3
Interest income	98,692	5,289	
Service fee, other income, and gain and loss on sale of property....................................	187,577	2,522,994	1
Total revenues	2,831,233	8,054,884	5
Expenses:			
General operating, administrative, legal and professional	562,110	4,004,549	2
Reimbursements and fees to realted party.................	40,607	-	
Interest	402,707	1,743,535	1
Depreciation and amortization	388,278	617,946	
Merger related acquisition costs	-	-	
Bad debts	-	-	
Merger costs	2,427,658	-	

Deferred merger costs..................................	-	-	1
Potential acquisition costs	464,303	-	
Total expense	4,285,663	6,366,030	6
Income (loss) before federal income taxes and minority interest in net income of consolidated joint ventures	(1,454,430)	1,688,854	
Federal income tax expense	-	-	
Minority interest in net income of consolidated joint ventures	(518,559)	(128,790)	
Income from continuing operations..........................	(1,972,989)	1,560,064	(1
Income from discontinued operations (3)....................	167,203	205,917	
Net income (loss)	$ (1,805,786)	$ 1,765,981	$
Less distributions to class B & C shareholders.............	-	(1,349,010)	
Net income (loss) available to class A shareholders.........	(1,805,786)	416,971	(1
Basic and diluted income (loss) from continuing operations per share..	(0.89)	0.08	
Net income (loss) per common share - basic and diluted......	(0.81)	0.15	
Distributions per share - class A	$ 0.71	$ 0.33	$
Weighted average number of Series A common shares outstanding	2,226,403	2,788,303	2
Weighted average number of common shares plus dilutive potential common shares	2,226,403	2,788,303	2

(3) In accordance with Statement of Financial Accounting Standard 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 revised from those originally reported for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 to reflect separately the results of discontinued operations for properties held for sale during the nine months ended September 30, 2003. The revision had no impact on the consolidated balance sheet data, statements of shareholders' equity or statements of cash flows. The revisions had no impact on net earnings or net earnings per share for the years ended December 31, 2002, 2001, 2000, 1999 and 1998.

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

The following sentence updates and replaces the first sentence of the second paragraph under this caption on page 61 of the Prospectus.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Form 10-KSB for the fiscal year ended December 31, 2002 and Form 10-QSB for the fiscal quarter ended September 30, 2003 and the selected financial data appearing elsewhere in this Prospectus.

The following sentence updates and replaces the first sentence of the third paragraph under this caption on page 61 of the Prospectus.

AmREIT, a Texas real estate investment trust, is listed on the American Stock Exchange (AMY), owns a portfolio of 50 properties, 27 tenants located in 20 states, and a sponsor of high quality real estate investment opportunities to the financial planning community.

Liquidity and Capital Resources

The following paragraphs update and replace the second, third and fourth paragraphs under this caption on pages 61-62 of the Prospectus.

Comparison of the Three Months Ended September 30, 2003 to September 30, 2002:

Net cash provided by operating activities increased $505 thousand for the three months ended September 30, 2003 when compared with the three months ended September 30, 2002. The increase in cash provided by operating activities was due primarily to the following: (1) a $2.05 million increase in proceeds from the sale of real estate acquired for resale, from $0 in 2002 to $2.05 million in 2003; (2) net income increased $2.03 million, from a $1.37 million loss in 2002 to net income of $659 thousand in 2003. The increase in net income is primarily due to a non-cash charge of $1.9 million, representing deferred merger costs that were incurred in 2002, therefore, the transaction has no net effect on the cash flow; (3) accounts payable increased by $297 thousand in 2003, compared to a $135 thousand increase in 2002. The above increases in cash are offset by the following: (1) accounts receivable increased by $88 thousand in 2003, compared to a $1.079 million decrease in 2002; (2) other assets decreased $200 thousand in 2003, compared to a $106 thousand increase in 2002.

Net cash used in investing activities decreased $6.07 million for the three month period ended September 30, 2003 when compared to the three month period ended September 30, 2002. The decrease in cash used in investing activities was primarily due to a $6.75 million decrease in cash used for acquisitions of investment properties, from $8.22 million in 2002 to $1.47 million in 2003. This decrease in cash used is offset by a decrease in proceeds from the sale of investment properties of $1.1 million, from $1.1 million in 2002 to $0 in 2003.

Net cash used in financing activities increased $6.31 million for the three month period ended September 30, 2003 compared to the three month period ended September 30, 2002. The increase was primarily due to a $5.99 million decrease in proceeds from notes payable, from $7.89 million in 2002 to $1.9 million in 2003. This increase in cash is offset by a $3.15 million increase in payments of notes payable, from $1.44 million in 2002 to $4.59 million in 2003.

In August 2003 the Company began selling class C common shares. The offering is a $44 million offering, 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 pay down existing debt. At September 30, 2003, the Company had issued approximately 339 thousand shares, representing approximately $3.4 in proceeds from selling class C shares.

