

AMERICAN REALTY INVESTORS INC
Form 10-K
March 31, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

Commission File Number 001-15663

American Realty Investors, Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of

Incorporation or organization)

75-2847135
(IRS Employer

Identification Number)

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1800 Valley View Lane, Suite 300

Dallas, Texas
(Address of principal executive offices)

(469) 522-4200

75234
(Zip Code)

Registrant's Telephone Number, including area code

Securities registered pursuant to Section 12(b) of the Act:

<i>Title of Each Class</i>	<i>Name of each exchange on which registered</i>
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales price of the Common Stock on the New York Stock Exchange as of June 30, 2008 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$14,527,019 based upon a total of 1,532,386 shares held as of June 30, 2008 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 5, 2009, there were 11,237,066 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc.; Commission File No. 001-14784

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FORWARD-LOOKING STATEMENTS

Certain Statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words estimate, plan, intend, expect, anticipate, believe, and similar expressions are intended to identify forward-looking statements. The forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. The Company disclaims any intention or obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described in Part I, Item 1A. Risk Factors .

PART I

ITEM 1. BUSINESS

General

As used herein, the terms ARL, the Company, We, Our, or Us refer to American Realty Investors, Inc., a Nevada corporation, individually or together with its subsidiaries. The Company's common stock trades on the New York Stock Exchange under the symbol ARL . ARL is a C corporation for U.S. federal income tax purposes. ARL was organized in 1999. In August 2000, the Company acquired American Realty Trust, Inc., a Georgia corporation (ART) and National Realty LP; a Delaware limited partnership (NRLP). ART was the successor to a District of Columbia business trust organized in 1961. The business trust was merged into ART in 1988. NRLP was organized in 1987 and subsequently acquired all of the assets and assumed all of the liabilities of several public and private limited partnerships. NRLP also owned a portfolio of real estate and mortgage loan investments.

ARL subsidiaries own approximately 82.8% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc., a Nevada corporation (TCI) whose common stock is traded on the New York Stock Exchange under the symbol TCI . TCI owns approximately 24.9% of the outstanding common shares of Income Opportunity Realty Investors, Inc., (IOT) whose common stock is traded on the American Stock Exchange under the symbol IOT . ARL has consolidated TCI's accounts and operations since March 2003.

ARL's contractual Advisor is Prime Income Asset Management, LLC (Prime), the sole member of which is Prime Income Asset Management, Inc., a Nevada corporation (PIAMI). PIAMI is owned by Realty Advisors, Inc. (RAI)(80%) and Syntek West, Inc. (SWI)(20%), which is owned by Gene E. Phillips, Realty Advisors, Inc. which is owned by a Trust for the benefit of the children of Gene E. Phillips (the Trust). Gene E. Phillips is an officer and director of SWI and serves as a representative of the Trust. While Mr. Phillips is not an officer or director of ARL, he does regularly consult with the executive officers and directors of ARL rendering advice and input with respect to investment decisions affecting ARL. PIAMI, together with its subsidiary, One Realco Holdings, Inc., also owns approximately 15.3% of the common stock of ARL and approximately 7.4% of the Series A 10% cumulative convertible preferred Stock of ARL.

ARL's Board of Directors represents the Company's shareholders and is responsible for directing the overall affairs of ARL and for setting the strategic policies that guide the Company. The Board of Directors has delegated the day-to-day management of the Company to Prime Income Asset Management, LLC (Prime) under a written advisory agreement that is reviewed annually by ARL's Board of Directors. Prime's duties include but are not limited to locating, evaluating and recommending real estate and real estate-related investment opportunities. Prime also arranges, for ARL's benefit, debt and equity financing with third party lenders and investors. Prime is compensated by ARL under the advisory agreement that is more fully described in Part III, Item 10, Directors, Executive Officers and Corporate Governance .

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Prime also serves as advisor to TCI. The officers of ARL are also officers of IOT, TCI, and Prime. The directors of ARL also serve as directors of TCI. The Chairman of the Board of Directors of ARL also serves as the Chairman of the Board of Directors of TCI. One director of ARL also serves as a director of IOT. Affiliates of Prime have provided property management services to ARL. Currently, Triad Realty Services, LP. (Triad), subcontracts with other entities for property-level management services. The general partner of Triad is Prime Income Asset Management, Inc. (PIAMI). The limited partner of Triad is HRS Holdings, LLC (HRSHLLC). Triad subcontracts the property-level management and leasing our commercial properties (shopping centers, office buildings, and industrial warehouses) to Regis Realty I, LLC (Regis I) which is owned by HRSHLLC. Regis I receives property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Regis Hotel I, LLC, manages our hotels. The sole member of Regis I and Regis Hotel I, LLC is HRSHLLC.

Regis I is also entitled to receive real estate brokerage commissions in accordance with the terms of the Advisory Agreement as discussed in Part III, Item 10. Directors, Executive Officers and Corporate Governance.

ARL's primary business is the acquisition, development and ownership of income-producing residential, hotel and commercial real estate properties. In addition, ARL opportunistically acquires land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents; leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies; leasing trade show and exhibit space to temporary as well as long-term tenants; and renting hotel rooms to guests. We also generate revenues from gains on sales of income-producing properties and land. At December 31, 2008, our income-producing properties consisted of:

5.9 million rentable square feet of commercial properties, including 20 office buildings, 8 industrial properties, five retail properties, and a 344,975 square foot trade show and exhibit hall,

60 residential apartment communities comprising 11,437 units, and one single family residence; and

Five hotels comprising 808 rooms.

