AMREIT
Form 10-K
March 31, 2005

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

or

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 0-28378
AMREIT
(Exact name of registrant as specified in its charter)

Texas *(State or other jurisdiction of incorporation or organization)*	**76-0410050** *(I.R.S. Employer Identification No.)*
8 Greenway Plaza, Suite 1000 **Houston, Texas** *(Address of principal executive offices)*	**77046** *(Zip Code)*

Registrant s telephone number, including area code:
(713) 850-1400
Section 12 (b) of the Act:

Title of Class	Name of Exchange on Which Registered
Securities registered pursuant to Class A Common Shares	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act:
None

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Registration S-B is not contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or informative statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Act). Yes o No þ

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2004: $76.2 Million

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 3,453,651 class A shares, 2,246,283 class B shares, 4,079,174 class C shares, and 3,974,741 class D shares as of March 24, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant incorporates by reference into Part III portions of its Proxy Statement for the 2005 Annual Meeting of Shareholders.

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PART I

Item 1. *Description of Business*

General

AmREIT (the Company) is a Texas real estate investment trust (REIT) and has elected to be taxed as a REIT for federal income tax purposes. The Company is a fully integrated, self managed equity REIT company with, along with its predecessor, a 20-year operating history and a record of owning, managing and developing income producing retail real estate. AmREIT focuses on retail shopping centers located on Irreplaceable Corners[tm] which we define as premier frontage properties typically located on Main and Main intersections in highly populated, high-traffic affluent areas. As of December 31, 2004, AmREIT owned $203 million in assets, representing 61 properties located in 17 states and managed an additional $92 million is assets, representing 20 properties located in six states through its affiliated retail partnerships.

AmREIT s initial predecessor, American Asset Advisers Trust, Inc. was formed as a Maryland corporation in 1993. Following the merger of our external adviser into the Company in June 1998, we changed our name to AmREIT, Inc., which was a Maryland corporation. In December 2002, we reorganized as a Texas real estate investment trust.

AmREIT s class A common shares are traded on the American Stock Exchange under the symbol AMY .

Our Strategy

During 2004, AmREIT acquired approximately 500 thousand square feet of multi-tenant shopping centers, representing over $100 million in assets at an average cap rate of 7.6%. We take a very hands on approach to ownership, and directly manage the operations and leasing at all of our wholly owned properties.

We invest in properties where we believe effective leasing and operating strategies, combined with cost-effective expansion and renovation programs, can improve the existing properties value while providing superior current economic returns. These tangible types of improvements allow us to place grocery, strip center, lifestyle centers and single tenants into our properties. We believe that investment in and operation of commercial retail real estate is a local business and we focus our investments in areas where we have strong knowledge of the local markets. Our home office is located in Houston, TX, at the center of the region representing our primary investment focus. All of the members of our senior management team and our directors live in the areas where our core properties are located.

The areas where a majority of our properties are located are 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.

When evaluating potential acquisitions, we undertake a significant due diligence process resulting in an AmREIT Decision Logic. This AmREIT Decision Logic process involves multiple teams within the Company visiting the site and performing underwriting due diligence. Some of the factors that we consider are:

- economic, demographic and regulatory conditions in the property s local and regional market;
- location, environmental condition, construction quality and design and condition of the property;
- current and projected cash flow of the property and the potential to increase cash flow;
- potential for capital appreciation of the property;

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- terms of tenant leases, including the relationship between the property s current rents and market rents and the ability to increase rents upon lease rollover;
- occupancy and demand by tenants for properties of a similar type in the market area;
- potential to complete a strategic renovation, expansion or re-tenanting of the property;
- the property s current expense structure and the potential to increase operating margins; and
- competition from comparable properties in the market area.

