AMREIT
Form 10-Q
November 09, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

[ ] 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

(Name of registrant as specified its charter)

TEXAS	**76-0410050**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
8 GREENWAY PLAZA, SUITE 1000 HOUSTON, TX	**77046**
(Address of Principal Executive Offices)	(Zip Code)

713-850-1400
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

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

As of November 6, 2007 there were 6,327,629 class A, 1,022,837 class B, 4,437,891class C and 11,903,311class D common shares of beneficial interest of AmREIT, $.01 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

AmREIT AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2007 and December 31, 2006
(in thousands, except share data)

	September 30, 2007	December 31, 2006
ASSETS	(unaudited)	
Real estate investments at cost:		
Land	$ 129,497	$ 124,751
Buildings	140,277	140,487
Tenant improvements	9,971	9,296
	279,745	274,534
Less accumulated depreciation and amortization	(14,361)	(10,628)
	265,384	263,906
Real estate held for sale, net	22,505	-
Net investment in direct financing leases held for investment	2,055	19,204
Intangible lease cost, net	13,764	16,016
Investment in merchant development funds and other affiliates	6,912	2,651
Net real estate investments	310,620	301,777
Cash and cash equivalents	6,785	3,415
Tenant receivables, net	4,034	4,330
Accounts receivable, net	1,259	1,772
Accounts receivable - related party	5,593	1,665
Notes receivable - related party	7,216	10,104
Deferred costs	2,285	2,045
Other assets	3,740	3,322
TOTAL ASSETS	$ 341,532	$ 328,430
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable	$ 154,386	$ 144,453
Notes payable, held for sale	12,928	-
Accounts payable and other liabilities	6,361	9,162
Below market leases, net	3,537	3,960
Security deposits	676	668
TOTAL LIABILITIES	177,888	158,243
Minority interest	1,166	1,137
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,		

6,599,033 and 6,549,950 shares issued, respectively	66	65
Class B Common shares, $.01 par value, 3,000,000 shares authorized,		
1,031,097 and 1,080,180 shares issued and outstanding, respectively	10	11
Class C Common shares, $.01 par value, 4,400,000 shares authorized,		
4,141,140 and 4,145,531 shares issued and outstanding, respectively	41	41
Class D Common shares, $.01 par value, 17,000,000 shares authorized,		
11,044,413 and 11,039,803 shares issued and outstanding, respectively	110	110
Capital in excess of par value	194,230	194,696
Accumulated distributions in excess of earnings	(30,124)	(23,749)
Cost of treasury shares, 244,353 and 292,238 Class A shares, respectively	(1,855)	(2,124)
TOTAL SHAREHOLDERS' EQUITY	162,478	169,050
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 341,532	$ 328,430

See Notes to Consolidated Financial Statements.

AmREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Quarter ended September 30,		Year to date ended September 30,	
	2007	2006	2007	2006
Revenues:				
Rental income from operating leases	$ 7,600	$ 7,241	$ 22,359	$ 20,646
Earned income from direct financing leases	59	59	179	178
Real estate fee income	118	27	972	778
Real estate fee income - related party	1,775	897	2,837	2,574
Construction revenues	300	705	1,092	1,645
Construction revenues - related party	1,675	2,890	2,770	6,686
Securities commission income - related party	933	1,554	3,410	4,172
Asset management fee income - related party	334	212	930	556
Total revenues	12,794	13,585	34,549	37,235
Expenses:				
General and administrative	2,249	2,115	6,363	6,234
Property expense	1,937	2,008	5,703	5,189
Construction costs	1,792	3,224	3,521	7,508
Legal and professional	425	356	1,188	942
Real estate commissions	1	-	448	540
Securities commissions	788	1,348	2,862	3,694
Depreciation and amortization	2,016	2,046	5,914	6,620
Total expenses	9,208	11,097	25,999	30,727
Operating income	3,586	2,488	8,550	6,508
Other income (expense):				
Interest and other income - related party	361	403	861	870
Income from merchant development funds and other affiliates	462	213	435	519
Federal income tax (expense) benefit for taxable REIT subsidiary	(259)	91	242	360

Interest expense		(2,309)		(1,814)		(6,485)		(5,095)
Minority interest in income of consolidated joint ventures		14		20		51		58
Income before discontinued operations		1,855		1,401		3,654		3,220
Income from discontinued operations, net of taxes		150		156		454		670
Gain on sales of real estate acquired for resale, net of taxes		-		-		-		12
Income from discontinued operations		150		156		454		682
Net income		2,005		1,557		4,108		3,902
Distributions paid to class B, C and D shareholders		(2,693)		(2,909)		(8,109)		(8,729)
Net loss available to class A shareholders	$	(688)	$	(1,352)	$	(4,001)	$	(4,827)
Net loss per class A common share - basic and diluted								
Loss before discontinued operations	$	(0.13)	$	(0.24)	$	(0.70)	$	(0.87)
Income from discontinued operations	$	0.02	$	0.02	$	0.07	$	0.11
Net loss	$	(0.11)	$	(0.22)	$	(0.63)	$	(0.76)
Weighted average class A common shares used to compute net loss per share, basic and diluted		6,385		6,285		6,373		6,321

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share data)
(unaudited)

	Year to date ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net income	$ 4,108	$ 3,902
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Investment in real estate acquired for resale	-	(623)
Proceeds from sales of real estate acquired for resale	1,399	1,153
Gain on sales of real estate acquired for resale	-	(12)
Gain on sales of real estate acquired for investment	-	(286)
Income from merchant development funds and other affiliates	(435)	(519)
Cash receipts related to deferred related party fees	607	-
Depreciation and amortization	5,861	6,447
Amortization of deferred compensation	552	435
Minority interest in income of consolidated joint ventures	102	42
Distributions from merchant development funds and other affiliates	246	284
Decrease (increase) in tenant receivables	296	(825)
Decrease in accounts receivable	513	494
(Increase) decrease in accounts receivable - related party	(3,928)	1,753
Cash receipts from direct financing leases		
more than income recognized	62	5
Increase in other assets	(455)	(418)
	(2,716)	(285)

Decrease in accounts payable and other liabilities		
Increase (decrease) in security deposits	8	(5)
Net cash provided by operating activities	6,220	11,542
Cash flows from investing activities:		
Improvements to real estate	(2,780)	(2,505)
Acquisition of investment properties	(9,558)	(24,518)
Loans to affiliates	(3,195)	(11,095)
Payments from affiliates	6,083	9,339
Additions to furniture, fixtures and equipment	(56)	(113)
Investment in merchant development funds and other affiliates	(4,858)	-
Distributions from merchant development funds and other affiliates	179	98
Proceeds from sale of investment property	-	4,466
Increase (decrease) in preacquisition costs	(40)	(71)
Net cash used in investing activities	(14,225)	(24,399)
Cash flows from financing activities:		
Proceeds from notes payable	77,686	57,505
Payments of notes payable	(54,649)	(35,105)
Increase in deferred costs	(271)	(169)
Purchase of treasury shares	(652)	(2,375)
Issuance of common shares	-	(1)
Retirement of common shares	(4,795)	(3,897)
Issuance costs	(8)	(43)
Common dividends paid	(5,863)	(6,323)
Distributions to minority interests	(73)	(73)
Net cash provided by financing activities	11,375	9,519
Net increase (decrease) in cash and cash equivalents	3,370	(3,338)
Cash and cash equivalents, beginning of period	3,415	5,915
Cash and cash equivalents, end of period	$ 6,785	$ 2,577

Supplemental schedule of cash flow information:				
Cash paid during the year for:				
Interest	$	7,078	$	5,787
Income taxes		1,054		945

Supplemental schedule of noncash investing and financing activities

During 2007 and 2006, 49,000 and 68,000 Class B shares, respectively were converted to Class A shares. Additionally, during 2007 and 2006, we issued Class C and D shares with a valus of $4.6 million and $4.8 million, respectively, in satisifaction of dividends through the dividen reinvestment program.

In 2007, we issued 131,000 restricted shares to employess and trust managers as part of their compensation arrangements. The restricted shares vest over a four and three year period, respectively. We recorded $1.1 million in deferred compensation related to the issuance of the restricted shares.

In 2006, the Company issues 103,000 restricted shares to employees and trust managers as part of their compensation arrangements. The restricted shares vest over a four and three year period, respectively. We recorded $725,000 in deferred compensation related to the issuance of the restricted shares.

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the nine months ended September 30, 2007
(in thousands, except share data)
(unaudited)

	Common Shares Amount	Capital in excess of par value	Accumulated distributions in excess of earnings	Cost of treasury shares	Total
Balance at December 31, 2006	$ 227	$ 194,696	$ (23,749)	$ (2,124)	$ 169,050
Net income	-	-	4,108	-	4,108
Deferred compensation issuance of restricted shares, Class A	-	(835)	-	921	86
Issuance of common shares, Class A	1	-	-	-	1
Repurchase of common shares, Class A	-	-	-	(652)	(652)
Repurchase of common shares, Class B	(1)	-	-	-	(1)
Amortization of deferred compensation	-	552	-	-	552
Issuance of common shares, Class C	1	1,293	-	-	1,294
Retirement of common shares, Class C	(1)	(1,341)	-	-	(1,342)
Issuance of common shares, Class D	3	3,315	-	-	3,318
Retirement of common shares, Class D	(3)	(3,450)	-	-	(3,453)
Distributions	-	-	(10,483)	-	(10,483)
Balance at September 30, 2007	$ 227	$ 194,230	$ (30,124)	$ (1,855)	$ 162,478

See Notes to Consolidated Financial Statements.

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AmREIT AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

We are an established real estate company that, at our core, are value creators who have delivered results to our investors for 22 years. We have elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. Our mission is to build a real estate business with complementary operations that reduce our sensitivity to changing market cycles.