The following table sets forth the location of our real estate held for investment (income-producing properties only) by asset type as of December 31, 2008:

Location	Apartments		Commercial		Hotels	
	No.	Units	No.	SF	No.	Rooms
Greater Dallas-Ft Worth, TX	18	3,681 ⁽¹⁾	16	2,865,715		
Greater Houston, TX	9	2,348				
Midland-Odessa, TX	4	845				
San Antonio, TX	3	852	1	101,500		
Tyler, TX	6	1,101				
Other Texas	1	260				
Mississippi	7	450				
Arkansas	4	580				
Tennessee	3	532				
Florida	2	153	1	6,722		
New Orleans, LA			6	1,369,388		
Indianapolis			1	220,461		
Oklahoma			1	225,566		
Michigan			1	179,741		
Colorado			1	344,975	1	161
California					4	647
Other	3	635	6	598,652		
Total	60	11,437	34	5,912,720	5	808

(1) includes a single family residence

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We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable-rate construction loans that are refinanced with the proceeds of long-term, fixed-rate amortizing mortgages when the development has been completed and occupancy has been stabilized. When we sell properties, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable, secured by the property being sold. We may also from time to time enter into partnerships or joint ventures with various investors to acquire land or income-producing properties or to sell interests in certain of our properties.

We partner with various third-party development companies to construct residential apartment communities. The third-party developer typically holds a general partner as well as a limited partner interest in a limited partnership formed for the purpose of building a single property while we generally take a limited partner interest in the limited partnership. We may contribute land to the partnership as part of our equity contribution or we may contribute the necessary funds to the partnership to acquire the land. We are required to fund all required equity contributions while the third-party developer is responsible for obtaining construction financing, hiring a general contractor and for the overall management, successful completion and delivery of the project. We generally bear all the economic risks and rewards of ownership in these partnerships and therefore include these partnerships in our consolidated financial statements. The third-party developer is paid a developer fee typically equal to a percentage of the construction costs. When the project reaches stabilized occupancy, we acquire the third-party developer's partnership interests in exchange for any remaining unpaid developer fees.

At December 31, 2008, our projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date	Total Projected Costs
Savoy of Garland	Garland, TX	144	\$ 2,382	\$ 11,380
Dorado Ranch	Odessa, TX	224	17,081	19,137
Mansions of Mansfield	Mansfield, TX	208	16,870	18,687
Northside on Travis	Sherman, TX	200	15,184	16,999
Sugar Mill	Baton Rouge, LA	160	4,678	13,199
Total		936	\$ 56,195	\$ 79,402

Our subsidiary, TCI, has formed a number of joint ventures with Icon Partners, LLC (Icon) to develop various residential, commercial and mixed-use projects. The subsidiary typically owns 75% of these joint ventures, arranges for and guarantees all debt financing and provides all required equity capital. The terms of the joint ventures also allow our subsidiary to receive its cumulative investment plus a preferred return before Icon receives any equity distribution. Icon provides various development and project management services to the joint ventures and is paid monthly developer fees for those services. We include these joint ventures in the Company's consolidated financial statements. We have made substantial investments in a number of large tracts of undeveloped and partially developed land and intend to a) continue to improve these tracts of land for our own development purposes or b) make the improvements necessary to ready the land for sale to other developers.

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At December 31, 2008, our investments in undeveloped and partially developed land consisted of the following (dollars in thousands):

Property	Location	Date(s) Acquired	Acres	Cost	Primary
					Intended Use
Beltline-Geller Road	Dallas, TX	2007	379	\$ 2,888	Commercial
Circle C Ranch	Austin, TX	2006	1,092	44,622	Single-family residential
Dallas North Tollway	Dallas, TX	2006	17	16,005	Commercial
Jackson Convention Center	Jackson, MS	2007-2008	2	10,826	Mixed use
Kaufman County	Dallas, TX	2000-2008	2,824	11,620	Single-family residential
Las Colinas Multi-Tracts	Dallas, TX	1995-2006	280	23,563	Commercial
Mandahl Bay	St. Thomas, USVI	2005-2008	91	15,845	Single-family residential
McKinney Multi-Tracts	Dallas, TX	1997-2008	211	24,201	Mixed use
Meloy Portage	Kent, OH	2004	53	5,119	Multi-family residential
Mercer Crossing	Dallas, TX	1996-2008	760	96,654	Mixed use
Pioneer Crossing	Austin, TX	1997-2008	886	39,503	Multi-family residential
Port Olpenitz	Germany	2008	420	13,654	Mixed use
Travis Ranch	Dallas, TX	2008	832	18,661	Multi-family residential
Valley Ranch	Dallas, TX	2004	27	5,826	Commercial
Waco Multi-Tracts	Waco, TX	2005-2006	502	4,911	Single-family residential
Windmill Farms	Dallas, TX	2006-2008	3,290	65,558	Single-family residential
Woodmont Multi-Tracts	Dallas, TX	2006-2008	71	83,582	Mixed use
Subtotal			11,737	483,038	
Other land holdings	Various	1990-2008	841	66,001	Various
Total land holdings			12,578	\$ 549,039	

In addition, we own a non-controlling 20% interest in Milano Restaurants International, which operates and franchises several quick service restaurant concepts in California. We use the equity method to account for these investments.

Significant Real Estate Acquisitions/Dispositions and Financings

A summary of some of the significant transactions for the year ended December 31, 2008 are discussed below:

On January 15, 2008, we purchased 4.0 acres of land in Dallas, Texas known as Woodmont TCI XIV, LP for \$6.4 million. We financed the transaction with \$1.9 million cash, a new mortgage of \$4.1 million with a commercial lender and accrued \$400,000 in commissions payable and other closing cost. The mortgage is secured by the property and accrues interest at Prime plus 0.75%.

On January 25, 2008, we sold 15 apartment complexes in a single transaction for an aggregate sales price of \$98.3 million and recorded a gain on sale of \$72.1 million. We received cash of \$28.4 million after paying off existing mortgages of \$62.1 million, and \$7.8 million in commissions and other closing costs.