Our shopping centers are grocery anchored, strip center and lifestyle properties whose tenants consist of national, regional and local retailers. Our typical grocery anchored shopping center is anchored by an established major grocery store operator in the region. Our retail shopping centers are leased to national and regional tenants such as Starbucks, Bank of America, and Verizon Wireless as well as a mix of local and value retailers. Lifestyle centers, such as The Gardens at Westgreen which was developed and owned by one of our affiliated retail partnership funds, are typically anchored by a combination of national and regional restaurant tenants that provide customer traffic and tenant draw for specialty tenants that support the local consumer. The balance of our retail properties are leased to national drug stores, national restaurant chains, national value oriented retail stores and other regional and local retailers. The majority of our leases are either leased or guaranteed by the parent company, not just the operator of the individual location. All of our shopping centers are located in areas of substantial retail shopping traffic. Our properties generally attract tenants who provide basic staples and convenience items to local customers. We believe sales of these items are less sensitive to fluctuations in the business cycle than higher priced retail items. No single retail tenant currently represents more than 10% of total revenue on an annual basis.

Our offices are located at 8 Greenway Plaza, Suite 1000 Houston, Texas 77046. Our telephone number is (713) 850-1400. We maintain an internet site at www.amreit.com.

Our Structure

Our portfolio of wholly owned multi-tenant shopping centers and single-tenant retail properties are supported by three distinct operating subsidiaries:

- Real Estate Operating Business
- Securities Business, and
- Retail Partnership Business

Our business structure consists of a portfolio of grocery-anchored, strip center and lifestyle shopping centers and single-tenant retail properties leased to companies such as Kroger, Walgreen s, GAP and Starbucks. The portfolio is supported by three synergistic businesses a wholly-owned real estate operating

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and development subsidiary, an NASD-registered broker-dealer subsidiary, and a merchant development retail partnership business. Through the retail partnership funds, AmREIT captures recurring development, leasing, property management and asset management fees for services performed while maintaining an ownership interest and profit participation. This unique structure provides AmREIT with the opportunity to expand its growth both internally and externally and the opportunity to access low-cost capital through both underwritten offerings and the independent financial planning marketplace. This capital can then be deployed efficiently and accretively for our shareholders. We finance our growth and working capital needs with a combination of equity and debt. Our class C common share offering which was opened in August 2003 became fully subscribed during the second quarter of 2004, and the Company is currently raising capital through its class D common share offering. The class C and class D shares have been offered exclusively through the independent financial planning community. Our by-laws limit our recourse debt to 55% of gross asset value.

Portfolio

Our properties are anchored by large market-dominant retailers such as Kroger and Barnes & Noble, and are supported by specialty retailers such as GAP, Starbucks and Verizon Wireless. We believe our properties and their tenants cater to the basic needs of the markets they serve and therefore, have less sensitivity to macro economic downturns. We believe the locations of our properties, and the high barriers to entry at those locations allow us to maximize leasing income through comparatively higher rental rates and high occupancy rates. As of December 31, 2004, the occupancy rate at our operating properties was 96.6% based on leasable square footage compared to 92.4% as of December 31, 2003. Our properties, which are typically located in high-traffic, densely populated areas, attract a wide array of established retail tenants and offer attractive opportunities for dependable monthly income and potential capital appreciation.

Our revenues are substantially generated by corporate retail tenants such as Kroger, CVS/ pharmacy, Starbucks, Landry s, International House of Pancakes (IHOP), Nextel, Washington Mutual, GAP, TGI Friday s, Bank of America, Bath & Body Works, Payless Shoes, Barnes & Noble, Linens n Things and others. Our multi-tenant centers comprise 62.5% of our annualized rental income from properties owned as of December 31, 2004.

We own, and may purchase in the future, fee simple retail properties (we own the land and the building), ground lease properties (we own the land, but not the building and receive rental income from the owner of the building) or leasehold estate properties (we own the building, but not the land, and therefore are obligated to make a ground lease payment to the owner of the land). AmREIT may also develop properties for its portfolio or enter into joint ventures, partnerships or co-ownership for the development of retail properties.