We view ourselves as having two distinct companies in one: *our institutional-grade portfolio of Irreplaceable Corners*– premier retail properties in high-traffic, highly populated areas – which are held for long-term value and provide a foundation to our funds from operations (FFO) growth through a steady stream of rental income; and our *advisory/sponsorship business* that broadens our access to capital and raises equity for a series of merchant development funds, resulting in recurring income from assets under management. We are able to add more of a growth component to the recurring-income nature of each company as well as provide earnings potential from multiple sources with our *real estate development and operating business*, which seeks to provide value through offering an array of services to our tenants and properties, to our advisory/sponsorship business portfolios and to third parties.

Our direct predecessor, American Asset Advisers Trust, Inc. ("AAA"), was formed as a Maryland corporation in 1993. Prior to 1998, AAA was externally advised by American Asset Advisors Corp. which was formed in 1985. In June 1998, AAA merged with its advisor and changed its name to AmREIT, Inc. In December 2002, AmREIT, Inc. reorganized as a Texas real estate investment trust and became AmREIT.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Our financial records are maintained on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred. The consolidated financial statements include our accounts and those of our wholly- or majority-owned subsidiaries in which we have a controlling financial interest. Investments in joint ventures and partnerships where we have the ability to exercise significant influence, but do not exercise control, are accounted for using the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

We lease space to tenants under agreements with varying terms. The majority of the leases are accounted for as operating leases with revenue being recognized on a straight-line basis over the terms of the individual leases. Accrued rents are included in tenant receivables. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recorded. Additionally, certain of the lease agreements contain provisions that grant additional rents based on tenants' sales volumes (contingent or percentage rent).

Percentage rents are recognized when the tenants achieve the specified targets as defined in their lease agreements. During the nine months ended September 30, 2007 and 2006, we recognized percentage rents of $165,000 and $291,000, respectively. We recognize lease termination fees in the period that the lease is terminated and collection of the fees is reasonably assured. During the nine months ended September 30, 2007 and 2006, we recognized lease termination fees of $179,000 and $656,000, respectively, which have been included in rental income from operating leases. The terms of certain leases require that the building/improvement portion of the lease be accounted for under the direct financing method which treats the building as if we had sold it to the lessee and entered into a long-term financing arrangement with such lessee. This accounting method is appropriate when the lessee has all of the benefits and risks of property ownership that they otherwise would if they owned the building versus leasing it from us.

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

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

Unbilled construction receivables represent reimbursable costs and amounts earned under contracts in progress as of the date of our balance sheet. Such amounts become billable according to contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project. Advance billings represent billings to or collections from clients on contracts in advance of revenues earned thereon. Unbilled construction receivables are generally billed and collected within the twelve months following the date of our balance sheet, and advance billings are generally earned within the twelve months following the date of our balance sheet. As of September 30, 2007, $73,000 of unbilled receivables has been included in “Accounts receivable” and $234,000 of unbilled receivables due from related parties has been included in “Accounts receivable – related party.” As of December 31, 2006, $126,000 of unbilled receivables has been included in “Accounts receivable” and $14,000 of unbilled receivables due from related parties has been included in “Accounts receivable – related party.” We had advance billings of $6,000 and $44,000 as of September 30, 2007 and December 31, 2006, respectively.

Securities commission income is recognized as units of our merchant development funds are sold through our wholly-owned subsidiary, AmREIT Securities Company (ASC). Securities commission income is earned as the services are performed and pursuant to the corresponding prospectus or private offering memorandum. Generally, it includes a selling commission of between 6.5% and 7.5%, a dealer manager fee of between 2.5% and 3.25% and offering and organizational costs of 1.0% to 1.50%. The selling commission is then paid to the unaffiliated selling broker dealer and reflected as securities commission expense.

REAL ESTATE INVESTMENTS

Development Properties– Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges, acquisition costs and development costs. Carrying charges, primarily interest, real estate taxes and loan acquisition costs, and direct and indirect development costs related to buildings under construction, are capitalized as part of construction in progress. The capitalization of such costs ceases at the earlier of one year from the date of completion of major construction or when the property, or any completed portion, becomes available for occupancy. We capitalize acquisition costs as incurred. Such costs are expensed if and when the acquisition becomes no longer probable. During the nine months ended September 30, 2007 and September 30, 2006 we capitalized $133,000 and $72,000, respectively, in interest on properties under development.

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

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Depreciation— Depreciation is computed using the straight-line method over an estimated useful life of up to 50 years for buildings, up to 20 years for site improvements and over the term of lease for tenant improvements. Leasehold estate properties, where we own the building and improvements but not the related ground, are amortized over the life of the lease.

Properties Held for Sale— Properties are classified as held for sale if management has decided to market the property for immediate sale in its present condition with the belief that the sale will be completed within one year. Operating properties held for sale are carried at the lower of cost or fair value less cost to sell. Depreciation and amortization are suspended during the held for sale period. As of September 30, 2007 we owned nineteen properties with a carrying value of $22.5 million that were classified as real estate held for sale. As of December 31, 2006, we did not have any properties that met the criteria for classification as real estate held for sale.

Our properties generally have operations and cash flows that can be clearly distinguished from the rest of the Company. The operations and gains on sales reported in discontinued operations include those properties that have been sold or are held for sale and for which operations and cash flows have been clearly distinguished. The operations of these properties have been eliminated from ongoing operations, and we will not have continuing involvement after disposition. Prior period operating activity related to such properties has been reclassified as discontinued operations in the accompanying statements of operations.

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

RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Tenant receivables— Included in tenant receivables are base rents, tenant reimbursements and receivables attributable to recording rents on a straight-line basis. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon customer credit-worthiness (including expected recovery of our claim with respect to any tenants in bankruptcy), historical bad debt levels, and current economic trends. As of September 30, 2007 and December 31, 2006, we had an allowance for uncollectible accounts of $111,000 and $157,000, respectively, related to our tenant receivables.

Accounts receivable – Included in accounts receivable are amounts due from clients of our construction services business and various other receivables. As of September 30, 2007 and December 31, 2006, we had an allowance for uncollectible accounts of $264,000 related to our accounts receivable.

Notes receivable – related party– Included in related party notes receivable are loans made to our affiliated merchant development funds as part of our treasury management function whereby we place excess cash in short-term bridge loans for these affiliates related to the acquisition or development of properties. We typically provide such financing to our affiliates as a way of efficiently deploying our excess cash and earning a higher return than we would in other short term investments or overnight funds. In most cases, the merchant development funds have a construction lender in place, and we step in and provide financing on the same terms as the third party lender. In so doing, we are able to access these funds as needed by having our affiliate then draw down on their construction loans. These loans are unsecured, bear interest at the prime rate (7.75% at September 30, 2007) and are due upon demand.

DEFERRED COSTS

Deferred costs include deferred leasing costs and deferred loan costs, net of amortization. Deferred loan costs are incurred in obtaining property financing and are amortized to interest expense over the term of the debt agreements. Deferred leasing costs consist of internal and external commissions associated with leasing our properties and are amortized to expense over the lease term. Accumulated amortization related to deferred loan costs as of September 30, 2007 and December 31, 2006 totaled $557,000 and $421,000, respectively. Accumulated amortization related to deferred leasing costs as of September 30, 2007 and December 31, 2006 totaled $400,000 and $264,000, respectively.

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DEFERRED COMPENSATION

Our deferred compensation and long term incentive plan is designed to attract and retain the services of our trust managers and employees that we consider essential to our long-term growth and success. As such, it is designed to provide them with the opportunity to own shares, in the form of restricted shares, in us, and provide key employees the opportunity to participate in the success of our affiliated actively managed merchant development funds through the economic participation in our general partner companies. All long term compensation awards are designed to vest over a period of three to seven years and promote retention of our team.

Restricted Share Issuances - Deferred compensation includes grants of restricted shares to our trust managers and employees as a form of long-term compensation. The share grants vest over a period of three to seven years. We determine the fair value of the restricted shares as the number of shares awarded multiplied by the closing price per share of our class A common shares on the grant date. We amortize such fair value ratably over the vesting periods of the respective awards. The following table presents restricted share activity during the nine months ended September 30, 2007.

	Non-vested Shares	Weighted Average grant date fair value
Beginning of period	355,599	$ 7.31
Granted	131,334	8.51
Vested	(53,090)	7.34
Forfeited	(14,750)	7.27
End of period	419,093	7.68

The weighted-average grant date fair value of restricted shares issued during the nine months ended September 30, 2007 and 2006 was $8.51 per share and $7.00 per share, respectively. The total fair value of shares vested during the nine months ended September 30, 2007 and 2006 was $390,000 and $238,000 respectively. Total compensation cost recognized related to restricted shares during the nine months ended September 30, 2007 and 2006 was $552,000 and $435,000, respectively. As of September 30, 2007, total unrecognized compensation cost related to restricted shares was $2.4 million, and the weighted average period over which we expect this cost to be recognized is 4.0 years.

General Partner Profit Participation Interests - We have assigned up to 45% of the economic interest in certain of our merchant development funds to certain of our key employees. This economic interest is received, as, if and when we receive economic benefit from our profit participation, after certain preferred returns have been paid to the partnership's limited partners. This assignment of economic interest generally vests over a period of five to seven years. This allows us to align the interest of our employees with the interest of our shareholders. Because any future profits and earnings from the merchant development funds cannot be reasonably predicted or estimated, and any employee benefit is contingent upon the benefit received by the general partner of the merchant development funds, we recognize expense associated with the assignment of these economic interests as we recognize the corresponding income from the associated merchant development funds. No portion of the economic interest in the merchant development funds that have provided profit participation to us to date have been assigned to employees. Therefore, no compensation expense has been recorded to date. See Note 3 below for a discussion of the potential sale of assets from one our merchant development funds, AAA CTL Notes, Ltd.