Comparison of the Nine Months Ended September 30, 2003 to September 30, 2002:

Net cash used in operating activities increased $4.05 million for the nine months ended September 30, 2003 when compared to the nine months ended September 30, 2002. The increase in cash used in operating activities was primarily due to the following: (1) investment in real estate acquired for sale increased $7.23 million, from $0 in 2002 to $7.23 million in 2003; (2) accounts receivable increased by $280 thousand in 2003, compared to a $1.72 million decrease in 2002. The above increases in cash used are offset by the following: (1) a $2.69 million increase in net income, from a loss of $926 thousand in 2002 to net income of $1.76 million in 2003. The increase in net income is primarily due to a non-cash charge of $1.9 million, representing deferred merger costs that were incurred in 2002, therefore, the transaction has no net effect on the cash flow; (2) an increase in proceeds from the sale of real estate acquired for resale of $3.95 million, from $0 in 2002 to $3.95 million in 2003; (3) a decrease in accounts payable of $6 thousand in 2003, compared to a decrease of $654 thousand in 2002.

Net cash used in investing activities decreased $12.92 million for the nine months ended September 30, 2003 when compared to the nine months ended September 30, 2002. The decrease in cash used was primarily due to a decrease in acquisitions of investment properties of $13.87 million, from $18.03 million in 2002 to $4.16 million in 2003. This decrease in cash used is offset by a $1.1 million decrease in proceeds from the sale of investment properties, from $1.1 million in 2002 to $0 in 2003.

Net cash provided by financing activities decreased $10.55 million for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The decrease was primarily due to the following components: (1) a decrease in proceeds from notes payable of $6.22 million, from $17.38 million in 2002 to $11.16 in 2003; (2) an increase in payments of notes payable of $4.96 million; (3) an increase in common dividends paid of $1.26 million, from $1.01 million in 2002 to $2.27 million in 2003; (4) a decrease in contributions from minority interests of $621 thousand; (5) an increase in the purchase of treasury shares of $591 thousand. The above decreases in cash are offset by a $3.40 million increase in the issuance of common shares.

The following paragraphs update and replace the eleventh, twelfth, thirteenth, and fourteenth paragraphs under this caption on pages 63-64 of the Prospectus.

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. Under the Credit Facility, which has a term of one year, the Company may borrow up to $20 million subject to the value of unencumbered assets. 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. At September 30, 2003, the Company was in compliance with all applicable financial covenants. The Credit Facility's annual interest rate varies depending upon leverage, from LIBOR plus a spread of 1.4% to LIBOR plus 2.35%. As of September 30, 2003, the interest rate was LIBOR plus 2.0%. As of September 30, 2003, $15.0 million was outstanding under the Credit Facility. Thus the Company has approximately $5.0 million available under its line of credit, subject to lender approval on the use of the proceeds.

As of September 30, 2003, the Company owned 50 properties directly and, since its inception, had invested $79 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 September 30, 2003 and 2002, the Company's cash and cash equivalents totaled $1.348 million and $751 thousand respectively.

The Company paid aggregate cash dividends to the holders of its class A, class B and class C common shares, for the three months ended of September 30, 2003 and 2002 of $765 thousand and $681 thousand, respectively.

Funds From Operations

The following sentences update and replace the third sentence of the first paragraph under this caption on page 64 of the Prospectus.

Funds from operations (FFO) increased $2.013 million to $874 thousand for the three months ended September 30, 2003 from $(1.139) million for the three months ended September 30, 2002. For the nine month period ended September 30, 2003 FFO increased $2.871 million, from $(463) thousand in 2002 to $2.408 million in 2003.

The following tables updates and replaces the second and fourth table on page 65 of the Prospectus, which reconciles net income to funds from operations and presents cash flows from operating activities, investing activities and financing activities.

Below is the reconciliation of net income to funds from operations in thousands for the three and nine months ended September 30:

	Quarter		Y
	2003	2002	2003
Net income (loss)	$ 659	$ (1,370)	$ 1,7
Depreciation and amortization:			
Continuing operations	215	216	6
Discontinued operations	-	15	
Total funds from operations *	$ 874	$ (1,139)	$ 2,4
Cash distributions paid to class A, B and C shareholders	$ 765	$ 681	$ 2,2
FFO in excess of (less than) distributions*	$ 109	$ (1,820)	$ 1

* Based on adherence to the NAREIT definition of FFO, we did not add back the

$1.904 million charge to earnings in the third quarter 2002 resulting from shares issued to Mr. Taylor, president of the Company. Adding this $1.904 million charge to earnings back to earnings would result in adjusted funds from

operations of $765 thousand for the three months ended September 30, 2002 and $1.441 million for the nine months ended September 30, 2002, respectively. Adding the charge to earnings would also result in dividends paid being less than adjusted FFO of $84 thousand for the three months ended September 30, 2002 and $429 thousand for the nine months ended September 30, 2002.