As of December 31, 2004, AmREIT owned a real estate portfolio consisting of 61 properties located in 17 states. Our multi-tenant shopping center properties are primarily located throughout Texas, with a concentration in the Houston area and are leased to national, regional and local tenants. Our single-tenant properties are located throughout the United States and are generally leased to corporate tenants where the lease is the direct obligation of the parent company, not just the local operator, and in most other cases, our leases are guaranteed by the parent company. The dependability of the lease payments is therefore based on the strength and viability of the entire company, not just the leased location. Properties that we acquire are generally newly constructed or recently constructed at the time of acquisition.

As of December 31, 2004, two properties individually accounted for more than 10% of the Company s year-end consolidated total assets Plaza in the Park in Houston, Texas and MacArthur Park in Dallas, Texas accounted for 16% and 20%, respectively of total assets. For the year ended December 31, 2004, the top three tenants by annualized rental income concentration were IHOP at 14.1 percent, Kroger at 13.2 percent and CVS/pharmacy at 5.8 percent. Consistent with our strategy of investing in areas that we know well, 21 of our properties are located in the Houston metropolitan area. These properties represented 67% of our rental income for the year ended December 31, 2004. Houston is Texas largest city and the fourth largest city in the

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United States. See Location of Properties in Item 2. Description of Property for further discussion regarding Houston s economy.

We are continuing to divest of properties which no longer meet our core criteria and replace them primarily with high-quality lifestyle, grocery-anchored and multi-tenant community shopping centers. Although we will focus primarily on developing and acquiring Irreplaceable Corner multi-tenant shopping center properties, we will also continue to develop single-tenant properties located on Irreplaceable Corners. With respect to additional growth opportunities, we currently have over $150 million of projects in our pipeline at various stages of evaluation. Each potential acquisition is subjected to a rigorous due diligence process that includes site inspections, financial underwriting, credit analysis and market and demographic studies.

Real Estate Operating and Development Company

AmREIT s real estate operating and development business, AmREIT Realty Investment Corporation and subsidiaries (ARIC), is a fully integrated and wholly-owned group of brokers and real estate professionals that provide development, acquisition, brokerage, leasing, construction, asset and property management services to our portfolio of properties, our affiliated retail partnerships and to third parties. This operating subsidiary, which is a taxable REIT subsidiary, builds value in our portfolio of retail properties by providing a high level of service to our tenants, as well as maintaining our portfolio of properties to meet our quality standards.

Having an internal real estate group also helps secure strong tenant relationships for both us and our retail partnerships. We have a growing roster of leases with well-known national and regional tenants as described above. Equally important, we have affiliations with these parent company tenants that extend across multiple sites. Not only does our real estate operating and development business create value through relationships, but it also provides an additional source of fee income and profits. Through the development, construction, management, leasing and brokerage services provided to our affiliated actively managed retail partnerships, as well as for third parties, our real estate team continues to generate fees and profits. During the years ended December 31, 2004, 2003 and 2002, ARIC generated real estate and asset management fees of $2.3 million, $1.3 million and $1.5 million, which represented 11%, 13% and 25%, of the Company s total revenues, respectively.

Additionally, through ARIC, we are able to generate additional profits through the selective acquisitions and dispositions of properties within a short time period (12 to 18 months). The majority of these assets are listed as real estate assets acquired for sale on our consolidated balance sheet. At December 31, 2004 and 2003, assets held for sale totaled approximately $6.3 million and $4.4 million, respectively. For the years ended December 31, 2004, 2003 and 2002, ARIC has generated gains on sales of properties acquired for sale of $1.8 million, $787 thousand and $0, respectively. We have built our real estate team over the past year to have a dedicated vice president running each area of our real estate operations. Additionally, we have staffed each department with the appropriate support to handle our needs as we continue to grow and strengthen this area of the Company.

ARIC has elected to be taxed as a taxable REIT subsidiary (TRS), resulting in it being subject to taxation at regular corporation rates.