Tax-Deferred Retirement Plan (401k) - We maintain a defined contribution 401k retirement plan for our employees. This plan is available for all employees immediately upon employment. The plan allows for contributions to be either invested in an array of large, mid and small cap mutual funds or directly into class A common shares. Employee contributions invested in our shares are limited to 50% of the employee's contributions. We match 50% of the employee's contribution, up to a maximum employee contribution of 4%. None of the employer contribution can be matched in our shares.

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Share Options - We are authorized to grant options of our class A common shares as either incentive or non-qualified share options, up to an aggregate of 6.0% of the total voting shares outstanding. As of September 30, 2007 and December 31, 2006, none of these options have been granted.

INCOME TAXES

We account for federal and state income taxes under the asset and liability method.

Federal– We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, and are, therefore, not subject to Federal income taxes to the extent of dividends paid, provided we meets all conditions specified by the Internal Revenue Code for retaining our REIT status, including the requirement that at least 90% of our real estate investment trust taxable income be distributed to shareholders.

Our real estate development and operating business, AmREIT Realty Investment Corporation and subsidiaries (“ARIC”), is a fully integrated and wholly-owned business consisting of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, asset and property management services to our publicly traded portfolio and merchant development funds as well as to third parties. ARIC and our wholly-owned corporations that serve as the general partners of our merchant development funds are treated for Federal income tax purposes as taxable REIT subsidiaries (collectively, the “Taxable REIT Subsidiaries”).

State– In May 2006, the State of Texas adopted House Bill 3, which modified the state’s franchise tax structure, replacing the previous tax based on capital or earned surplus with one based on margin (often referred to as the “Texas Margin Tax”) effective with franchise tax reports filed on or after January 1, 2008. The Texas Margin Tax is computed by applying the applicable tax rate (1% for us) to the profit margin, which, generally, will be determined for us as total revenue less a 30% standard deduction. Although House Bill 3 states that the Texas Margin Tax is not an income tax, SFAS No. 109, *Accounting for Income Taxes,* applies to the Texas Margin Tax. We have recorded a margin tax provision of $174,000 for the Texas Margin Tax for the nine months ended September 30, 2007.

EARNINGS PER SHARE

Basic earnings per share has been computed by dividing net loss available to class A common 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 as appropriate) by the weighted average number of common shares outstanding plus the weighted average number of dilutive potential common shares. Diluted earnings per share information is not applicable due to the anti-dilutive nature of the common class B, class C and class D shares which represent 19.7 million and 25.8 million potential common shares for the nine months ended September 30, 2007 and 2006, respectively.

The following table presents information necessary to calculate basic and diluted earnings per class A share for the three and nine months ended September 30, as indicated:

	Quarter		YTD	
	2007	2006	2007	2006
Loss to class A common shareholders*	$ (688)	(1,352)	(4,001)	(4,827)
Weighted average class A common shares outstanding*	6,385	6,285	6,373	6,321

Basic and diluted loss per share	(0.11)	(0.22)	(0.63)	(0.76)

* In thousands

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

Our consolidated financial instruments consist primarily of cash, cash equivalents, tenant receivables, accounts receivable, notes receivable, accounts payable and other liabilities and notes payable. The carrying value of cash, cash equivalents, tenant receivables, accounts receivable, notes receivable, accounts payable and other liabilities are representative of their respective fair values due to the short-term maturity of these instruments. Our revolving line of credit has market-based terms, including a variable interest rate. Accordingly, the carrying value of the line of credit is representative of its fair value.

As of September 30, 2007, the carrying value of our debt obligations associated with assets held for investment was $154.4 million, $138.4 million of which represented fixed rate obligations with an estimated fair value of $140.1 million. As of December 31, 2006, the carrying value of our total debt obligations was $144.5 million, $132.5 million of which represented fixed-rate obligations with an estimated fair value of $132.9 million.

As of September 30, 2007, the carrying value of our debt obligations associated with assets held for sale was $12.9 million, all of which represented fixed rate obligations with an estimated fair value of $13.2 million.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In December 2003, the FASB reissued Interpretation No. 46 (“FIN 46R”), *Consolidation of Variable Interest Entities,* as revised. FIN 46R addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights. FIN 46R requires a variable interest entity to be consolidated by a company that is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns or both. Disclosures are also required about variable interest entities in which a company has a significant variable interest but that it is not required to consolidate.

As of September 30, 2007, we are an investor in and the primary beneficiary of one entity that qualifies as a variable interest entity pursuant to FIN 46R. This entity was established to develop, own, manage, and hold property for investment and comprises $4.8 million of our total consolidated assets at period end. This entity had no debt outstanding at period end.

NEW ACCOUNTING STANDARDS

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. There are also several disclosure requirements. We adopted this interpretation during the first quarter of 2007, and it had no effect on our consolidated financial statements.

In September 2006, the FASB issued “SFAS No.157,” *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding instruments within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabilities. SFAS No. 157 is effective for our fiscal year beginning January 1, 2008. The adoption of SFAS No. 157 is

not expected to have a material effect on our results of operations or financial position.

In February 2007 the FASB issued "SFAS No. 159," *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We currently do not plan to measure any eligible financial assets and liabilities at fair value under the provisions of SFAS No. 159.

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DISCONTINUED OPERATIONS

The following is a summary of our discontinued operations for the three and nine months ended September 30 (in thousands, except for per share data)

	Quarter		**YTD**	
	2007	2006	2007	2006
Rental revenue	$ 76	$ 44	$ 194	$ 151
Earned income from direct financing leases	447	448	1,342	1,344
Gain on sale of real estate held for investment	-	-	-	286
Gain on sale of real estate held for resale	-	-	-	12
Total revenues	523	492	1,536	1,793
Property expense	(1)	3	4	(116)
Other general and administrative	(4)	(3)	(16)	(19)
Federal income tax expense	3	2	(1)	15
Legal and professional	(4)	(7)	(20)	(31)
Depreciation and amortization	(8)	(2)	(22)	(17)
Minority interest	(42)	(43)	(154)	(98)
Interest expense	(317)	(286)	(873)	(845)
Total expenses	(373)	(336)	(1,082)	(1,111)
Income from discontinued operations	150	156	454	682
Basic and diluted income from discontinued operations				
per class A common share	$ 0.02	$ 0.02	$ 0.07	$ 0.11

STOCK ISSUANCE COSTS

Issuance costs incurred in the raising of capital through the sale of common shares are treated as a reduction of shareholders' equity.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, we consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of demand deposits at commercial banks and money market funds.

RECLASSIFICATIONS

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the presentation used in the current period consolidated financial statements. Such reclassifications had no effect on net income (loss) or shareholders' equity as previously reported.

3. INVESTMENTS IN MERCHANT DEVELOPMENT FUNDS

AAA CTL Notes, Ltd.
AAA CTL Notes I Corporation ("AAA Corp"), our wholly-owned subsidiary, invested as a general partner and limited partner in AAA CTL Notes, Ltd. ("AAA"). AAA is a majority-owned subsidiary through which we purchased 15 IHOP leasehold estate properties and two IHOP fee simple properties. We have consolidated AAA in our financial statements. Certain members of our management team have been assigned a 51% aggregate interest in the income and cash flow of AAA's general partner. Net sales proceeds from the liquidation of AAA will be allocated to the limited partners and to the general partner pursuant to the AAA limited partnership agreement.

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During the third quarter of 2007, we elected to hold the AAA assets for sale, and we are currently under contract for their sale to a third party. Assuming that the sale closes under its currently negotiated terms, we will realize a gain in the fourth quarter of 2007 along with a compensation charge related to the portion of that gain that we have assigned to management. See Note 1 under Deferred Compensation "General Partner Profit Participation Interests."

Merchant Development Funds
As of September 30, 2007, we owned, through wholly-owned subsidiaries, interests in six limited partnerships which are accounted for under the equity method as we exercise significant influence over, but do not control, the investee. In each of the partnerships, the limited partners have the right, with or without cause, to remove and replace the general partner by a vote of the limited partners owning a majority of the outstanding units. These merchant development funds were formed to develop, own, manage and add value to properties with an average holding period of two to four years. Our interests in these merchant development funds range from 2.1% to 10.5%. See Note 8 regarding transactions we have entered into with our merchant development funds.

AmREIT Opportunity Fund ("AOF")— AmREIT Opportunity Corporation ("AOC"), our wholly-owned subsidiary, invested $250,000 as a limited partner and $1,000 as a general partner in AOF. We currently own a 10.5% limited partner interest in AOF. Liquidation of AOF commenced in July 2002, and, as of September 30, 2007, AOF has an interest in one property. As the general partner, AOC receives a promoted interest in cash flow and any profits after certain preferred returns are achieved for its limited partners.

AmREIT Income & Growth Fund, Ltd. ("AIG")— AmREIT Income & Growth Corporation ("AIGC"), our wholly-owned subsidiary, invested $200,000 as a limited partner and $1,000 as a general partner in AIG. We currently own an approximate 2.0% limited partner interest in AIG. Certain members of our management team have been assigned a 49% aggregate interest in the income and cash flow of AIGC. Pursuant to the AIG limited partnership agreement, net sales proceeds from its liquidation (expected in 2008) will be allocated to the limited partners, and to the general partner (AIGC) as, if and when the annual return thresholds have been achieved by the limited partners.

AmREIT Monthly Income & Growth Fund ("MIG")— AmREIT Monthly Income & Growth Corporation, our wholly-owned subsidiary, invested $200,000 as a limited partner and $1,000 as a general partner in MIG. We currently own an approximate 1.3% limited partner interest in MIG.