Cash flows provided by (used in) operating activities, investing activities, and financing activities for the three and nine months ended September 30 are presented below in thousands:

	Quarter		Year
	2003	2002	2003
Operating activities	$ 2,655	$ 2,150	$(1,435)
Investing activities	$ (1,420)	$(7,495)	$(4,517)
Financing activities	$ (623)	$ 5,683	$ 4,794

Results of Operations

The following paragraphs update and replace the first two paragraphs under this caption on page 66 of the Prospectus.

Comparison of the Three Months Ended September 30, 2003 to September 30, 2002.

During the three months ended September 30, 2003 and September 30, 2002, the Company earned $1.9 million and $1.6 million, respectively, in rental income from operating leases and earned income from direct financing leases. Additional property purchases resulted in the increased income from rents and earned income from direct financing leases. Service fee income increased $219 thousand, from $726 thousand in 2002 to $945 thousand in 2003. The increase in service fee income was primarily due to an increase in commission income from an increase in equity raised in our real estate investment sponsorship activities. Gain on sale of real estate acquired for resale increased $275 thousand, from a loss of $37 thousand in 2002 to a $238 thousand gain in 2003. The gain recorded in 2003 is related to the sale of an IHOP property in Milwaukee, WI.

During the three months ended September 30, 2003 and September 30, 2002, the Company's expenses were $2.5 million and $3.7 million, respectively. The $1.2 million decrease in expenses is primarily attributable to a non-recurring charge in 2002 of $1.9 million, which was a deferred payment of merger related expenses. This decrease in expense was partially offset by the following increases: (1) an increase in general operating and administrative expense of $221 thousand, from $649 thousand in 2002 to $870 thousand in 2003, which was primarily attributable to an increase in salary expense due to additional positions; and (2) an increase in legal and professional fees of $500 thousand, from $365 thousand in 2002 to $865 thousand in 2003, which was primarily due to an increase in commissions paid to third party security brokerage companies.

Comparison of the Nine Months Ended September 30, 2003 to September 30, 2002.

During the nine months ended September 30, 2003 and September 30, 2002, the Company earned $5.5 million and $3.5 million, respectively, in rental income from operating leases and earned income from direct financing leases. Additional property purchases as well as the merged properties from the three affiliated partnerships resulted in the increased income from rents and earned income from direct financing leases. Service fee income increased

$539 thousand, from $1.466 million in 2002 to $2.004 million in 2003. The increase is primarily due to an increase in commission income, which is partially offset by a decrease in advisory fee income. Gain on sale of real estate acquired for resale increased $275 thousand, from a loss of $37 thousand in 2002 to a $238 gain in 2003. The gain recorded in 2003 is related to the sale of an IHOP property in Milwaukee, WI.

During the nine months ended September 30, 2003 and September 30, 2002, the Company's expenses were $6.37 million and $6.13 million, respectively. The $234 thousand increase in expenses is primarily due to (1) an increase in legal and professional fees of $902 thousand, from $695 thousand in 2002 to $1.6 million in 2003. The increase in legal and professional fees is primarily attributable to increased commission expense paid to third party security brokerage companies; (2) an increase in interest expense of $560 thousand, from $1.2 million in 2002 to $1.7 million in 2003. The increase in interest expense is due to additional debt used to finance the acquisition of additional properties; (3) an increase in general operating and administrative expenses of $513 thousand, from $1.9 million in 2002 to $2.4 million in 2003, which is due to an increase in salary expense due to additional positions. These increases in expense are offset by a decrease in deferred merger costs of $1.9 million, which is attributable to the deferred payment of merger related expenses that was expensed in 2002.

DESCRIPTION OF AMREIT'S CAPITAL SHARES

General

The following sentence updates and replaces the second sentence under this caption on page 83 of the Prospectus.

As of November 30, 2003, AmREIT had outstanding 2,832,733 class A common shares, 2,364,770 class B common shares, 887,885 class C common shares and no preferred shares.

EXPERTS

General

The following paragraph updates and replaces the first paragraph under this caption on page 115 of the Prospectus.

The consolidated financial statements and schedule of AmREIT, Inc. and subsidiaries as of and for the year ending December 31, 2002, and the historical summary of gross income and direct operating expenses of 610 Westheimer-2000 for the period from September 29, 2002 (commencement of operations) to December 31, 2002 have been included herein in reliance upon the reports of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

AMREIT AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002:

Consolidated Balance Sheet as of September 30,2003 (unaudited)..............................

Consolidated Statements of Operations for the three and nine months ended September 30,2003 and 2002 (unaudited)..

Consolidated Statements of Cash Flows for the three and nine months ended September 30,2003 and 2002 (unaudited)..