Securities Company

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

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During 2004, ASC raised approximately $25 million for AmREIT Monthly Income and Growth Fund II, Ltd., an affiliated retail partnership sponsored by a subsidiary of AmREIT. Additionally, during the second quarter of 2004, the Company fully subscribed its class C common share offering which it started in August 2003. The offering was a $44 million offering ($40 million offered to the public and $4 million reserved for the dividend reinvestment program), issued on a best efforts basis through the independent financial planning and broker-dealer communities. The Company primarily used the proceeds for the acquisition of new properties and to pay down existing debt. ASC is also the dealer manager on our newest offering, a $170 million class D common share offering ($150 million offered to the public and $20 million reserved for the dividend re-investment program). This offering, a publicly registered, non-traded class of common shares with a stated yield of 6.5%, was launched on June 25, 2004. The class D common shares are convertible into our class A common shares after a seven-year lock out period at a 7.7% premium on invested capital and are callable by the Company after one year from the date of issuance. We have raised $20.9 million through this offering as of December 31, 2004, including shares issued through the dividend reinvestment program.

Since capital is the lifeblood of any real estate company, having the unique opportunity to raise capital through both underwritten offerings and the independent financial planning community adds additional financial flexibility and dependability to our income stream. During the years ended December 31, 2004, 2003 and 2002, ASC generated securities commission revenues from capital-raising activities of $7.7 million, $3.0 million and $847 thousand, respectively. ASC incurred commission expenses of $5.9 million, $2.3 million and $653 thousand which were paid to non-affiliated broker-dealers in conjunction with such capital-raising activities. For 2005, through a combination of equity for our actively managed retail partnerships and direct equity for AmREIT, ASC expects to raise approximately $120-$150 million directly through the independent financial planning community.

Retail Partnerships

AmREIT manages retail partnerships that sell limited partnership interests to retail investors, in which AmREIT indirectly invests as both the general partner and as a limited partner. The Company strives to create a structure that aligns the interests of our shareholders with those of our limited partners. These partnerships were formed to develop, own, manage, and add value to properties with an average holding period of two to four years. Value is created for AmREIT through our affiliates which serve as general partners of the retail partnerships. These general partners manage the partnerships and, in return, receive management fees as well as profit participation interests. The retail partnerships are structured so that the general partner, an affiliate of AmREIT, receives a significant profit only after the limited partners in the funds have received their targeted return, again, linking AmREIT s success to that of its limited partners. During the years ended December 31, 2004, 2003 and 2002, AmREIT earned fees of $1.8 million, $634 thousand and $668 thousand, respectively, by providing real estate services to the retail partnerships.

As of December 31, 2004, AmREIT directly managed, through its four actively managed retail partnerships, a total of $52.7 million in contributed capital. These four partnerships have or will enter their liquidation phases in 2003, 2008, 2010, and 2011, respectively. As these partnerships enter into liquidation, the Company, acting as the general partner, will receive economic benefit from our profit participation, after certain preferred returns have been paid to the partnerships limited partners. During 2004, AmREIT recognized approximately $869 thousand related to its general partner interest in AmREIT Opportunity Fund, Ltd. (AOF). See Footnote 5 in the accompanying consolidated financial statements for more information. In accordance with generally accepted accounting principles, any unrealized gains associated with this potential profit participation have not been reflected on our balance sheet or statement of operations.

Our strategy and our structure, as discussed herein, are reviewed by our Board of Trust Managers on a regular basis and may be modified or changed without a vote of our shareholders.

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Competition

AmREIT s properties are located in 17 states, with 28 of its properties located in the Texas metropolitan areas. All of AmREIT s properties are located in areas that include competing properties. The number of competitive properties in a particular area could have a material adverse affect on both AmREIT s ability to lease space at any of it s properties or at any newly developed or acquired properties and the rents charged. AmREIT may be competing with owners, including, but not limited to, other REITs, insurance companies and pension funds that have greater resources that AmREIT.