The properties consisted of:

Forty-Four Hundred Apartments, a 92-unit complex in Midland, Texas;

Arbor Pointe, a 194-unit complex in Odessa, Texas;

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Ashton Way, a 178-unit complex in Midland, Texas;

Autumn Chase, a 94-unit complex in Midland, Texas;

Courtyard Apartments, a 133-unit complex in Midland, Texas;

Coventry Point, a 120-unit complex in Midland, Texas;

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Fairway, a 152-unit complex in Longview, Texas;

Fountains at Waterford, a 172-unit complex in Midland, Texas;

Hunters Glen, a 260-unit complex in Midland, Texas;

Southgate, a 180-unit complex in Odessa, Texas;

Sunchase, a 300-unit complex in Odessa, Texas;

Sunset, a 240-unit complex in Midland, Texas;

Thornwood, a 109-unit complex in Odessa, Texas;

Westwood, a 79-unit complex in Odessa, Texas; and

Woodview, a 232-unit complex in Odessa, Texas.

On January 31, 2008, we sold the Lexington office building, a 75,000 square foot commercial building located in Colorado Springs, Colorado for \$5.4 million. We received cash of \$1.6 million after paying off the existing mortgage of \$3.5 million and \$300,000 in closing costs. We recorded a \$700,000 gain on sale.

On February 6, 2008, we sold the Fairway View apartments, a 264-unit complex located in El Paso, Texas for \$10.3 million recording a gain on sale of \$6.0 million. We received \$4.8 million in cash after paying off the existing mortgage of \$5.3 million and closing costs.

On February 14, 2008, we sold the Governors Square apartments, a 169-unit complex located in Tallahassee, Florida for \$8.5 million, recording a gain on sale of \$5.7 million. We received \$4.7 million in cash after paying off the existing mortgage of \$2.9 million and \$900,000 in closing costs.

On February 14, 2008, we sold three hotels located in Chicago, Illinois in a single transaction for \$30.0 million recording a gain on sale of \$18.4 million. We received cash of \$9.8 million after paying off existing mortgages of \$18.5 million and closing costs. The properties consisted of:

City Suites Hotel, a 45-room hotel;

Majestic Hotel, a 55-room hotel; and

Willows Hotel, a 52-room hotel.

On March 28, 2008, we sold all of our shares in S.P. Zoo (a Polish Corporation) for \$11.8 million. The sale of the shares represented our 66.67% interest in the Radisson-SAS Hotel Akademia, a 161-room hotel located in Wroclaw, Poland. We received cash of \$11.8 million upon sale of our shares and recorded a gain on sale of \$7.7 million.

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On April 2, 2008, we acquired the Bridgewood Ranch apartments, a 106-unit complex located in Kaufman, Texas for \$7.6 million. We financed the purchase with a new mortgage (secured by the property) of \$5.1 million, cash of \$1.3 million, and \$1.2 million in liabilities. The mortgage accrues interest at the higher rate of 6.75% or Prime plus 0.25% and matures in March 31, 2019.

On April 16, 2008, we acquired the Quail Hollow apartments, a 200-unit complex located in Holland, Ohio for \$14.1 million. We financed the purchase with a new mortgage (secured by the property) of \$11.5 million, cash of \$77,000, and \$2.6 million in liabilities. The mortgage accrues interest at 7.00% and matures in October 2011.

On June 10, 2008, we sold 20.6 acres of undeveloped land located in Irving, Texas for \$7.2 million, recording a \$1.9 million gain on sale. We received \$2.0 million in cash and provided \$2.2 million in seller financing, after paying down \$2.9 million in existing debt, and incurring \$100,000 in closing costs.

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On June 26, 2008, we purchased the Stanford Centre, a 274,684 square foot commercial building located in Dallas, Texas including 3.1 acres of land, for \$38.8 million. We financed the transaction with \$11.5 million in cash and a \$26.1 million mortgage from a commercial bank. In addition, we incurred \$1.2 million in accruals and credits at closing. The note accrues interest at LIBOR plus 3.75% and matures on July 1, 2011.

On July 23, 2008, we purchased 24.1 acres of land known as Las Colinas land located in Irving, Texas for \$6.7 million. We financed the transaction with \$2.2 million in cash and a \$4.5 million mortgage secured by the property. The note accrues interest at Prime plus 4.00% and matures on July 23, 2010.

On July 23, 2008, we purchased 246.0 acres of land known as Windmill Farms Harlan land located in Kaufman County, Texas for \$6.8 million. We financed the transaction with \$1.3 million cash and seller financing of \$5.5 million. The note accrues interest at 2.00% for the first year, 4.00% for the second year and 6.00% for the third year and each year thereafter and matures on July 23, 2013.

On August 12, 2008, we purchased 833.4 acres of land in Forney, Texas known as Travis Ranch land for \$18.7 million. We financed the transaction with \$2.2 million cash, a \$5.8 million loan with a commercial lender and a \$7.5 million loan provided by the seller. In addition, we accrued \$3.2 million in commissions and closing costs. The commercial note and seller financing both accrue interest at 5.00% and are due upon demand.

On October 10, 2008, we obtained a new \$ 8.5 million loan with a commercial lender which was collateralized by the property known as Travis Ranch land. The proceeds were used to pay off the existing \$5.8 million loan on Travis Ranch land and to reduce the seller financed loan by \$2.7 million. The new loan accrues interest at 17% and is payable on maturity, April 9, 2009.

On October 15, 2008, we sold the Mountain Plaza apartments, a 188-unit complex, located in El Paso, Texas for \$7.9 million. We received \$1.1 million in cash, after providing seller financing of \$1.9 million. The buyer assumed the existing mortgage of \$4.9 million secured by the property.