Notes to Consolidated Financial Statements for the three and nine months ended September 30,2003 and 2002...

FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001:

Independent Auditors' Report..

Independent Auditors' Report..

Consolidated Balance Sheet, December 31,2002..

Consolidated Statements of Operations for the Years Ended December 31,2002 and 2001...

Consolidated Statements of Shareholders' Equity for the Years Ended December 31,2002 and 2001.....................................

Consolidated Statements of Cash Flows for the Years Ended December 31,2002 and 2001...

Notes to Consolidated Financial Statements for the Years Ended December 31,2002 and 2001...

FINANCIAL STATEMENT SCHEDULE:

Schedule III Consolidated Real Estate Owned and Accumulated
Depreciation for the Year Ended December 31,2002..

610 WESTHEIMER - 2000 HISTORICAL SUMMARY OF GROSS INCOME AND DIRECT OPERATING EXPENSES FOR THE PERIOD SEPTEMBER 29, 2002 (COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2002 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2003 (Unaudited)

Independent Auditors' Report...

Historical Summary of Gross Income and Direct Operating Expenses for the
Period September 29,2002 (commencement of operations) through
December 31,2002 and the Nine Months Ended September 30,2003
(Unaudited)...

Notes to Historical Summary of Gross Income and Direct Operating Expenses
for the Period September 29,2002 (commencement of operations) through
December 31,2002 and the Nine Months Ended September 30, 2003
(Unaudited)...

All other financial statement schedules are omitted as the required information is either inapplicable or is included in the financial statements or related notes.

AMREIT AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
September 30, 2003
(unaudited)

ASSETS	
Property:	
Land	$21,531,368
Buildings	26,466,459
Tenant improvements	351,561
Furniture, fixtures and equipment	232,142
	48,581,530
Less accumulated depreciation	(2,731,637)
Net real estate held for investment	45,849,893
Real estate held for sale, net	8,850,670
Net investment in direct financing leases held for ivestment	22,048,739
Cash and cash equivalents	1,348,385
Accounts receivable	372,600
Accounts receivable - related party	150,432
Escrow deposits	257,925
Prepaid expenses, net	324,419
Other assets:	
Preacquisition costs	17,088
Loan acquisition cost, net of $117,356 in accumulated amortization	328,230
Accrued rental income	498,802
Intangible lease cost, net of $52,813 in accumulated amortization	204,786
Investment in non-consolidated affiliates	519,873
Total other assets	1,568,779
TOTAL ASSETS	$80,771,842
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Notes payable	$38,308,124
Accounts payable	1,321,795
Accounts payable - related party	24,656
Security deposit	35,930
Prepaid rent	6,561
TOTAL LIABILITIES	39,697,066
Minority interest	821,380
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, 2,917,924 shares issued	29,179
Class B Common shares, $.01 par value, 3,000,000 shares authorized, 2,384,002 shares issued	23,840
Class C Common shares, $.01 par value, 4,400,000 shares authorized, 339,455 shares issued	3,395

Capital in excess of par value	50,058,297
Accumulated distributions in excess of earnings	(8,935,391)
Deferred compensation	(267,330)
Cost of treasury shares, 105,422 shares	(658,594)
TOTAL SHAREHOLDERS' EQUITY	40,253,396
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$80,771,842

See Notes to Condensed Consolidated Financial Statements.

AMREIT AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Quarter ended September 30,		Year to
	2003	2002	2003
Revenues:			
Rental income from operating leases	$1,243,067	$ 1,007,891	$3,575,9
Earned income from direct financing leases	681,309	594,429	1,950,6
Service fee income	944,530	725,967	2,004,3
Management fees	78,302	50,910	188,5
Income from non-consolidated affiliates	7,138	-	92,4
Gain on sales of real estate acquired for resale	237,579	(37,061)	237,5
Interest and other income	1,459	542	5,2
Total revenues	3,193,384	2,342,678	8,054,8
Expenses:			
General operating and administrative	869,675	648,849	2,407,3
Legal and professional	864,535	365,400	1,597,2
Interest	598,189	519,665	1,743,5
Depreciation and amortization	216,375	226,049	617,9
Deferred merger costs	-	1,904,370	
Total expenses	2,548,774	3,664,333	6,366,0
Income (loss) before federal income taxes and minority interest in income of consolidated joint ventures	644,610	(1,321,655)	1,688,8
Federal income tax expense for taxable REIT subsidiary	(15,300)	(75,000)	
Minority interest in income of consolidated joint ventures	(45,841)	(35,339)	(128,7

Income from continuing operations	583,469	(1,431,994)	1,560,0
Income from discontinued operations	75,531	$ 61,966	205,9
Net income (loss)	$ 659,000	$(1,370,028)	$1,765,9
Distributions paid to class B and class C shareholders	(457,343)	(423,732)	(1,349,0
Net income (loss) available to class A shareholders	$ 201,657	$(1,793,760)	$ 416,9
Basic income (loss) from continuing operations per common share	$ 0.045	$ (0.769)	$ 0.0
Net income (loss) per common share - basic and diluted	$ 0.072	$ (0.744)	$ 0.1
Weighted avergage common shares used to compute net income per share, basic and diluted	2,805,753	2,412,544	2,788,3

See Notes to Condensed Consolidated Financial Statements.