AmREIT Monthly Income & Growth Fund II ("MIG II")— AmREIT Monthly Income & Growth II Corporation, our wholly- owned subsidiary, invested $400,000 as a limited partner and $1,000 as a general partner in MIG II. We currently own an approximate 1.6% limited partner interest in MIG II.

AmREIT Monthly Income & Growth Fund III ("MIG III")— AmREIT Monthly Income & Growth III Corporation ("MIGC III"), our wholly-owned subsidiary, invested $800,000 as a limited partner and $1,000 as a general partner in MIG III. MIG III began raising money in June 2005. The offering was closed in October 2006, and the capital raised was approximately $71 million. Our $800,000 investment represents a 1.1% limited partner interest in MIG III. Certain members of our management team have been assigned a 28.5% aggregate interest in the income and cash flow of MIGC III. Pursuant to the MIG III limited partnership agreement, net sales proceeds from its liquidation (expected in 2012) will be allocated to the limited partners, and to the general partner (MIGC III) as, if and when the annual return thresholds have been achieved by the limited partners.

AmREIT Monthly Income & Growth Fund IV ("MIG IV") - AmREIT Monthly Income & Growth IV Corporation ("MIGC IV"), our wholly-owned subsidiary, invested $800,000 as a limited partner and $1,000 as a general partner in MIG IV. MIG IV began raising money in November 2006, and, as of September 30, 2007, had raised approximately $32 million. We expect our limited partnership interest at completion of the offering to be between 0.8% and

1.6%. Certain members of our management team have been assigned a 28.5% aggregate interest in the income and cash flow of MIGC IV. Pursuant to the MIG IV limited partnership agreement, net sales proceeds from its liquidation (expected in 2013) will be allocated to the limited partners, and to the general partner (MIGC IV) as, if and when the annual return thresholds have been achieved by the limited partners.

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The following table sets forth certain financial information for the AIG, MIG, MIG II, MIG III and MIG IV merchant development funds (AOF is not included as it is currently in liquidation):

Merchant Development Fund	Capital under Management	LP Interest	GP Interest	Scheduled Liquidation	Sharing Ratios* LP	GP	LP Preference
AIG	$10 million	2.0%	1.0%	2008	99%	1%	8%
					90%	10%	10%
					80%	20%	12%
					70%	30%	15%
					0%	100%	40% Catch Up
					60%	40%	Thereafter
MIG	$15 million	1.3%	1.0%	2010	99%	1%	8%
					90%	10%	10%
					80%	20%	12%
					0%	100%	40% Catch Up
					60%	40%	Thereafter
MIG II	$25 million	1.6%	1.0%	2011	99%	1%	8%
					85%	15%	12%
					0%	100%	40% Catch Up
					60%	40%	Thereafter
MIG III	$71 million	1.1%	1.0%	2012	99%	1%	10%
					0%	100%	40% Catch Up
					60%	40%	Thereafter
MIG IV	$32 million	2.5%	1.0%	2013	99%	1%	8.5%
					0%	100%	40% Catch Up
					60%	40%	Thereafter

* Illustrating the Sharing Ratios and LP Preference provisions using AIG as an example, the LPs share in 99% of the cash distributions until they receive an 8% preferred return. The LPs share in 90% of the cash distributions until they receive a 10% preferred return and so on.

4. ACQUIRED LEASE INTANGIBLES

In accordance with SFAS No. 141, we have identified and recorded the value of intangibles at the property acquisition date. Such intangibles include the value of in-place leases and out-of-market leases. These assets are amortized over the leases' remaining terms. The amortization of above-market leases is recorded as a reduction of rental income and the amortization of in-place leases is recorded to amortization expense. The amortization expense related to in-place leases was $2.0 million and $2.6 million during the nine months ended September 30, 2007 and September 30, 2006, respectively. The amortization of above-market leases, which was recorded as a reduction of rental income, was $293,000 and $458,000 during the nine months ended September 30, 2007 and September 30, 2006, respectively.

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In-place and above-market lease amounts and their respective accumulated amortization are as follows (in thousands):

	September 30, 2007		December 31, 2006	
	In-Place leases	Above-market leases	In-Place leases	Above-market leases
Cost	$ 19,083	$ 2,025	$ 19,408	$ 2,146
Accumulated amortization	(6,362)	(982)	(4,728)	(810)
Intangible lease cost, net	$ 12,721	$ 1,043	$ 14,680	$ 1,336

Acquired lease intangible liabilities (below-market leases) of $3.5 million and $4.0 million as of September 30, 2007 and December 31, 2006, respectively, are net of previously accreted minimum rent of $1.5 million and $1.1 million at September 30, 2007 and December 31, 2006, respectively. Below-market leases are accreted over the leases' remaining terms. The accretion of below-market leases, which was recorded as an increase to rental income, was $423,000 and $508,000 during the nine months ended September 30, 2007 and September 30, 2006, respectively.

5. NOTES PAYABLE

Our outstanding debt at September 30, 2007 and December 31, 2006 consists of the following (in thousands):

	September 30, 2007	December 31, 2006
Notes Payable, Held for Investment:		
Fixed rate mortgage loans	$ 138,386	$ 132,524
Variable-rate unsecured line of credit	16,000	11,929
Notes Payable, Held for Sale	12,928	0
Total notes payable	$ 167,314	$ 144,453

We have an unsecured credit facility (the "Credit Facility") in place which is being used to provide funds for the acquisition of properties and working capital. The Credit Facility matures in November 2007 (see further discussion below) and provides that we may borrow up to $40 million subject to the value of unencumbered assets. The Credit Facility contains covenants which, among other restrictions, require us to maintain a minimum net worth, a maximum leverage ratio, maximum tenant concentration ratios, specified interest coverage and fixed charge coverage ratios. On September 30, 2007, we were in compliance with all financial covenants. The Credit Facility's annual interest rate varies depending upon our debt to asset ratio, from LIBOR plus a spread of 1.35% to 2.35%. As of September 30, 2007, the interest rate was LIBOR plus 1.65%. As of September 30, 2007, there was a balance outstanding of $16.0 million under the Credit Facility. We have approximately $22.0 million available under the Credit Facility, subject to the covenants above. We have $2.0 million in letters of credit outstanding related to various properties. These letters of credit reduce our availability under the Credit Facility.

We have renewed the Credit Facility, and effective October 30, 2007, our maximum borrowing amount will be increased to $70.0 million, subject to the value of unencumbered assets. The renewed facility matures on October 30, 2009 and provides for an annual interest rate range of LIBOR plus a spread of 1.0% to 1.85%. The financial covenants contained in the renewed facility are not materially different from those in place prior to renewal.

As of September 30, 2007, the weighted average interest rate on our fixed-rate debt was 5.78%, and the weighted average remaining life of such debt was 7.0 years. We added fixed-rate debt of $19.9 million during the nine months ended September 30, 2007. We added fixed-rate debt of $20.0 million during 2006.

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As of September 30, 2007, scheduled principal repayments on notes payable and the Credit Facility were as follows (in thousands):

	Associated with Assets Held for Investment			Associated with Assets Held for Sale		
Scheduled Payments by Year	Scheduled Principal Payments	Term-Loan Maturities	Total Payments	Scheduled Principal Payments	Term-Loan Maturities	Total Payments
2007	$ 206	-	206	$ 117	-	117
2008	859	13,410	14,269	491	-	491
2009	918	16,000	16,918	531	-	531
2010	982	-	982	574	-	574
2011	987	3,075	4,062	620	-	620
Beyond five years	2,998	114,253	117,251	314	10,281	10,595
Unamortized debt premiums	-	698	698	-	-	-
Total	$ 6,950	$ 147,436	$ 154,386	$ 2,647	$ 10,281	$ 12,928

6. CONCENTRATIONS

As of September 30, 2007, two properties individually accounted for more than 10% of our consolidated total assets – Uptown Park in Houston, Texas and MacArthur Park in Dallas, Texas accounted for 20% and 15%, respectively, of total assets. Consistent with our strategy of investing in areas that we know well, 17 of our properties are located in the Houston metropolitan area. These Houston properties represent 61% of our rental income for the nine months ended September 30, 2007. Houston is Texas' largest city and the fourth largest city in the United States.

Following are the revenues generated by our top tenants for the periods ended September 30 ($ in thousands):

	Quarter		Year to date	
Tenant	2007	2006	2007	2006
Kroger	$ 860	$ 773	$ 2,556	$ 2,136
IHOP Corporation *	562	562	1,686	1,687
CVS/Pharmacy	283	244	845	726
Landry's	266	223	790	484
Linens 'N Things	224	135	661	487
Hard Rock Café International	173	112	513	411
Cosniac Restaurant Group	149	145	445	376
Champps Entertainment, Inc	140	143	417	429
Starbucks	126	87	376	343

McCormick & Schmicks	115	117	342	349
	$ 2,898	$ 2,541	$ 8,631	$ 7,428

* A significant portion of IHOP Corporation revenues are related to our AAA assets which we have elected to hold for sale as described in Note 3. The activity related to these assets held for sale is reflected as “Earned Income From DFL” in the Discontinued Operations section of Note 1.

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7. SHAREHOLDERS' EQUITY AND MINORITY INTEREST

Class A Common Shares— Our class A common shares are listed on the American Stock Exchange ("AMEX") and traded under the symbol "AMY." As of September 30, 2007, there were 6,354,680 of our class A common shares outstanding, net of 244,353 shares held in treasury. Our payment of any future dividends to our class A common shareholders is dependent upon applicable legal and contractual restrictions, including the provisions of the class B and class C common shares, as well as our earnings and financial needs.