Compliance with Governmental Regulations

Under various federal and state environmental laws and regulations, as an owner or operator of real estate, we may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum product releases at our properties. We may also be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by those parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. The presence of contamination or the failure to remediate contaminations at any of our properties may adversely affect our ability to sell or lease the properties or to borrow using the properties as collateral. We could also be liable under common law to third parties for damages and injuries resulting from environmental contamination coming from our properties.

All of our properties will be acquired subject to satisfactory Phase I environmental assessments, which generally involve the inspection of site conditions without invasive testing such as sampling or analysis of soil, groundwater or other media or conditions; or satisfactory Phase II environmental assessments, which generally involve the testing of soil, groundwater or other media and conditions. Our board of trust managers may determine that we will acquire a property in which a Phase I or Phase II environmental assessment indicates that a problem exists and has not been resolved at the time the property is acquired, provided that (A) the seller has (1) agreed in writing to indemnify us and/or (2) established in escrow case funds equal to a predetermined amount greater than the estimated costs to remediate the problem; or (B) we have negotiated other comparable arrangements, including, without limitation, a reduction in the purchase price. We cannot be sure, however, that any seller will be able to pay under an indemnity we obtain or that the amount in escrow will be sufficient to pay all remediation costs. Further, we cannot be sure that all environmental liabilities have been identified or that no prior owner, operator or current occupant has created an environmental condition not known to us. Moreover, we cannot be sure that (1) future laws, ordinances or regulations will not impose any material environmental liability or (2) the current environmental condition of our properties will not be affected by tenants and occupants of the properties, by the condition of land or operations in the vicinity of the properties (such as the presence of underground storage tanks), or by third parties unrelated to us.

Employees

As of December 31, 2004, AmREIT had 37 full time employees and 3 full time dedicated brokers.

Financial Information

Additional financial information related to AmREIT is included in the Consolidated Financial Statements located on pages F-3 through F-7, included herein.

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Item 2. ***Description of Property***

General

At December 31, 2004, we owned 61 properties located in 17 states. Reference is made to the Schedule III Consolidated Real Estate Owned and Accumulated Depreciation filed with this Form 10-K for a listing of the properties and their respective costs.

Since 1995, we have been developing and acquiring multi-tenant shopping centers in our retail partnership business. During this time, we believe we have sharpened our ability to recognize the ideal location of high-end shopping centers and single-tenant properties that can create long-term value which we define as Irreplaceable Corners. Recent downward pressure on single-tenant cap rates has resulted in higher priced single-tenant real estate. As a result, while the company will continue to invest in single-tenant properties located on Irreplaceable Corners, we anticipate strategically increasing our holdings of multi-tenant shopping centers. Multi-tenant shopping centers represent 62.5% of annualized rental income from properties owned as of December 31, 2004.

Land Our property sites, on which our leased buildings sit, range from approximately 34,000 to 1.0 million square feet, depending upon building size and local demographic factors. Sites purchased by the Company are in highly-populated, high-traffic corridors and have been reviewed for traffic and demographic pattern and history.

Buildings The buildings are multi-tenant shopping centers and freestanding single-tenant properties located at Main and Main locations throughout the United States. They are positioned for good exposure to traffic flow and are constructed from various combinations of stucco, steel, wood, brick and tile. Multi-tenant buildings are generally 14,000 square feet and greater, and single-tenant buildings range from approximately 2,000 to 20,000 square feet. Buildings are suitable for possible conversion to various uses, although modifications may be required prior to use for other operations.

Leases Primary lease terms range from five to 25 years. Generally, leases also provide for one to four five-year renewal options. Our retail properties are primarily leased on a net basis whereby the tenants are responsible, either directly or through landlord reimbursement, for the property taxes, insurance and operating costs such as water, electric, landscaping, maintenance and security. Generally, leases provide for either percentage rents based on sales in excess of certain amounts, periodic escalations or increases in the annual rental rates or both.