On December 17, 2008, we refinanced the existing mortgage on 22 acres of land known as Hines Land for a new mortgage of \$5.0 million receiving \$2.6 million in cash after paying down the existing debt of \$2.0 million and \$400,000 in closing costs. The note accrues interest at 17.0%, and is payable on maturity, June 17, 2009 at which time all accrued and unpaid interest and principal is due.

Business Plan and Investment Policy

Our business objective is to maximize long-term value for our stockholders by investing in commercial real estate through the acquisition, development and ownership of apartments, commercial properties, hotels, and land. We intend to achieve this objective through acquiring and developing properties in multiple markets and operating as an industry-leading landlord. We believe this objective will provide the benefits of enhanced investment opportunities, economies of scale and risk diversification, both in terms of geographic market and real estate product type. We believe our objective will also result in continuing access to favorably priced debt and equity capital. In pursuing our business objective, we seek to achieve a combination of internal and external growth while maintaining a strong balance sheet and employing a strategy of financial flexibility. We maximize the value of our apartments and commercial properties by maintaining high occupancy levels while charging competitive rental rates, controlling costs and focusing on tenant retention. We also pursue attractive development opportunities either directly or in partnership with other investors.

For our portfolio of commercial properties, we generate increased operating cash flow through annual contractual increases in rental rates under existing leases. We also seek to identify best practices within our industry and across our business units in order to enhance cost savings and gain operating efficiencies. We employ capital improvement and preventive maintenance programs specifically designed to reduce operating costs and increase the long-term value of our real estate investments.

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We seek to acquire properties consistent with our business objectives and strategies. We execute our acquisition strategy by purchasing properties which management believes will create stockholder value over the long-term. We will also sell properties when management believes value has been maximized or when a property is no longer considered an investment to be held long-term.

We are continuously in various stages of discussions and negotiations with respect to development, acquisition, and disposition projects. The consummation of any current or future development, acquisition, or disposition, if any, and the pace at which any may be completed cannot be assured or predicted.

Substantially all of our properties are owned by subsidiary companies, many of which are single-asset entities. This ownership structure permits greater access to financing for individual properties and permits flexibility in negotiating a sale of either the asset or the equity interests in the entity owning the asset. From time-to-time, our subsidiaries have invested in joint ventures with other investors, creating the possibility of risks that do not exist with properties solely owned by an ARL subsidiary. In those instances where other investors are involved, those other investors may have business, economic, or other objectives that are inconsistent with our objectives, which may in turn require us to make investment decisions different from those if we were the sole owner.

Real estate generally cannot be sold quickly. We may not be able to promptly dispose of properties in response to economic or other conditions. To offset this challenge, selective dispositions have been a part of our strategy to maintain an efficient investment portfolio and to provide additional sources of capital. We finance acquisitions through non-recourse mortgages, internally generated funds, and, to a lesser extent, property sales. Those sources provide the bulk of funds for future acquisitions. We may purchase properties by assuming existing loans secured by the acquired property. When properties are acquired in such a manner, we customarily seek to refinance the asset in order to properly leverage the asset in a manner consistent with our investment objectives.

Our businesses are not generally seasonal with regard to real estate investments. Our investment strategy seeks both current income and capital appreciation. Our plan of operation is to continue, to the extent our liquidity permits, to make equity investments in income-producing real estate such as hotels, apartments, and commercial properties. We may also invest in the debt or equity securities of real estate-related entities. We intend to pursue higher risk, higher reward investments, such as improved and unimproved land where we can obtain reasonably-priced financing for substantially all of a property's purchase price. We intend to continue the development of apartment properties in selected markets in Texas and in other locations where we believe adequate levels of demand exist. We intend to pursue sales opportunities for properties in stabilized real estate markets where we believe our properties' value has been maximized. We also intend to be an opportunistic seller of properties in markets where demand exceeds current supply. Although we no longer actively seek to fund or purchase mortgage loans, we may, in selected instances, originate mortgage loans or we may provide purchase money financing in conjunction with a property sale.

Our Board of Directors has broad authority under our governing documents to make all types of investments, and we may devote available resources to particular investments or types of investments without restriction on the amount or percentage of assets that may be allocated to a single investment or to any particular type of investment, and without limit on the percentage of securities of any one issuer that may be acquired. Investment objectives and policies may be changed at any time by the Board without stockholder approval.

The specific composition from time-to-time of our real estate portfolio owned by ARL directly and through our subsidiaries depends largely on the judgment of management to changing investment opportunities and the level of risk associated with specific investments or types of investments. We intend to maintain a real estate portfolio that is diversified by both location and type of property.

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Competition

The real estate business is highly competitive and we compete with numerous companies engaged in real estate activities (including certain entities described in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence), some of which have greater financial resources than ARL. We believe that success against such competition is dependent upon the geographic location of a property, the performance of property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to a property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. With respect to hotels, competition is also based upon the market served, i.e., transient, commercial, or group users. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item 1A. Risk Factors .

To the extent that ARL seeks to sell any of its properties, the sales prices for the properties may be affected by competition from other real estate owners and financial institutions also attempting to sell properties in areas where ARL's properties are located, as well as aggressive buyers attempting to dominate or penetrate a particular market.

As described above and in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence , the officers and directors of ARL serve as officers and directors of TCI, the officers of ARL serve as the officers of IOT and one director of ARL is also a director of IOT. TCI and IOT have business objectives similar to ARL. ARL's officers and directors owe fiduciary duties to both IOT and TCI as well as to ARL under applicable law. In determining whether a particular investment opportunity will be allocated to ARL, IOT, or TCI, management considers the respective investment objectives of each Company and the appropriateness of a particular investment in light of each Company's existing real estate and mortgage notes receivable portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity may be allocated to the entity which has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

In addition, as described in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence , ARL competes with affiliates of Prime having similar investment objectives related to the acquisition, development, disposition, leasing and financing of real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, Prime has informed ARL that it intends to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

We have historically engaged in and will continue to engage in certain business transactions with related parties, including but not limited to asset acquisitions and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in the best interests of our company.