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

	Quarter ended September 30, 2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 659,000	$(1,370,028)
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment in real estate acquired for resale	-	-
Proceeds from sales of real estate acquir	2,049,627	-
(Gain) loss on sales of real estate acquired for resale	(237,579)	37,061
Depreciation and amortization	241,521	241,275
Amortization of (increase in) deferred compensation	15,457	15,457
Minority interest in net income of consolidated joint ventures	45,841	35,339
Deferred merger costs	-	1,904,370
(Increase) decrease in accounts receivable	(85,708)	256,697
(Increase) decrease in accounts receivable		

- related party	(2,623)	821,982
Increase (decrease) in prepaid expenses, net	39,138	65,519
Cash receipts from direct financing leases (less) more than income recognized	(3,476)	(81,282)
Increase in accrued rental income	(79,431)	(14,683)
(Increase) decrease in other assets	(199,550)	105,554
Increase (decrease) in accounts payable	452,309	256,568
Decrease in accounts payable- related party	(155,042)	(121,440)
(Decrease) increase in prepaid rent	(84,418)	(7,438)
Decrease in security deposits	-	4,857
Net cash provided by (used in) operating activities	2,655,066	2,149,808
Cash flows from investing activities:		
Improvements to real estate	(45,518)	(71,107)
Acquisition of investment properties	(1,474,694)	(8,217,958)
Additions to furniture, fixtures and equipment	(3,124)	(8,329)
(Investment in) distributions from non-consolidating affiliates	110,294	(91,001)
Proceeds from sale of investment property	-	1,097,562
Increase in preacquisition costs	(7,313)	(204,056)
Net cash provided by (used in) investing activities	(1,420,355)	(7,494,889)
Cash flows from financing activities:		
Proceeds from notes payable	1,900,000	7,885,573
Payments of notes payable	(4,588,257)	(1,440,734)
Loan acquisition costs	-	(46,584)
(Purchase) issuance of treasury shares	(23,080)	(8,442)
Issuance of common shares	3,393,764	(2,000)
Issuance costs	(514,689)	-
Common dividends paid	(765,467)	(680,898)
Contributions from minority interests	-	11,542
Distributions to minority interests	(25,031)	(35,339)
Net cash (used in) provided by financing	(622,760)	5,683,118
Net increase (decrease) in cash and cash equiv	611,951	338,037
Cash and cash equivalents, beginning of period	736,434	412,982
Cash and cash equivalents, end of period	$ 1,348,385	$ 751,019

Supplemental schedule of noncash investing and financing activities On July 23, 2002, the Company merged 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. In conjunction with the merger, the Company acquired $23,890,318 worth of property and issued 2,589,179 shares of Class B common shares.

Supplemental schedule of cash flow information:

Cash paid during the year for:		
Interest	490,828	384,132
Income taxes	15,884	-

See Notes to Condensed Consolidated Financial Statements.

AMREIT AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 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 three month and nine-month periods ended September 30, 2003 and 2002.

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, 2002.

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

AmREIT, formerly AmREIT, Inc. and previously 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, is listed on the American Stock Exchange (AMY) and re-organized in the state of Texas in December 2002. AmREIT is both an owner of net-leased properties and a sponsor of real estate direct participation programs to the financial planning community. For more than 18 years, the Company (and its predecessors) has established a track record of investing in commercial real estate leased primarily to parent companies of 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 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, Sprint, Radio Shack, Coldwell Banker, Guaranty Federal, Bennigan's, Chili's, Texas Children's Pediatric Associates, Discount Tire, etc.

AmREIT owns a real estate portfolio that consists of 50 properties located in 20 states. Its properties include single-tenant, free standing credit tenant leased projects and multi-tenant frontage projects. The single tenant projects are located coast to coast and are primarily leased to corporate tenants where the lease is the direct obligation of the parent companies. As a result, the dependability of lease payments is 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 these 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 exercised their dissenters' rights. 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

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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.

Pro Forma Consolidated Operating Information
(Unaudited)

	Three Months Ended September 30, 2002	S
Revenues		
Rental income and earned income	$ 1,750,489	
Other income	768,699	
Total Revenues	2,519,188	
Total expenses	3,756,895	
Proforma income before minority interest in income of consolidated joint ventures	(1,237,707)	
Federal income tax benefit from taxable REIT subsidiary	(75,000)	
Minority interest in income of consolidated joint ventures	(9,795)	
Pro forma net income (loss)	$ (1,322,502)	

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

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
Net assets acquired	$ 24,879,058
Class B common stock issued	24,118,648
Subordinated notes issued	760,410

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In August 2003 the Company began selling class C common shares. The offering is a $44 million offering, 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. At September 30, 2003, the Company had issued approximately 339 thousand shares, representing approximately $3.4 in proceeds from selling class C shares.