Class B Common Shares— The class B common shares are not listed on an exchange and there is currently no available trading market for the class B common shares. The class B common shares have voting rights, together with all classes of common shares, as one class of shares. The class B common shares were issued at $9.25 per share. They receive a fixed 8.0% cumulative and preferred annual dividend, paid in quarterly installments, and are convertible into the class A common shares on a one-for-one basis at any time, at the holder's option. We have the right to call the shares and, at the holder's option, either convert them on a one-for-one basis for class A shares or redeem them for $10.18 per share in cash plus any accrued and unpaid dividends. In December 2006, we completed a tender offer for approximately 48% of our class B common shares. In conjunction with that tender offer, we repurchased 998,000 shares at $9.25 per share for a total purchase price of $9.2 million. As of September 30, 2007, there were 1,031,097 of our class B common shares outstanding.

In October 2007, we announced that we are redeeming the remaining class B common shares. We plan to convert or redeem all such shares by December 31, 2007. Assuming that all class B common shareholders elect to receive cash for their shares, the aggregate cash redemption price will be approximately $10.5 million which will be funded through proceeds from our Credit Facility (see Note 5 for a discussion of our Credit Facility renewal).

Class C Common Shares— The class C common shares are not listed on an exchange and there is currently no available trading market for the class C common shares. The class C common shares have voting rights, together with all classes of common shares, as one class of shares. The class C common shares were issued at $10.00 per share. They receive a fixed 7.0% preferred annual dividend, paid in monthly installments, and are convertible into the class A common shares after a 7-year lock out period based on 110% of invested capital, at the holder's option. The class C common shares are convertible beginning in August 2010. We have the right to force conversion of the shares into class A shares on a one-for-one basis or to redeem the shares at a cash redemption price of $11.00 per share at the holder's option. As of September 30, 2007, there were 4,141,140 of our class C common shares outstanding. Currently, there is a class C dividend reinvestment program that allows investors to reinvest their dividends into additional class C common shares. These reinvested shares are also convertible into the class A common shares after the 7-year lock out period and receive the 10% conversion premium upon conversion.

Class D Common Shares— The class D common shares are not listed on an exchange and there is currently no available trading market for the class D common shares. The class D common shares have voting rights, together with all classes of common shares, as one class of shares. The class D common shares were issued at $10.00 per share. They receive a fixed 6.5% annual dividend, paid in monthly installments, subject to payment of dividends then payable to class B and class C common shares. The class D common shares are convertible into the class A common shares at a 7.7% premium on original capital after a 7-year lock out period, at the holder's option. The class D common shares are convertible beginning in June 2011. We have the right to force conversion of the shares into class A shares at the 7.7% conversion premium or to redeem the shares at a cash price of $10.00. In either case, the conversion premium will be pro rated based on the number of years the shares are outstanding. As of September 30, 2007, there were 11,044,413 of our class D common shares outstanding. Currently, there is a class D dividend reinvestment program that allows investors to reinvest their dividends into additional class D common shares. These reinvested shares are also convertible into the class A common shares after the 7-year lock out period and receive the 7.7% conversion

premium upon conversion.

Minority Interest— Minority interest represents a third party interest in entities that we consolidate as a result of our controlling financial interest in such investees. As of September 30, 2007, $1.2 million of the minority interest is attributable to a third party interest in AAA which is held for sale as of September 30, 2007 as discussed in Note 3.

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8. RELATED PARTY TRANSACTIONS

See Note 3 regarding investments in merchant development funds and other affiliates and Note 2 regarding related party notes receivable.

We earn real estate fee income by providing property acquisition, leasing, property management, construction and construction management services to our merchant development funds. The companies that serve as the general partner for the funds are wholly-owned by us. Real estate fee income of $2.8 million and $2.6 million was paid by our merchant development funds to us for the nine months ended September 30, 2007 and September 30, 2006, respectively. Additionally, construction revenues of $2.8 million and $6.7 million were earned from the merchant development funds during 2007 and 2006, respectively. We earn asset management fees from the funds for facilitating the deployment of capital and for performing other management oversight services. Asset management fees of $930,000 and $556,000 were paid by the funds to us for the nine months ended September 30, 2007 and September 30, 2006, respectively. Additionally, during the nine months ended September 30, 2007 and September 30, 2006 we were reimbursed by the merchant development funds $442,000 and $0, respectively for reimbursements of administrative costs and for organization and offering costs incurred on behalf of those funds.

As a sponsor of real estate investment opportunities to the NASD financial planning broker-dealer community, we maintain a 1% general partner interest in the investment funds that we sponsor. The funds are typically structured such that the limited partners receive 99% of the available cash flow until 100% of their original invested capital has been returned and a preferred return has been met. Once the original invested capital has been returned, then the general partner begins sharing in the available cash flow at various promoted levels. We also may assign a portion of this general partner interest in these investment funds to our employees as long term, contingent compensation. We believe that this assignment will align the interest of management with that of the shareholders, while at the same time allowing for a competitive compensation structure in order to attract and retain key management positions without increasing the overhead burden.

9. REAL ESTATE ACQUISITIONS AND DISPOSITIONS

In May 2007, we acquired a 2-acre parcel of land in Champaign, IL that was acquired for resale and is currently under development for a national tenant that is in the rental equipment business. In February 2007, we acquired The Woodlands Mall Ring Road property, which represents 66,000 square feet of gross leaseable area in Houston, Texas. The property is ground-leased to five tenants, including Bank of America, Circuit City and Landry's Seafood. Additionally, during the nine months ended September 30, 2007, we sold one property acquired for resale for $1.4 million which approximated our cost.

On March 30, 2006, we acquired Uptown Plaza in Dallas, a 34,000 square foot multi-tenant retail complex which was developed in 2005. The center's tenants include, among others, Pei-Wei, Grotto and Century Bank. Uptown Plaza is located at the corner of McKinney Avenue and Pearl Street in an infill location with high barriers to entry and the property services the surrounding affluent residential and downtown areas. The property was acquired for cash which was substantially funded by proceeds from our Credit Facility.

During the nine months ended September 30, 2006, we sold two properties which were recorded as real estate held for sale. These sales generated aggregate proceeds of $3.6 million which approximated the properties' carrying values. Additionally, we sold one of our properties that was held for investment for proceeds of $2.1 million, which generated a $286,000 gain.

10. COMMITMENTS

In March 2004, we signed a new lease agreement for our office facilities which expires August 31, 2009. In addition, we lease various office equipment for daily activities. Rental expense for the nine months ended September 30, 2007 and 2006 was $204,000 and $228,000, respectively.

11. SEGMENT REPORTING

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

The portfolio segment consists of our portfolio of single and multi-tenant shopping center projects. This segment consists of 50 properties located in 15 states. Expenses for this segment include depreciation, interest, minority interest, legal cost directly related to the portfolio of properties and property level expenses. Our consolidated assets are substantially all in this segment. Additionally, substantially all of the increase in total assets during the nine months ended September 30, 2007 occurred within the portfolio segment.

Our real estate development and operating business is a fully integrated and wholly-owned business consisting of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, and asset and property management services to our publicly traded portfolio and merchant development funds as well as to third parties. Our securities operations consist of an NASD registered securities business that, through the internal securities group, raises capital from the independent financial planning marketplace. The merchant development funds sell limited partnership interests to retail investors, in which we invest as both the general partner and as a limited partner (see Note 3). These merchant development funds were formed to develop, own, manage, and add value to properties with an average holding period of two to four years.

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			Asset Advisory		
For the nine months ended September 30, 2007 ($ in 000's)	Portfolio	Real Estate Operations	Securities	Merchant Development Funds	Total
Rental income	$ 22,538	$ -	$ -	$ -	$ 22,538
Real estate fee income	-	3,809	-	-	3,809
Construction revenues	-	3,862	-	-	3,862
Securities commission income	-	-	3,410	-	3,410
Asset management fee income	-	-	-	930	930
Total revenue	22,538	7,671	3,410	930	34,549
General and administrative	1,118	3,874	1,330	41	6,363
Property expense	5,606	93	4	-	5,703
Construction costs	-	3,521	-	-	3,521
Legal and professional	909	162	112	5	1,188
Real estate commissions	-	448	-	-	448
Securities commissions	-	-	2,862	-	2,862
Depreciation and amortization	5,914	-	-	-	5,914
Total expenses	13,547	8,098	4,308	46	25,999
Interest expense	(6,041)	(415)	(29)	-	(6,485)
Other income/ (expense)	890	392	336	(29)	1,589
Income from discontinued operations	451	3	-	-	454
Net income (loss)	$ 4,291	$ (447)	$ (591)	$ 855	$ 4,108

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For the nine months ended September 30, 2006 ($ in 000's)	Portfolio	Real Estate Operations	Securities	Asset Advisory Merchant Development Funds	Total
Rental income	$ 20,824	$ -	$ -	$ -	$ 20,824
Real estate fee income	-	3,352	-	-	3,352
Construction revenues	-	8,331	-	-	8,331
Securities commission income	-	-	4,172	-	4,172
Asset management fee income	-	-	-	556	556
Total revenue	20,824	11,683	4,172	556	37,235
General and administrative	802	3,664	1,635	133	6,234
Property expense	5,083	86	20	-	5,189
Construction costs	-	7,508	-	-	7,508
Legal and professional	699	186	57	-	942
Real estate commissions	-	540	-	-	540
Securities commissions	-	-	3,694	-	3,694
Depreciation and amortization	6,620	-	-	-	6,620
Total expenses	13,204	11,984	5,406	133	30,727
Interest expense	(4,718)	(341)	(36)	-	(5,095)
Other income/ (expense)	1,200	141	126	340	1,807
Income (loss) from discontinued operations	701	(19)	-	-	682
Net income (loss)	$ 4,803	$ (520)	$ (1,144)	$ 763	$ 3,902