Available Information

ARL maintains an Internet site at <http://www.amrealtytrust.com>. Available through the website, free of charge, are Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16, and amendments to those reports, as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission. In addition, ARL has

posted the charters for the Audit Committee, Compensation Committee, and Governance and Nominating

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Committee, as well as the Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director Independence, and other information on the website. These charters and principles are not incorporated in this report by reference. ARL will also provide a copy of these documents free of charge to stockholders upon written request. ARL issues Annual Reports containing audited financial statements to its common stockholders.

ITEM 1A. RISK FACTORS

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information in this Report before trading our securities.

Risk Factors Related to our Business

Adverse events concerning our existing tenants or negative market conditions affecting our existing tenants could have an adverse impact on our ability to attract new tenants, release space, collect rent or renew leases, and thus could adversely affect cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which the Company has limited or no control, such as:

lack of demand for space in areas where the properties are located;

inability to retain existing tenants and attract new tenants;

oversupply of or reduced demand for space and changes in market rental rates;

defaults by tenants or failure to pay rent on a timely basis;

the need to periodically renovate and repair marketable space;

physical damage to properties;

economic or physical decline of the areas where properties are located; and

potential risk of functional obsolescence of properties over time.

At any time, any tenant may experience a downturn in its business that may weaken its financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due could result in the termination of the tenant's lease and material losses to the Company.

If tenants do not renew their leases as they expire, we may not be able to rent the space. Furthermore, leases that are renewed, and some new leases for space that is re-let, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Any of these events could adversely affect cash flow from operations and our ability to make distributions to shareholders and service indebtedness. A significant portion of the costs of owning property,

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such as real estate taxes, insurance, and debt service payments, are not necessarily reduced when circumstances cause a decrease in rental income from the properties.

We may not be able to compete successfully with other entities that operate in our industry.

We experience a great deal of competition in attracting tenants for the properties and in locating land to develop and properties to acquire.

In our effort to lease properties, we compete for tenants with a broad spectrum of other landlords in each of the markets. These competitors include, among others, publicly-held REITs, privately-held entities, individual

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property owners and tenants who wish to sublease their space. Some of these competitors may be able to offer prospective tenants more attractive financial terms than we are able to offer.

If the availability of land or high quality properties in our markets diminishes, operating results could be adversely affected.

We may experience increased operating costs which could adversely affect our financial results and the value of our properties.

Our properties are subject to increases in operating expenses such as insurance, cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security, landscaping, repairs, and maintenance of the properties. While some current tenants are obligated by their leases to reimburse us for a portion of these costs, there is no assurance that these tenants will make such payments or agree to pay these costs upon renewal or new tenants will agree to pay these costs. If operating expenses increase in our markets, we may not be able to increase rents or reimbursements in all of these markets to offset the increased expenses, without at the same time decreasing occupancy rates. If this occurs, our ability to make distributions to shareholders and service indebtedness could be adversely affected.

Our ability to achieve growth in operating income depends in part on its ability to develop additional properties.

We intend to continue to develop properties where warranted by market conditions. We have a number of ongoing development and land projects being readied for commencement.

Additionally, general construction and development activities include the following risks:

construction and leasing of a property may not be completed on schedule, which could result in increased expenses and construction costs, and would result in reduced profitability for that property;

construction costs may exceed original estimates due to increases in interest rates and increased cost of materials, labor or other costs, possibly making the property less profitable because of inability to increase rents to compensate for the increase in construction costs;

some developments may fail to achieve expectations, possibly making them less profitable;

we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;

we may abandon development opportunities after the initial exploration, which may result in failure to recover costs already incurred. If we determine to alter or discontinue its development efforts, future costs of the investment may be expensed as incurred rather than capitalized and we may determine the investment is impaired resulting in a loss;

we may expend funds on and devote management's time to projects which will not be completed; and

occupancy rates and rents at newly-completed properties may fluctuate depending on various factors including market and economic conditions, and may result in lower than projected rental rates and reduced income from operations.

We face risks associated with property acquisitions.

We acquire individual properties and various portfolios of properties and intend to continue to do so. Acquisition activities are subject to the following risks:

when we are able to locate a desired property, competition from other real estate investors may significantly increase the seller's offering price;

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acquired properties may fail to perform as expected;

the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;

acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and

we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

We may acquire properties subject to liabilities and without any recourse, or with limited recourse, with respect to unknown liabilities. However, if an unknown liability was later asserted against the acquired properties, we might be required to pay substantial sums to settle it, which could adversely affect cash flow.

Many of our properties are concentrated in our primary markets and the Company may suffer economic harm as a result of adverse conditions in those markets.

Our properties are located principally in specific geographic areas in the Southwestern United States. The Company's overall performance is largely dependent on economic conditions in those regions.

We are leveraged and may not be able to meet our debt service obligations.

We had total indebtedness at December 31, 2008 of approximately \$1.5 billion. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company's ability to pursue other business opportunities in the future.

We may not be able to access financial markets to obtain capital on a timely basis, or on acceptable terms.

We rely on proceeds from property dispositions and third party capital sources for a portion of its capital needs, including capital for acquisitions and development. The public debt and equity markets are among the sources upon which the Company relies. There is no guarantee that we will be able to access these markets or any other source of capital. The ability to access the public debt and equity markets depends on a variety of factors, including:

general economic conditions affecting these markets;

our own financial structure and performance;

the market's opinion of real estate companies in general; and

the market's opinion of real estate companies that own similar properties.

We may suffer adverse effects as a result of terms and covenants relating to the Company's indebtedness.