REAL ESTATE HELD FOR SALE
Properties are classified as real estate held for sale if the properties were purchased with intent to hold the properties for less than a year or if the properties are listed for sale. At September 30, 2003, AmREIT owned five properties that are classified as real estate held for sale. The five properties have a combined carrying value of $8.85 million. Three of the properties have separate notes payable, which have a one year term and a combined balance of $3.46 million at September 30, 2003.

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 our consolidated financial position, results of operations, or cash flows.

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. The Company has adopted SFAS 148 and the 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 implementation of the Interpretation has been delayed until periods ending after December 15, 2003. 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. The Company believes it has no variable interest entities which would require consolidation or disclosure.

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 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 2002 and 2003 condensed consolidated financial statements have been reclassified to conform to the presentation used in the interim unaudited 2003 condensed consolidated financial statements. Such reclassifications had no effect on previously reported net income or loss or shareholders' equity.

2. 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. Under the Credit Facility, which has a term of one year, the Company may borrow up to $20 million subject to the value of unencumbered assets. 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. At September 30, 2003, the Company was in compliance with all financial covenants. The Credit Facility's annual interest rate varies depending upon leverage, from LIBOR plus a spread of 1.40% to LIBOR plus 2.35%. As of September 30, 2003, the interest rate was LIBOR plus 2.0%. As of September 30, 2003, $15.0 million was outstanding under the Credit Facility. Thus the Company has approximately $5.0 million available under its line of credit, subject to Lender approval on the use of the proceeds.

3. MAJOR TENANTS

As of September 30, 2003, there have been 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 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 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:

	Quarter	
	2003	2002
BASIC EARNINGS PER SHARE		
Weighted average class A common shares outstanding	2,805,753	2,412,544
Basic earnings (loss) per share	$ 0.072	$ (0.744)
EARNINGS (LOSS) FOR BASIC COMPUTATION		
Net income (loss) available to class A common shareholders (basic earnings (loss) per share computation)	$ 201,657	$(1,793,760)

Diluted earnings per share information is not disclosed due to the accretive nature of the common class B and class C shares.

5. DISCONTINUED OPERATIONS

The operations of two properties listed as held for sale at September 30, 2003 were reported as discontinued operations. The following is a summary of our discontinued operations:

	Three Months Ended 9/30/2003	Three Months Ended 9/30/2002	Nin Mon End 9/30
Rental revenue	$82,540	$77,192	$247
Depreciation and amortization	-	(15,226)	(30
Property expenses	(7,009)	-	(11
Income from discontinued operations	$ 75,531	$61,966	$205
Basic income from discontinued operations per common share	$ 0.027	$ 0.026	$ 0

6. COMMITMENTS

In June 1998, the AmREIT shareholders approved the acquisition of an advisory company then owned by H. Kerr Taylor's, President and CEO of AmREIT. In conjunction with this acquisition, Mr. Taylor agreed to defer a portion of the consideration owed to him, which would be paid based on a specified formula if and when the Company raised additional equity to grow AmREIT's equity and assets. As of September 30, 2003, Mr. Taylor is eligible to receive an additional 384 thousand class A shares as the Company raises additional equity. Based on equity raised through the class C common share offering subsequent to September 30, 2003, and equity anticipated to be raised through December 31, 2003, Mr. Taylor will be issued between 150 thousand and 170 thousand of these additional class A shares, valued at market price on the date of issuance. Upon issuance of these shares, based on the terms of the deferred consideration agreement which expires June 2006, approximately 234 thousand to 214 thousand shares remain available to be issued to Mr. Taylor.

As of September 30, 2003, AmREIT has contracted for approximately $22.4 million of single tenant and multi-tenant real estate projects that are anticipated to close during the fourth quarter 2003 and first quarter 2004.

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.

CRITICAL ACCOUNTING POLICIES

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. 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.

GENERAL

AmREIT, a Texas real estate investment trust, is listed on the American Stock Exchange (AMY), and is committed to providing our shareholders with an opportunity to earn dependable, monthly income through investing in high-quality commercial retail real estate. Our strategy is to acquire or develop high-quality properties that are leased to strong national or regional parent companies. Today, AmREIT owns a portfolio of 50 properties, leased to 27 different tenants located in 20 states. As our capital base continues to expand, we are forming additional relationships in the real estate community, identifying investment opportunities that fit our approach, and carrying out our pledge to our shareholders to deliver dependable monthly income.