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For the three months ended September 30, 2007 ($ in 000's)	Portfolio	Real Estate Operations	Securities	Asset Advisory Merchant Development Funds	Total
Rental income	$ 7,659	$ -	$ -	$ -	$ 7,659
Real estate fee income	-	1,893	-	-	1,893
Construction revenues	-	1,975	-	-	1,975
Securities commission income	-	-	933	-	933
Asset management fee income	-	-	-	334	334
Total revenue	7,659	3,868	933	334	12,794
General and administrative	413	1,407	479	(50)	2,249
Property expense	1,912	25	-	-	1,937
Construction costs	-	1,792	-	-	1,792
Legal and professional	338	32	50	5	425
Real estate commissions	-	1	-	-	1
Securities commissions	-	-	788	-	788
Depreciation and amortization	2,016	-	-	-	2,016
Total expenses	4,679	3,257	1,317	(45)	9,208
Interest expense	(2,140)	(151)	(18)	-	(2,309)
Other income/ (expense)	431	(181)	157	171	578
Income (loss) from discontinued operations	151	(1)	-	-	150
Net income (loss)	$ 1,422	$ 278	$ (245)	$ 550	$ 2,005

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For the three months ended September 30, 2006 ($ in 000's)	Portfolio	Real Estate Operations	Asset Advisory Securities	Asset Advisory Merchant Development Funds	Total
Rental income	$ 7,300	$ -	$ -	$ -	$ 7,300
Real estate fee income	-	924	-	-	924
Construction revenues	-	3,595	-	-	3,595
Securities commission income	-	-	1,554	-	1,554
Asset management fee income	-	-	-	212	212
Total revenue	7,300	4,519	1,554	212	13,585
General and administrative	229	1,302	532	52	2,115
Property expense	1,961	47	-	-	2,008
Construction costs	-	3,224	-	-	3,224
Legal and professional	236	87	33	-	356
Real estate commissions	-	-	-	-	-
Securities commissions	-	-	1,348	-	1,348
Depreciation and amortization	2,046	-	-	-	2,046
Total expenses	4,472	4,660	1,913	52	11,097
Interest expense	(1,712)	(92)	(10)	-	(1,814)
Other income/ (expense)	592	(7)	(10)	152	727
Income (loss) from discontinued operations	159	(3)	-	-	156
Net income (loss)	$ 1,867	$ (243)	$ (379)	$ 312	$ 1,557

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report, as well as our 2006 consolidated financial statements and notes thereto included in our filing on Form 10-K for the year ended December 31, 2006. Historical results and trends which might appear should not be taken as indicative of future operations.

EXECUTIVE OVERVIEW

We are an established real estate company that, at our core, are value creators who have delivered results to our investors for 22 years. We have elected to be taxed as a REIT for federal income tax purposes. Our mission is to build a real estate business with the potential to realize profitable growth year over year regardless of market cycles. Our structure consists of two distinct companies, representing three synergistic businesses that provide earnings potential from multiple sources. First, we own an *institutional-grade portfolio of Irreplaceable Corners*– premier retail properties in high-traffic, highly populated areas – which are held for long-term value and provide a foundation to our FFO growth through a steady stream of rental income. Second, our *advisory/sponsorship business* broadens our avenues to capital and raises capital for a series of merchant development funds. And third, as a *real estate development and operating company*, we provide value through offering an array of services to our tenants and properties, to our advisory/sponsorship business's portfolios and to third parties. These three business segments add value to the overall Company and, together, give us the flexibility to achieve our financial objectives over the long-term as we navigate the changing market cycles that come our way.

When we listed on the AMEX in July 2002, our total assets had a book value of $48 million and equity under management within our advisory/sponsorship business totaled $15 million. As of September 30, 2007:

- We owned a real estate portfolio consisting of 50 properties located in 15 states that had a net book value of $307 million;
- We directly managed, through our five actively managed merchant development funds, a total of $155 million in contributed capital; and
- We had over 400,000 square feet of retail centers in various stages of development, re-development or in the pipeline for both our advisory/sponsorship business and for third parties.

Portfolio of Irreplaceable Corners

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

As of September 30, 2007, we owned a real estate portfolio consisting of 50 properties located in 15 states. A majority of our properties are located in densely populated, suburban communities in and around Houston, Dallas and San Antonio. Within these broad markets, we target locations that we believe have the best demographics and highest long term value. We refer to these properties as Irreplaceable Corners. Our criteria for an Irreplaceable Corner includes: high barriers to entry (typically infill locations in established communities without significant raw land available for development), significant population within a three mile radius (typically in excess of 100,000 people), located on the hard corner of an intersection guided by a traffic signal, ideal average household income in excess of $80,000 per year, strong visibility and significant traffic counts passing by the location (typically in excess of 30,000 cars per day). We believe that centers with these characteristics will provide for consistent leasing demand and rents that increase at or above the rate of inflation. Additionally, these areas have barriers to entry for competitors seeking to develop new properties due to the lack of available land. We take a very hands-on approach to ownership, and directly manage the operations and leasing at all of our wholly owned properties.

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We expect that single-tenant, credit leased properties, will continue to experience cap rate pressure during 2007 due to the low interest rate environment and increased buyer demand. Therefore, we will continue to divest of properties which no longer meet our core criteria, and, to the extent that we can do so accretively, replace them with high-quality grocery-anchored, lifestyle, and multi-tenant shopping centers or the development of single-tenant properties located on Irreplaceable Corners. Each potential acquisition is subjected to a rigorous due diligence process that includes site inspections, financial underwriting, credit analysis and market and demographic studies. Therefore, there can be no assurance that we will ultimately purchase any or all of these projects. Our acquisitions program is sensitive to changes in interest rates. As of September 30, 2007, 89% of our outstanding debt had a long-term fixed interest rate with an average term of 7.0 years. Our philosophy continues to be matching long-term leases with long-term debt structures while keeping our debt to total assets ratio less than 55%.

Advisory/Sponsorship Business
The part of our business model and operating strategy that distinguishes us from other publicly-traded REITs is our asset advisory business, AmREIT Securities Company, a NASD registered broker-dealer which is a wholly-owned subsidiary of ARIC. For the past 22 years, we have been raising capital for our merchant development funds and building relationships in the financial planning and broker-dealer community, earning fees and sharing in profits from those activities. Historically, our advisory group has raised capital in two ways: first, directly for us through non-traded classes of common shares, and second, for our actively managed merchant development funds.

The advisory/sponsorship business invests in and actively manages six merchant development partnership funds which were formed to develop, own, manage, and add value to properties with an average holding period of two to four years. We invest as both the general partner and as a limited partner, and our advisory/sponsorship business sells interests in these funds to retail investors. We, as the general partner, manage the funds and, in return, receive management fees as well as potentially significant profit participation interests. However, we strive to create a structure that aligns the interests of our shareholders with those of our limited partners. In this spirit, the funds are structured so that the general partner does not receive a significant profit until after the limited partners in the funds have received their targeted return, which links our success to that of the limited partners.

Real Estate Development and Operating Company
Our real estate development and operating business, ARIC, is a fully integrated and wholly-owned business, consisting of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, general contracting, asset and property management services to our portfolio of properties, to our advisory/sponsorship business, and to third parties. This operating subsidiary, which is a taxable REIT subsidiary, is a transaction-oriented subsidiary that is very active in the real estate market and generates significant profits and fees on an annual basis. This business can provide significant long-term and annual growth; however, its quarter to quarter results will fluctuate, and therefore its contributions to our quarterly earnings will be volatile.

Summary of Critical Accounting Policies

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

Revenue Recognition— We lease space to tenants under agreements with varying terms. The majority of the leases are accounted for as operating leases with revenue being recognized on a straight-line basis over the terms of the individual leases. Accrued rents are included in tenant receivables. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is recognized in the period the related expense is recorded. Additionally, certain of the lease agreements contain provisions that grant additional rents based on tenants' sales volumes (contingent or percentage rent). Percentage rents are recognized when the tenants achieve the specified targets as defined in their lease agreements. The terms of certain leases require that the building/improvement portion of the lease be accounted for under the direct financing method which treats the building as if we had sold it to the lessee and entered into a long-term financing arrangement with such lessee. This accounting method is appropriate when the lessee has all of the benefits and risks of property ownership that they otherwise would if they owned the building versus leasing it from us.

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

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

Unbilled construction receivables represent reimbursable costs and amounts earned under contracts in progress as of the date of our balance sheet. Such amounts become billable according to contract terms, which usually consider the passage of time, achievement of certain milestones or completion of the project. Advance billings represent billings to or collections from clients on contracts in advance of revenues earned thereon. Unbilled construction receivables are generally billed and collected within the 12 months following the date of our balance sheet, and advance billings are generally earned within the 12 months following the date of our balance sheet.

Securities commission income is recognized as units of our merchant development funds are sold through AmREIT Securities Company. Securities commission income is earned as the services are performed and pursuant to the corresponding prospectus or private offering memorandum. Generally, it includes a selling commission of between 6.5% and 7.5%, a dealer manager fee of between 2.5% and 3.25% and offering and organizational costs of 1.0% to 1.5%. The selling commission is then paid out to the unaffiliated selling broker dealer and reflected as securities commission expense.

Real Estate Valuation— Land, buildings and improvements are recorded at cost. Expenditures related to the development of real estate are carried at cost which includes capitalized carrying charges, acquisition costs and development costs. Carrying charges, primarily interest and loan acquisition costs, and direct and indirect development costs related to buildings under construction are capitalized as part of construction in progress. The capitalization of such costs ceases at the earlier of one year from the date of completion of major construction or when the property, or any completed portion, becomes available for occupancy. We capitalize acquisition costs as incurred. Such costs are expensed if and when the acquisition becomes no longer probable. Depreciation is computed using the straight-line method over an estimated useful life of up to 50 years for buildings, up to 20 years for site improvements and over the life of lease for tenant improvements. Leasehold estate properties, where the Company owns the building and improvements but not the related ground, are amortized over the life of the lease.