Location of Properties

Based in Houston, AmREIT s current focus is on property investments in Texas. Of our 61 properties, 28 are located in Texas, with 21 being located in the greater Houston metropolitan statistical area. These 21 properties represented 67% of our rental income for the year ended December 31, 2004. Our portfolio of assets tends to be located in areas we know well, and where we can monitor them closely. Because of our proximity and deep knowledge of our markets, we believe AmREIT can deliver an extra degree of hands-on management to our real estate investments. We expect over the long term we will outperform absentee landlords in these markets.

Because of our investments in the greater Houston area, and throughout Texas, the Houston and Texas economy have a significant impact on our business and on the viability of our properties. Accordingly, management believes that any downturn in the Houston and Dallas economy could adversely affect us; however, general retail and grocery anchored shopping centers, which we primarily own, provide basic necessity-type items, and tend to be less affected by economic change.

Additionally, according to the Greater Houston Partnership, Houston is the 4th most populous city in the nation, trailing only New York, Los Angeles and Chicago. If Houston was a state, it would rank 36th in population. It is among the nation s fastest-growing and most diverse metropolitan areas and is growing faster than both the state of Texas and the nation. Since 1990 approximately 49% of Houston s population growth has been from net migration with 78% of that growth attributed to international immigration. Houston s

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economic base has diversified, sharply decreasing its dependence on upstream energy. Diversifying, or energy-independent, sectors account for 91% of net job growth in the economic base since 1987. Oil and gas exploration and production accounts for 11.2% of Houston s Gross Area Product (GAP), down sharply from 21% as recently as 1985. The reduced role of oil and gas in Houston s GAP reflects the rapid growth of such sectors as engineering services, health services and manufacturing. The Port of Houston in 2003 ranked first among U.S. ports in volume of foreign tonnage and is the world s 6th largest port. Two major railroads and 150 trucking lines connect the Port to the balance of the continental United States, Canada and Mexico. Europe and Latin America are Houston s top seaborne trading partners.

A listing of our properties by property type and by location as of December 31, 2004, follows based upon gross leasable area (GLA):

Grocery-Anchored Shopping Centers	**City**	**State**	**GLA**	**% Leased**
MacArthur Park	Dallas	TX	198,443	100%
Plaza in the Park	Houston	TX	138,663	95%
Cinco Ranch	Houston	TX	97,297	100%
Grocery-Anchored Shopping Centers Total			434,403	98%

Multi-Tenant Shopping Centers	**City**	**State**	**GLA**	**% Leased**
Bakery Square	Houston	TX	34,614	100%
Uptown Plaza	Houston	TX	26,400	95%
Woodlands Plaza	The Woodlands	TX	20,018	100%
Sugarland Plaza	Sugarland	TX	16,750	100%
Terrace Shops	Houston	TX	16,395	100%
Copperfield Medical	Houston	TX	14,000	100%
Courtyard at Post Oak	Houston	TX	13,597	100%
San Felipe and Winrock**	Houston	TX	8,400	**
Multi-Tenant Shopping Centers Total			150,174	99%

Single-Tenant (Ground Leases)	**City**	**State**	**GLA**	**% Leased**
CVS Corporation	Houston	TX	13,824	100%
Darden Restaurants	Peachtree City	GA	6,867	100%
Carlson Restaurants	Hanover	MD	6,802	100%
410-Blanco**	San Antonio	TX	5,000	**
Bank of America	Houston	TX	4,420	100%
Comerica Bank**	Houston	TX	4,277	**
Washington Mutual	Houston	TX	3,685	100%
Washington Mutual	The Woodlands	TX	3,685	100%
Yum Brands*	Houston	TX	2,818	100%