Required payments on our indebtedness generally are not reduced if the economic performance of the portfolio declines. If the economic performance declines, net income, cash flow from operations and cash available for distribution to stockholders may be reduced. If payments on debt cannot be made, we could sustain a loss or suffer judgments, or in the case of mortgages, suffer foreclosures by mortgagees. Further, some

obligations contain cross-default and/or cross-acceleration provisions, which means that a default on one obligation may constitute a default on other obligations.

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We anticipate only a small portion of the principal of its debt will be repaid prior to maturity. Therefore, we are likely to refinance a portion of its outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or the terms of any refinancing will not be as favorable as the terms of the maturing debt. If principal balances due at maturity cannot be refinanced, extended, or repaid with proceeds from other sources, such as the proceeds of sales of assets or new equity capital, cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due.

Our credit facilities and unsecured debt contain customary restrictions, requirements and other limitations on the ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios, and minimum ratios of unencumbered assets to unsecured debt, which we must maintain our continued ability to borrow is subject to compliance with financial and other covenants. In addition, failure to comply with such covenants could cause a default under credit facilities, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available, or be available only on unattractive terms.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock.

The degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. The degree of leverage could also make us more vulnerable to a downturn in business or the general economy.

An increase in interest rates would increase interest costs on variable rate debt and could adversely impact the ability to refinance existing debt.

We currently have, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will the interest costs, which could adversely affect cash flow and the ability to pay principal and interest on our debt and the ability to make distributions to shareholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures.

Unbudgeted capital expenditures or cost overruns could adversely affect business operations and cash flow.

If capital expenditures for ongoing or planned development projects or renovations exceed expectations, the additional cost of these expenditures could have an adverse effect on business operations and cash flow. In addition, we might not have access to funds on a timely basis to pay the unexpected expenditures.

Construction costs are funded in large part through construction financing, which the Company may guarantee and the Company's obligation to pay interest on this financing continues until the rental project is completed, leased up and permanent financing is obtained, or the for sale project is sold or the construction loan is otherwise paid. Unexpected delays in completion of one or more ongoing projects could also have a significant adverse impact on business operations and cash flow.

We may need to sell properties from time to time for cash flow purposes.

Because of the lack of liquidity of real estate investments generally, our ability to respond to changing circumstances may be limited. Real estate investments generally cannot be sold quickly. In the event that we must sell assets to generate cash flow, we cannot predict whether there will be a market for those assets in the time period desired, or whether we will be able to sell the assets at a price that will allow the Company to fully recoup its investment we may not be able to realize the full potential value of the assets and may incur costs related to the early pay-off of the debt secured by such assets.

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The Company intends to devote resources to the development of new projects.

We plan to continue developing new projects as opportunities arise in the future. Development and construction activities entail a number of risks, including but not limited to the following:

we may abandon a project after spending time and money determining its feasibility;

construction costs may materially exceed original estimates;

the revenue from a new project may not be enough to make it profitable or generate a positive cash flow;

we may not be able to obtain financing on favorable terms for development of a property, if at all;

the Company may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs; and

we may not be able to obtain, or may be delayed in obtaining, necessary governmental permits.

The overall business is subject to all of the risks associated with the real estate industry.

We are subject to all risks incident to investment in real estate, many of which relate to the general lack of liquidity of real estate investments, including, but not limited to:

our real estate assets are concentrated primarily in the Southwest and any deterioration in the general economic conditions of this region could have an adverse effect;

changes in interest rates may make the ability to satisfy debt service requirements more burdensome;

lack of availability of financing may render the purchase, sale or refinancing of a property more difficult or unattractive;

changes in real estate and zoning laws;

increases in real estate taxes and insurance costs;

federal or local economic or rent control;

acts of terrorism, and

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hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

Real estate investments are illiquid, and the Company may not be able to sell properties if and when it is appropriate to do so.

Real estate generally cannot be sold quickly. We may not be able to dispose of properties promptly in response to economic or other conditions. In addition, provisions of the Internal Revenue Code may limit our ability to sell properties (without incurring significant tax costs) in some situations when it may be otherwise economically advantageous to do so, thereby adversely affecting returns to stockholders and adversely impacting our ability to meet our obligations.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

downturns in the national, regional and local economic conditions (particularly increases in unemployment);

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competition from other office, hotel and commercial buildings;

local real estate market conditions, such as oversupply or reduction in demand for office, hotel or other commercial space;

changes in interest rates and availability of financing;

vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;

increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;

civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;

declines in the financial condition of our tenants and our ability to collect rents from our tenants; and

decreases in the underlying value of our real estate.

Adverse economic and geopolitical conditions and dislocations in the credit markets could have a material adverse effect on our results of operations, and financial condition.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the current dislocations in the credit markets and general global economic recession. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, and financial condition as a result of the following, among other potential consequences:

the financial condition of our tenants may be adversely affected which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

significant job losses within our tenants may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;

our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;

reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and

one or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On December 31, 2008, our portfolio consisted of 99 income producing properties consisting of 59 apartments, 34 commercial properties, one single family residence, and five hotels. The apartments have a total of 11,436 units. The commercial properties consist of 20 office buildings, 8 industrial warehouses, five shopping centers, and one merchandise mart which is 344,975 square feet. The five hotels have total of 808 rooms. In addition, we own or control 12,578 acres of improved and unimproved land held for future development or sale. The table below shows information relating to those properties.

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The GNB building which was included in the property detail in 2007 was razed in 2008. Based on the surrounding land values, management determined that the acquisition price of the GNB land and building was due to the value of the land, and not the building. Thus, the value of the building and the cost to raze the building was reallocated to the cost of the land.