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

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

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

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. There are also several disclosure requirements. We adopted this interpretation during the first quarter of 2007, and it did not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued “SFAS No. 157,” *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding instruments within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabilities. SFAS No. 157 is effective for our fiscal year beginning January 1, 2008. The adoption of SFAS No. 157 is not expected to have a material effect on our results of operations or financial position.

In February 2007 the FASB issued “SFAS No. 159,” *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not yet decided if we will choose to measure any eligible financial assets and liabilities at fair value under the provisions of SFAS No. 159.

Liquidity and Capital Resources

At September 30, 2007 and December 31, 2006, our cash and cash equivalents totaled $6.8 million and $3.4 million, respectively. Cash flows provided by (used in) operating activities, investing activities and financing activities for the nine months ended September 30, are as follows (in thousands):

	2007	2006
Operating activities	$ 6,220	$ 11,542
Investing activities	$ (14,225)	$ (24,399)
Financing activities	$ 11,375	$ 9,519

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

Additionally, as part of our investment strategy, we constantly evaluate our property portfolio, systematically selling off any non-core or underperforming assets, and replacing them with Irreplaceable Corners and other core assets. We anticipate that we will continue to increase our operating cash flow by selling the underperforming assets and deploying the capital generated into high-quality income-producing retail real estate assets. Since January 2004, we have executed this strategy through the acquisition of $143 million of shopping centers, consisting primarily of four premier properties with approximately 289,000 square feet. We completed our acquisition of Uptown Park, a 169,000 square foot multi-tenant shopping center, in June 2005, our acquisition of The South Bank, a 47,000 square foot multi-tenant retail center located on the San Antonio Riverwalk, in September 2005, our acquisition in December 2005 of 39,000 square feet of multi-tenant retail projects located adjacent to our MacArthur Park Shopping Center in Las Colinas, an affluent residential and business community in Dallas, Texas and our acquisition of Uptown Plaza in Dallas, a 34,000 square foot multi-tenant retail complex located at the corner of McKinney Avenue and Pearl Street near downtown Dallas.

Cash provided by operating activities as reported in the Consolidated Statements of Cash Flows decreased by $5.3 million for the 2007 period when compared to the 2006 period. This net decrease is primarily attributable to a $6.9 million decrease in working capital cash flow during the period. This working capital decrease was due primarily to a $4.5 million net decrease in cash flows from receivables which was driven by a number of factors – (1) an $1.8 million increase during 2006 in working capital cash flows as a result of improved collection efforts on 2005 related party receivables generated by our construction business which commenced operations during 2005, (2) a $1.0 million earnest money deposit made during 2007 on behalf of our merchant development funds related to a property acquisition (this deposit was reimbursed to us by the fund in October 2007) and (3) $1.1 million of organization and offering costs incurred on behalf of one of our merchant development funds that is currently in the pre-operating stage (these costs will be reimbursed by the fund in the first quarter of 2008). This $6.9 million decrease in working capital cash flows was partially offset by an $869,000 increase in cash flow from our activities related to real estate acquired for resale. During 2006, we had net cash inflows from these activities of $530,000 as compared to net cash inflows of $1.4 million during 2007 – during 2006, we invested $623,000 in real estate held for resale, and we made no investments in such real estate during 2007.

Cash flows used in investing activities as reported in the Consolidated Statements of Cash Flows decreased from a net investing outflow of approximately $24.4 million in 2006 to a net investing outflow of $14.2 million in 2007. This $10.2 million decrease is primarily attributable to a $15.0 million decrease in property acquisitions during 2007, coupled with a $7.9 million decrease in loans to affiliates during the period. These decreases in cash outflows were partially offset by decreases in payments from affiliates of $3.3 million, an increase in investments of $4.9 million and a $4.5 million reduction in proceeds from the sale of investment property. On the property acquisition side, in February 2007, we acquired The Woodlands Mall Ring Road property, which represents 66,000 square feet of gross leaseable area in Houston, Texas. The property has been ground-leased to five tenants, including NationsBank, Circuit City and Landry’s Seafood. In March 2006, we acquired Uptown Plaza in Dallas, a 34,000 square foot multi-tenant retail complex located near downtown Dallas. With respect to loans to and payments from affiliates, we have the ability as part of our treasury management function to place excess cash in short term bridge loans for our merchant development funds for the purpose of acquiring or developing properties. We typically provide such financing to our affiliates as a way of efficiently deploying our excess cash and earning a higher return than we would in other short term investments or overnight funds. In most cases, the funds have a construction lender in place, and we simply step in as the lender and provide financing on the same terms as the third party lender. In so doing, we are able to access these funds as needed by having our affiliate then draw down on their construction loans. These loans are unsecured, bear a market rate of interest and are due upon demand. With respect to investments made during 2007, we acquired a 30% interest in AmREIT Woodlake LP., which purchased Woodlake Square Shopping Center, a 205,000 square foot Randall’s-anchored shopping center on the northeast corner of Westheimer and Gessner in Houston, Texas. We made no such investments in 2006. With respect to the decrease in proceeds from sales of

investment property, during 2007, we did not have any such sales whereas in 2006, we sold two properties held for investment, generating proceeds of $4.5 million.

Cash flows provided by financing activities increased from $9.5 million during the 2006 period to $11.4 million during the 2007 period. This $1.9 million increase was primarily attributable to a $1.7 million reduction in share repurchase activity under our share repurchase program. The $20.2 million increase in proceeds from notes payable during the period was almost entirely offset by a $19.5 million increase in payments of notes payable. During the 2006 period, net proceeds from notes payable were $22.4 million (driven primarily by the $20.0 million financing of The South Bank) versus net proceeds from notes payable of $23.0 million during the 2007 period (driven primarily by the $19.9 million in proceeds from the financing of Uptown Dallas).

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We have an unsecured credit facility in place which is being used to provide funds for the acquisition of properties and working capital. The credit facility matures in November 2007 (see further discussion below) and provides that we may borrow up to $40 million subject to the value of unencumbered assets. The credit facility contains covenants which, among other restrictions, require us to maintain a minimum net worth, a maximum leverage ratio, maximum tenant concentration ratios, specified interest coverage and fixed charge coverage ratios and allow the lender to approve all distributions. At September 30, 2007, we were in compliance with all financial covenants. The credit facility's annual interest rate varies depending upon our debt to asset ratio, from LIBOR plus a spread of 1.35% to LIBOR plus a spread of 2.35%. As of September 30, 2007, the interest rate was LIBOR plus 1.65%. As of September 30, 2007 there was $16.0 million outstanding on the credit facility. As of September 30, 2007, we have approximately $22.0 million available under our line of credit, subject to the covenant provisions discussed above. In addition to the credit facility, we utilize various permanent mortgage financing and other debt instruments.

We have renewed the Credit Facility, and effective October 30, 2007, our maximum borrowing amount will be increased to $70.0 million, subject to the value of unencumbered assets. The renewed facility matures on October 30, 2009 and provides for an annual interest rate range of LIBOR plus a spread of 1.0% to 1.85%. The financial covenants contained in the renewed facility are not materially different from those in place prior to renewal.

During the nine months ended September 30, 2007, we declared dividends to our shareholders of $10.5 million, compared with $11.1 million in the nine months ended September 30, 2006. The class A, C and D shareholders receive monthly dividends and the class B shareholders receive quarterly dividends. All dividends are declared on a quarterly basis. The dividends by class follow (in thousands):

		Class A	**Class B**	**Class C**	**Class D**
2007	Third Quarter	$ 792	$ 190	$ 720	$ 1,783
	Second Quarter	$ 797	$ 192	$ 726	$ 1,793
	First Quarter	$ 785	$ 194	$ 725	$ 1,786
2006	Fourth Quarter	$ 776	$ 200	$ 723	$ 1,790
	Third Quarter	$ 782	$ 385	$ 724	$ 1,799
	Second Quarter	$ 788	$ 390	$ 726	$ 1,798
	First Quarter	$ 789	$ 390	$ 722	$ 1,794

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

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

Results of Operations
Comparison of the three months ended September 30, 2007 to the three months ended September 30, 2006

Total revenues decreased by $791,000 or 6% in 2007 as compared to 2006 ($12.8 million in 2007 versus $13.6 million in 2006). AmREIT Construction Company ("ACC") generated revenues of $2.0 million during 2007, compared to $3.6 million during 2006. Such revenues have been recognized under the percentage-of-completion method of accounting. This reduction in revenues is primarily attributable to reduced related party work. A significant related party contract that generated $2.2 million in revenues during the three months ended September 30, 2006 was completed in the fourth quarter of 2006.

Securities commission revenue decreased by $621,000 or 40% in 2007 as compared to 2006. This decrease in commission revenue was driven by the capital-raising activities of our advisory/sponsorship business. During the third quarter of 2007, we raised $8.5 million in capital for one of our merchant development funds, AmREIT Monthly Income and Growth Fund IV, L.P. (MIG IV) versus $14.2 million in capital that we raised for AmREIT Monthly Income and Growth Fund III, LP (MIG III) during the third quarter of 2006. This decrease in commission income was partially offset by a corresponding increase in commission expense paid to other third party broker-dealer firms. As we raise capital for our affiliated merchant development partnerships, we earn a securities commission of approximately 11% of the money raised. These commission revenues are then offset by commission payments to non-affiliated broker-dealers of between 8% and 9%.

Real estate fee income increased approximately $969,000, or 105%, primarily as a result of an increase in acquisition fees earned on property transactions within our merchant development funds.

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Expenses
Total operating expenses decreased by $1.9 million, or 17%, from $11.1 million in 2006 to $9.2 million in 2007. This decrease was primarily attributable to decreases in construction costs and securities commissions, which were offset by an increase in general and administrative and legal and professional expenses.