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 credit tenant leased and frontage shopping center properties that are located contiguous to major thoroughfares and traffic generators. AmREIT's real estate customer list includes national and regional tenants such as: Walgreens, Goodyear Tire, Washington Mutual, IHOP, McDonald's, Herman Hospital, Radio Shack, Sprint, Coldwell Banker, Guaranty Federal, Bennigan's, Chili's, Texas Children's Pediatric Associates and Discount Tire.

AmREIT, or an affiliate, has previously sponsored 14 investment funds through the NASD broker-dealer community. It is currently both a limited partner and general partner in three of these funds. Through this ownership, AmREIT receives commissions, fees and a carried interest in the profits and cash flows of these investment funds. Although this carried interest is not currently reflected in the balance sheet or statement of operations of AmREIT, it is anticipated to generate profits and cash flows to AmREIT as certain returns are met for the investors in these affiliated investment funds.

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 shares and the use of the Company's credit facility have been the principal sources of capital required to fund its growth. 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.

Comparison of the Three Months Ended September 30, 2003 to September 30, 2002:

Net cash provided by operating activities increased $505 thousand for the three months ended September 30, 2003 when compared with the three months ended September 30, 2002. The increase in cash provided by operating activities was due primarily to the following: (1) a $2.05 million increase in proceeds from the sale of real estate acquired for resale, from $0 in 2002 to $2.05 million in 2003; (2) net income increased $2.03 million, from a $1.37 million loss in 2002 to net income of $659 thousand in 2003. The increase in net income is primarily due to a non-cash charge of $1.9 million, representing deferred merger costs that were incurred in 2002, therefore, the transaction has no net effect on the cash flow; (3) accounts payable increased by $297 thousand in 2003, compared to a $135 thousand increase in 2002. The above increases in cash are offset by the following: (1) accounts receivable increased by $88 thousand in 2003, compared to a $1.079 million decrease in 2002; (2) other assets decreased $200 thousand in 2003, compared to a $106 thousand increase in 2002.

Net cash used in investing activities decreased $6.07 million for the three month period ended September 30, 2003 when compared to the three month period ended September 30, 2002. The decrease in cash used in investing activities was primarily due to a $6.75 million decrease in cash used for acquisitions of investment properties, from $8.22 million in 2002 to $1.47 million in 2003. This decrease in cash used is offset by a decrease in proceeds from the sale of investment properties of $1.1 million, from $1.1 million in 2002 to $0 in 2003.

Net cash used in financing activities increased $6.31 million for the three month period ended September 30, 2003 compared to the three month period ended September 30, 2002. The increase was primarily due to a $5.99 million decrease in proceeds from notes payable, from $7.89 million in 2002 to $1.9 million in 2003. This increase in cash is offset by a $3.15 million increase in payments of notes payable, from $1.44 million in 2002 to $4.59 million in 2003.

In August 2003 the Company began selling class C common shares. The offering is a $44 million offering, 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 pay down existing debt. At September 30, 2003, the Company had issued approximately 339 thousand shares, representing approximately $3.4 million in proceeds from selling class C shares .

Comparison of the Nine Months Ended September 30, 2003 to September 30, 2002:

Net cash used in operating activities increased $4.05 million for the nine months ended September 30, 2003 when compared to the nine months ended September 30, 2002. The increase in cash used in operating activities was

primarily due to the following: (1) investment in real estate acquired for sale increased $7.23 million, from $0 in 2002 to $7.23 million in 2003; (2) accounts receivable increased by $280 thousand in 2003, compared to a $1.72 million decrease in 2002. The above increases in cash used are offset by the following: (1) a $2.69 million increase in net income, from a loss of $926 thousand in 2002 to net income of $1.76 million in 2003. The increase in net income is primarily due to a non-cash charge of $1.9 million, representing deferred merger costs that were incurred in 2002, therefore, the transaction has no net effect on the cash flow; (2) an increase in proceeds from the sale of real estate acquired for resale of $3.95 million, from $0 in 2002 to $3.95 million in 2003; (3) a decrease in accounts payable of $6 thousand in 2003, compared to a decrease of $654 thousand in 2002.

Net cash used in investing activities decreased $12.92 million for the nine months ended September 30, 2003 when compared to the nine months ended September 30, 2002. The decrease in cash used was primarily due to a decrease in acquisitions of investment properties of $13.87 million, from $18.03 million in 2002 to $4.16 million in 2003. This decrease in cash used is offset by a $1.1 million decrease in proceeds from the sale of investment properties, from $1.1 million in 2002 to $0 in 2003.

Net cash provided by financing activities decreased $10.55 million for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The decrease was primarily due to the following components: (1) a decrease in proceeds from notes payable of $6.22 million, from $17.38 million in 2002 to $11.16 in 2003; (2) an increase in payments of notes payable of $4.96 million; (3) an increase in common dividends paid of $1.26 million, from $1.01 million in 2002 to $2.27 million in 2003; (4) a decrease in contributions from minority interests of $621 thousand; (5) an increase in the purchase of treasury shares of $591 thousand. The above decreases in cash are offset by a $3.40 million increase in the issuance of common shares.