Apartments	Location	Units	Occupancy
Anderson Estates	Oxford, MS	48	95.94%
Bay Walk	Galveston, TX	192	95.95%
Blue Lake Villas I	Waxahachie, TX	186	93.65%
Blue Lake Villas II	Waxahachie, TX	70	92.95%
Breakwater Bay	Beaumont, TX	176	98.98%
Bridges On Kinsey	Tyler, TX	232	96.23%
Bridgestone	Friendswood, TX	76	79.04%
Bridgewood Ranch	Kaufman, TX	106	94.45%
Capitol Hill	Little Rock, AR	156	93.04%
Chateau	Bellevue, NE	115	92.28%
Curtis Moore Estates	Greenwood, MS	104	92.41%
Dakota Arms	Lubbock, TX	208	98.16%
David Jordan Phase II	Greenwood, MS	32	100.00%
David Jordan Phase III	Greenwood, MS	40	100.00%
Desoto Ranch	DeSoto, TX	248	90.82%
Falcon Lakes	Arlington, TX	248	98.10%
Foxwood	Memphis, TN	220	79.17%
Heather Creek	Mesquite, TX	200	94.59%
Huntington Ridge	DeSoto, TX	198	89.40%
Island Bay	Galveston, TX	458	89.85%
Kingsland Ranch	Houston, TX	398	93.57%
Laguna Vista	Dallas, TX	206	93.66%
Lake Forest	Houston, TX	240	92.61%
Legends of El Paso	El Paso, TX	240	95.10%
Longfellow Arms	Longview, TX	216	97.20%
Marina Landing	Galveston, TX	256	88.78%
Mariposa Villas	Dallas, TX	216	97.33%
Mason Park	Katy, TX	312	80.10%
Mission Oaks	San Antonio, TX	228	95.73%
Monticello Estate	Monticello, AR	32	93.86%
Paramount Terrace	Amarillo, TX	181	94.06%
Parc at Clarksville	Clarksville, TN	168	92.90%
Parc at Maumelle	Little Rock, AR	240	95.94%
Parc at Metro Center	Nashville, TN	144	98.02%
Parc at Rogers	Rogers, AR	152	100.00%
Pecan Pointe	Temple, TX	232	87.50%
Portofino	Farmers Branch, TX	224	79.90%
Preserve at Pecan Creek	Denton, TX	192	94.80%
Quail Hollow	Holland, OH	200	85.50%
Quail Oaks	Balch Springs, TX	131	89.47%
River Oaks	Wylie, TX	180	91.21%
Riverwalk Phase I	Greenville, MS	32	93.86%
Riverwalk Phase II	Greenville, MS	72	94.56%
Spyglass	Mansfield, TX	256	90.33%
Stonebridge at City Park	Houston, TX	240	97.61%
Treehouse	Irving, TX	160	81.96%
Verandas at City View	Fort Worth, TX	314	96.60%
Villager	Ft Walton, FL	33	84.97%
Vistas of Pinnacle Park	Dallas, TX	332	93.48%
Vistas of Vance Jackson	San Antonio, TX	240	94.27%
Westwood	Mary Ester, FL	120	90.95%

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Whispering Pines	Topeka, KS	320	94.79%
Wildflower Villas	Temple, TX	220	94.61%
Windsong	Fort Worth, TX	188	93.72%
Total Apartment Units		10,228	

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Office Buildings	Location	SqFt	Occupancy
1010 Common	New Orleans, LA	512,593	76.87%
217 Rampart	New Orleans, LA	11,913	0.00%
225 Baronne	New Orleans, LA	422,037	0.00%
305 Baronne	New Orleans, LA	37,081	38.00%
600 Las Colinas	Las Colinas, TX	510,841	71.92%
Amoco Building	New Orleans, LA	378,895	91.82%
Browning Place (Park West I)	Dallas, TX	627,312	100.00%
Cooley Building	Farmers Branch, TX	27,000	100.00%
Ergon Office Building	Jackson, MS	26,000	0.00%
Eton Square	Tulsa, OK	225,566	80.36%
Fenton Center (Park West II)	Dallas, TX	696,458	82.19%
Fruitland Park	Fruitland, FL	6,722	100.00%
One Hickory Center	Dallas, TX	97,361	95.95%
Parkway North	Dallas, TX	69,009	67.36%
Sesame Square	Anchorage, AK	20,715	99.57%
Signature Building	Dallas, TX	58,910	0.00%
Stanford Center	Dallas, TX	336,910	99.24%
Teleport	Las Colinas, TX	6,833	100.00%
Two Hickory Center	Dallas, TX	97,117	96.16%
Westgrove Air Plaza	Addison, TX	79,652	89.19%
		4,248,925	

Industrial Warehouses	Location	SqFt	Occupancy
5360 Tulane	Atlanta, GA	30,000	100.00%
Addison Hanger I	Addison, TX	25,102	100.00%
Addison Hanger II	Addison, TX	24,000	100.00%
Alpenloan	Dallas, TX	28,594	100.00%
Clark Garage	New Orleans, LA	6,869	0.00%
Space Center	San Antonio, TX	101,500	60.59%
Senlac (VHP)	Dallas, TX	2,812	100.00%
Thermalloy	Farmers Branch, TX	177,805	100.00%
		396,682	

Shopping Centers	Location	SqFt	Occupancy
Bridgeview Plaza	LaCrosse, WI	122,205	90.13%
Cross County Mall	Matoon, IL	307,266	84.26%
Cullman Shopping Center	Cullman, AL	92,466	48.48%
Dunes Plaza	Michigan City, IN	220,461	51.56%
Willowbrook Village	Coldwater, MI	179,741	85.81%
		922,139	

Merchandise Mart	Location	SqFt	Occupancy
Denver Merchandise Mart	Denver, CO	344,975	83.16%