Single-Tenant (Ground Leases) Total	51,378	100%

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Single-Tenant (Fee Simple)	City	State	GLA	% Leased
Vacant*	Baton Rouge	LA	20,575	0%
Baptist Memorial Medical Plaza	Memphis	TN	15,000	100%
Comp USA	Roseville	MN	15,000	100%
Energy Wellness	Sugarland	TX	15,000	100%
Transworld Entertainment	Independence	MO	14,047	100%
Golden Corral	Houston	TX	12,000	100%
Golden Corral	Humble	TX	12,000	100%
Carlson Restaurants	Houston	TX	8,500	100%
Pier One Imports Inc.	Longmont	CO	8,014	100%
Hollywood Entertainment Corp.	Lafayette	LA	7,488	100%
Hollywood Entertainment Corp.	Ridgeland	MS	7,488	100%
Radio Shack Corporation	Dallas	TX	5,200	100%
IHOP Corporation #1483	Sugarland	TX	4,020	100%
IHOP Corporation #1737	Centerville	UT	4,020	100%
IHOP Corporation #4462	Memphis	TN	4,020	100%
IHOP Corporation #5318	Topeka	KS	4,020	100%
Payless Shoesources Inc.	Austin	TX	4,000	100%
AFC, Inc.	Atlanta	GA	2,583	100%
Jack in the Box Inc.	Dallas	TX	2,238	100%
Advance Auto* ** ****	Various	Various	49,000	**
Single-Tenant (Fee Simple) Total			214,213	88%

Single-Tenant (Leasehold)	City	State	GLA	% Leased
IHOP Corporation***	Various	Various	60,300	100%
Company Total GLA/% Leased			910,468	97%

* Held for Sale

** Under Development (GLA represents proposed leasable square footage)

*** IHOP leasehold properties are located in NM, LA, OR, VA, TX, CA, TN CO, VA, NY, OR, KS and MO. Each of the properties has a GLA of 4,020 square feet.

**** Advance Auto properties are located in MO and IL. Each of the properties has a proposed GLA of 7,000 square feet.

The rental income generated by our properties during 2004 by state is as follows:

State/City	Rental Income	Rental Concentration
Texas Houston	$ 7,879	67.4%
Texas Dallas	244	2.1%
Texas other	323	2.8%
Total Texas	8,446	72.3%
Louisiana	373	3.2%
Tennessee	517	4.4%
Minnesota	268	2.3%
Missouri	256	2.2%
Kansas	253	2.2%
Colorado	246	2.1%
Georgia	198	1.7%
Oregon	181	1.6%
Virginia	172	1.5%
Utah	161	1.4%
Mississippi	155	1.3%
Maryland	142	1.2%
New York	124	1.1%
California	111	0.9%
New Mexico	85	0.6%
Illinois		
Total	$ 11,688	100.0%

Grocery-anchored Shopping Centers

Our grocery-anchored shopping centers comprise 41.8% of our annualized rental income from the properties owned as of December 31, 2004. These properties are designed for maximum retail visibility and ease of access and parking for the consumer. All of our grocery-anchored centers are anchored by Kroger and are supported by a mix of specialty national and regional tenants such as Barnes & Noble, GAP and Starbucks. They are leased in a manner that provides a complimentary array of services to support the local retail consumer. These properties are located in the Houston and Dallas metropolitan areas and are typically located at an intersection guided by a traffic light, with high visibility, significant daily traffic counts, and in close proximity to neighborhoods and communities with household incomes above those of the national average. We are dependent upon the financial viability of Kroger, and any downturn in Kroger s operating results could negatively impact our operating results. Refer to Kroger s filings with the SEC website at www.sec.gov.

All of our grocery-anchored center leases provide for the monthly payment of base rent plus operating expenses. This monthly operating expense payment is based on an estimate of the tenant s pro rata share of property taxes, insurance, utilities, maintenance and other common area maintenance charges. Annually these operating expenses are reconciled with any overage being reimbursed to the tenants, with any underpayment being billed to the tenant. Generally these are net lease terms and allow the landlord to recover all of its operating expenses without the limitation of expense stops.

Our grocery-anchored shopping center leases range from five to 20 years and generally include one or more five-year renewal options. Annual rental income from these leases ranges from $21 thousand to $1.0 million per year.

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Multi-tenant Shopping Centers

As of December 31, 2004,