Cash flows provided by (used in) operating activities, investing activities, and financing activities for the three and nine months ended September 30 are presented below in thousands:

	Quarter		Year to date	
	2003	2002	2003	2002
Operating activities	$ 2,655	$ 2,150	$(1,435)	$ 2,617
Investing activities	$(1,420)	$(7,495)	$(4,517)	$(17,435)
Financing activities	$ (623)	$ 5,683	$ 4,794	$ 15,342

On July 23, 2002, the Company completed a merger with three of its 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 exercised their dissenters rights. 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.

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. Under the Credit Facility, which has a term of one year, the Company may borrow up to $20 million subject to the value of unencumbered assets. 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. At September 30, 2003, the Company was in compliance with all applicable financial covenants. The Credit Facility's annual interest rate varies depending upon leverage, from LIBOR plus a spread of 1.4% to LIBOR plus 2.35%. As of September 30, 2003, the interest rate was LIBOR plus 2.0%. As of September 30, 2003, $15.0 million was outstanding under the Credit Facility. Thus the Company has approximately $5.0 million available under its line of credit, subject to lender approval on the use of the proceeds.

As of September 30, 2003, the Company owned 50 properties directly and, since its inception, had invested $79 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 September 30, 2003 and 2002, the Company's cash and cash equivalents totaled $1.348 million and $751 thousand respectively.

The Company paid aggregate cash dividends to the holders of its class A, class B and class C common shares, for the three months ended of September 30, 2003 and 2002 of $765 thousand and $681 thousand, respectively.

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.

FUNDS FROM OPERATIONS

Funds from operations (FFO) increased $2.013 million to $874 thousand for the three months ended September 30, 2003 from $(1.139) million for the three months ended September 30, 2002. For the nine month period ended September 30, 2003 FFO increased $2.871 million, from $(463) thousand in 2002 to $2.408 million in 2003. Management considers FFO to be an appropriate measure of operating 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 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. Below is the reconciliation of net income to funds from operations in thousands for the three and nine months ended September 30:

	Quarter		
	2003	2002	200
Net income (loss)	$ 659	$ (1,370)	$ 1,7
Depreciation and amortization:			
Continuing operations	215	216	6
Discontinued operations	-	15	
Total funds from operations *	$ 874	$ (1,139)	$ 2,4
Cash distributions paid to class A, B and C shareholders	$ 765	$ 681	$ 2,2
FFO in excess of (less than) distributions*	$ 109	$ (1,820)	$ 1

* Based on adherence to the NAREIT definition of FFO, we did not add back the $1.904 million charge to earnings in the third quarter 2002 resulting from shares issued to Mr. Taylor, president of the Company. Adding this $1.904 million charge to earnings back to earnings would result in adjusted funds from operations of $765 thousand for the three months ended September 30, 2002 and $1.441 million for the nine months ended September 30, 2002, respectively. Adding the charge to earnings would also result in dividends paid being less than adjusted FFO of $84 thousand for the three months ended September 30, 2002 and $429 thousand for the nine months ended September 30, 2002.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended September 30, 2003 to September 30, 2002:

During the three months ended September 30, 2003 and September 30, 2002, the Company earned $1.9 million and $1.6 million, respectively, in rental income from operating leases and earned income from direct financing leases. Additional property purchases resulted in the increased income from rents and earned income from direct financing leases. Service fee income increased $219 thousand, from $726 thousand in 2002 to $945 thousand in 2003. The increase in service fee income was primarily due to an increase in commission income from an increase in equity raised in our real estate investment sponsorship activities. Gain on sale of real estate acquired for resale increased $275 thousand, from a loss of $37 thousand in 2002 to a $238 thousand gain in 2003. The gain recorded in 2003 is related to the sale of an IHOP property in Milwaukee, WI.

During the three months ended September 30, 2003 and September 30, 2002, the Company's expenses were $2.5 million and $3.7 million, respectively. The $1.2 million decrease in expenses is primarily attributable to a non-recurring charge in 2002 of $1.9 million, which was a deferred payment of merger related expenses. This decrease in expense was partially offset by the following increases: (1) an increase in general operating and administrative expense of $221 thousand, from $649 thousand in 2002 to $870 thousand in 2003, which was primarily attributable to an increase in salary expense due to additional positions; and (2) an increase in legal and professional fees of $500 thousand, from $365 thousand in 2002 to $865 thousand in 2003, which was primarily due to an increase in commissions paid to third party security brokerage companies.

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Comparison of the Nine Months Ended September 30, 2003 to September 30, 2002:

During the nine months ended September 30, 2003 and September 30, 2002, the Compa