ACC recognized $1.8 million in construction costs during 2007, compared to $3.2 million in 2006. This reduction in construction costs is consistent with the reduction in revenues described above.

Securities commission expense decreased by $560,000, or 42%, from $1.3 million in 2006 to $788,000 in 2007. This decrease is attributable to decreased capital-raising activity through ASC during 2007 as discussed in *"Revenues"* above.

General and administrative expense increased by $134,000, or 6%, during 2007 to $2.2 million compared to $2.1 million in 2006. This increase is primarily due to increases in personnel.

Legal and professional expense increased by $69,000, or 19%, to $425,000 in 2007 compared to $356,000 in 2006. This increase is attributable to costs associated with our accounting software conversion as well as an increase in audit and compliance costs.

Other
Income from merchant development funds and other affiliates increased by $249,000, or 117%, from $213,000 in 2006 to $462,000 in 2007. During 2007, we realized $405,000 of profit participation from our general partner interest in AOF, one of our merchant development funds which is currently in liquidation. In 2006, we recognized $196,000 related to our general partner interest in AOF.

Interest expense increased by $495,000, or 27%, from $1.8 million in 2006 to $2.3 million in 2007. The increase in interest expense is primarily attributable to draw-downs on our Credit Facility in late 2006 related to the tender of the Class B shares.

Comparison of the nine months ended September 30, 2007 to the nine months ended September 30, 2006

Total revenues decreased by $2.7 million or 7% in 2007 as compared to 2006 ($34.5 million in 2007 versus $37.2 million in 2006). Rental revenues increased by $1.7 million, or 8%, in 2007 as compared to 2006. This increase is attributable to the acquisition of Uptown Dallas in March 2006 and the Woodlands ground leases in February 2007. In addition, in the first quarter of 2006 we recorded a reduction to rental revenues of $457,000 as a result of a favorable property tax protest on one of our properties. This reduction was offset by a corresponding reduction in property expense during the nine months ended September 30, 2006.

AmREIT Construction Company ("ACC") generated revenues of $3.9 million during 2007, compared to $8.3 million during 2006. Such revenues have been recognized under the percentage-of-completion method of accounting. This reduction in revenues is primarily attributable to reduced related party work. A significant related party contract that generated $4.8 million revenues during the nine months ended September 30, 2006 was completed in the fourth quarter of 2006.

Securities commission revenue decreased by $762,000 or 18% in 2007 as compared to 2006. This decrease in commission revenue was driven by the capital-raising activities of our advisory/sponsorship business. During the nine months ended September 30, 2007, we raised $30.4 million in capital for one of our merchant development funds, AmREIT Monthly Income and Growth Fund IV, L.P. (MIG IV) versus $38.0 million in capital that we raised for

AmREIT Monthly Income and Growth Fund III, LP (MIG III) during 2006. This decrease in commission income was partially offset by a corresponding decrease in commission expense paid to other third party broker-dealer firms. As we raise capital for our affiliated merchant development partnerships, we earn a securities commission of approximately 11% of the money raised. These commission revenues are then offset by commission payments to non-affiliated broker-dealers of between 8% and 9%.

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Expenses
Total operating expenses decreased by $4.7 million, or 15%, from $30.7 million in 2006 to $26.0 million in 2007. This decrease was primarily attributable to decreases in construction costs, depreciation and amortization and securities commissions, which were offset by increases in property expense and legal and professional expenses.

ACC recognized $3.5 million in construction costs during 2007, compared to $7.5 million in 2006. This reduction in construction costs is consistent with the reduction in revenues described above.

Depreciation and amortization decreased by $706,000, or 11%, to $5.9 million in 2007 compared to $6.6 million in 2006. The decrease in depreciation and amortization is attributable to a number of leases that expired in 2006, which reduced the amortization related to intangible lease costs and tenant improvements. This decrease was partially offset by increased depreciation and amortization related to Uptown Dallas.

Securities commission expense decreased by $832,000 or 23% from $3.7 million in 2006 to $2.9 million in 2007. This decrease is attributable to decreased capital-raising activity through ASC during 2007 as discussed in *"Revenues"* above.

Property expense increased $514,000 or 10% in 2007 as compared to 2006 ($5.7 million in 2007 versus $5.2 million in 2006). The increase is primarily as a result of the acquisitions of the properties discussed in *"Revenues"* above. In addition, in the first quarter of 2006 we recorded a reduction to property expense of $465,000 as a result of a favorable property tax protest on one of our properties. This reduction was offset by a corresponding reduction in rental from operating leases during the nine months ended September 30, 2006.

Legal and professional expense increased $246,000, or 26%, from $942,000 in 2006 to $1.2 million in 2007. This increase is attributable to costs associated with our accounting software conversion as well as an increase in legal, audit and compliance costs.

Other
Interest expense increased by $1.4 million, or 27%, from $5.1 million in 2006 to $6.5 million in 2007. The increase in interest expense is primarily attributable to property acquisitions, as well as additional draw-downs on our line of credit related to the tender of the Class B shares.

Funds From Operations

We consider FFO to be an appropriate measure of the operating performance of an equity REIT. NAREIT defines FFO as net income (loss) computed in accordance with GAAP, excluding gains or losses from sales of property, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In addition, NAREIT recommends that extraordinary items not be considered in arriving at FFO. We calculate our FFO in accordance with this definition. Most industry analysts and equity REITs, including us, consider FFO to be an appropriate supplemental measure of operating performance because, by excluding gains or losses on dispositions and excluding depreciation, FFO is a helpful tool that can assist in the comparison of the operating performance of a company's real estate between periods, or as compared to different companies. Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income by itself as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that uses historical cost accounting is insufficient by itself. There can be no assurance that FFO presented by us is comparable

to similarly titled measures of other REITs. FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity.

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Below is the calculation of FFO and the reconciliation to net income, which we believe is the most comparable GAAP financial measure to FFO, in thousands:

	Quarter		Year to date	
	2007	2006	2007	2006
Income - before discontinued operations	$ 1,855	$ 1,401	$ 3,654	$ 3,220
Income (loss) - from discontinued operations	150	156	454	682
Plus depreciation of real estate assets - from operations	2,022	2,034	5,922	6,624
Plus depreciation of real estate assets - from discontinued operations	8	2	22	17
Adjustments for nonconsolidated affiliates	66	42	102	111
Less gain on sale of real estate assets acquired for investment	-	-	-	(286)
Less class B, C & D distributions	(2,693)	(2,909)	(8,109)	(8,729)
Total Funds From Operations available to class A shareholders	$ 1,408	$ 726	$ 2,045	$ 1,639

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest-rate changes primarily related to the variable interest rate on our credit facility and related to the refinancing of long-term debt which currently contains fixed interest rates. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve this objective, we borrow primarily at fixed interest rates. We currently do not use interest-rate swaps or any other derivative financial instruments as part of our interest-rate risk management approach.

As of September 30, 2007, the carrying value of our debt obligations associated with assets held for investment was $154.4 million, $138.4 million of which represented fixed rate obligations with an estimated fair value of $140.1 million. As of September 30, 2007, the carrying value of our debt obligations associated with assets held for sale was $12.9 million, all of which represented fixed rate obligations with an estimated fair value of $13.2 million. The remaining $16.0 million of our debt obligations have a variable interest rate. Such debt has market-based terms, and its carrying value is therefore representative of its fair value as of September 30, 2007. In the event interest rates were to increase 100 basis points, annual net income, FFO and future cash flows would decrease by $160,000 based on the variable-rate debt outstanding at September 30, 2007.

As of December 31, 2006, the carrying value of our total debt obligations was $144.5 million, $132.5 million of which represented fixed-rate obligations with an estimated fair value of $132.9 million.

The discussion above considers only those exposures that exist as of September 30, 2007. It therefore does not consider any exposures or positions that could arise after that date. As a result, the ultimate impact to us of interest-rate fluctuations will depend upon the exposures that arise during the period, any hedging strategies in place at

that time and actual interest rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) as of September 30, 2007. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2007.

Changes in Internal Controls

There has been no change to our internal control over financial reporting (as such term is defined in Rule 13a – 15(f) under the Securities Exchange Act of 1934) during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II – OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material pending legal proceedings.

Item 1A. Risk Factors.

See our filing on Form 10-K for the year ended December 31, 2006, for a full discussion of risk factors associated with ownership of our common shares. During the quarter ended September 30, 2007, we had no material changes in these risk factors.

Item 2. Unregistered Sales of Equity 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.

Not applicable.

Item 6. Exhibits.

(a) Exhibits
31.1 Rule 13a-4 Certification of Chief Executive Officer
31.2 Rule 13a-14 Certification of Chief Financial Officer
32.1 Section 1350 Certification of Chief Executive Officer
32.2 Section 1350 Certification of Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Issuer has duly caused this report to be signed on its behalf on the 9th day of November 2007 by the undersigned, thereunto duly authorized.

AmREIT

/s/ H. Kerr Taylor
H. Kerr Taylor, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Issuer and in the capacities and on the dates indicated.

/s/ H. Kerr Taylor H. KERR TAYLOR President, Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	November 9, 2007
/s/ Robert S. Cartwright, Jr. ROBERT S. CARTWRIGHT, JR., Trust Manager	November 9, 2007
/s/ G. Steven Dawson G. STEVEN DAWSON, Trust Manager	November 9, 2007
/s/ Philip W. Taggart PHILIP W. TAGGART, Trust Manager	November 9, 2007
/s/ H.L. Rush, Jr. H.L. RUSH, JR., Trust Manager	November 9, 2007
/s/ Brett P. Treadwell BRETT P. TREADWELL, Vice President – Finance (Principal Accounting Officer)	November 9, 2007