Total Commercial Square Feet 5,912,720

Single Family Residence	Location	Units	Occp
Tavel Circle	Dallas, TX	1	100.00%

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Hotels	Location	Units
Inn at the Mart (Comfort Inn)	Denver, CO	161
Piccadilly Airport	Fresno, CA	185
Piccadilly Chateau	Fresno, CA	78
Piccadilly Shaw	Fresno, CA	194
Piccadilly University	Fresno, CA	190
Total Hotel Rooms		808

Apartments Held for Sale	Location	Units	Occp
Chateau Bayou	Ocean Springs, MS	122	94.37%
Total Held for Sale		122	

Apartments Subject to Sales Contract	Location	Units	Occp
Limestone Canyon	Austin, TX	260	91.65%
Limestone Ranch	Lewisville, TX	252	93.36%
Sendero Ridge	San Antonio, TX	384	92.28%
Tivoli	Dallas, TX	190	90.63%
Total Subject to Sales Contract		1,086	

Lease Expiration by Year

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized ⁽¹⁾ Contractual Rent Under Expiring Leases	Current Annualized ⁽¹⁾ Contractual Rent Under Expiring Leases (P.S.F.)	Percentage of Total Square Feet
2009	772,030	\$ 7,752,647	\$ 10.04	12.8%
2010	517,516	\$ 6,363,896	\$ 12.30	8.6%
2011	631,342	\$ 10,642,265	\$ 16.86	10.5%
2012	500,997	\$ 7,939,281	\$ 15.85	8.3%
2013	812,623	\$ 11,561,612	\$ 14.23	13.5%
2014	318,671	\$ 6,644,510	\$ 20.85	5.3%
2015	201,034	\$ 4,611,587	\$ 22.94	3.3%
2016	170,502	\$ 3,104,625	\$ 18.21	2.8%
2017	409,256	\$ 6,916,122	\$ 16.90	6.8%
2018	102,040	\$ 1,843,591	\$ 18.07	1.7%
Thereafter	97,956	\$ 1,527,625	\$ 15.60	1.6%

- (1) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2008 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements which may be estimates as of such date.

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Land	Location	Acres
1013 Common St	New Orleans, LA	0.41
Ackerley Land	Dallas, TX	1.31
Alliance Airport	Tarrant County, TX	12.70
Alliance Centurion	Tarrant County, TX	51.90
Alliance Hickman Bluestar	Tarrant County, TX	8.00
Archon Land	Irving, TX	24.14
Audubon	Adams County, MS	48.20
Backlick Land	Springfield, VA	3.41
Beltline 378	Dallas County, TX	378.83
Bonneau Land	Dallas County, TX	8.39
Centura Land	Dallas, TX	10.08
Chase Oaks Land	Plano, TX	9.93
Circle C Land	Austin, TX	1,092.00
Cooks Lane Land	Fort Worth, TX	21.90
Creeside	Fort Worth, TX	30.00
Nicholson Croslin	Dallas, TX	0.80
Crowley	Fort Worth, TX	24.90
Dalho	Farmers Branch, TX	2.89
Dedeaux	Gulfport, MS	10.00
Denham Springs	Denham Springs, LA	15.85
Denton (Andrew B)	Denton, TX	22.90
Denton (Andrew C)	Denton, TX	5.20
Denton Land	Denton, TX	15.65
Desoto Ranch	Desoto, TX	7.39
Diplomat Drive	Farmers Branch, TX	11.65
Dominion Tract	Dallas, TX	10.59
Elm Fork Land	Denton County, TX	35.84
Ewing 8	Addison, TX	16.79
Folsom Land	Dallas, TX	36.38
Fortune Drive	Irving, TX	14.88
Galleria East Center Retail	Dallas, TX	15.00
Galleria West Lofts	Dallas, TX	7.19
GNB Land	Farmers Branch, TX	45.00
Hines Meridian	Las Colinas, TX	36.09
Hollywood Casino (Dominion)	Farmers Branch, TX	19.71
Hollywood Casino Land	Farmers Branch, TX	13.85
HSM Cummings	Farmers Branch, TX	6.16
Hunter Equities Land	Dallas, TX	2.56
Jackson Convention Center	Jackson, MS	1.71
JHL Connell	Carrollton, TX	3.93
Kaufman Adams	Kaufman County, TX	193.73
Kaufman Bridgewood	Kaufman County, TX	5.04
Kaufman Cogen Land	Forney, TX	2,567.00
Kaufman Stagliano	Forney, TX	34.80
Kaufman Taylor	Forney, TX	31.00
Keenan Bridge Land	Farmers Branch, TX	7.36
Keller Springs Lofts	Addison, TX	7.40
Kelly Lots	Collin County, TX	0.75
KinWest	Irving, TX	7.98
Lacy Longhorn Land	Farmers Branch, TX	17.12

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Land	Location	Acres
LaDue/Walker Land	Farmers Branch, TX	99.00
Lake Shore Villas	Humble, TX	19.51
Lamar/Palmer Land	Austin, TX	17.07
Las Colinas Walnut Hill	Las Colinas, TX	1.58
Las Colinas (Cigna)	Las Colinas, TX	4.70
Las Colinas Apts/Lofts	Las Colinas, TX	4.77
Las Colinas High Rise Apartments	Las Colinas, TX	1.65
Las Colinas High Rise Office	Las Colinas, TX	3.49
Las Colinas Townhomes	Las Colinas, TX	15.56
LCLLP (Kinwest/Hackberry)	Las Colinas, TX	45.49
Leone Land	Irving, TX	8.23
Limestone Canyon II	Austin, TX	9.96
Lubbock Land	Lubbock, TX	2.86
Luna (Carr)	Farmers Branch, TX	2.60
Luna Ventures	Farmers Branch, TX	26.74
Mandahl Bay Land	US Virgin Islands	91.10
Manhattan Land	Farmers Branch, TX	108.90
Mansfield Land	Mansfield, TX	7.83
Marine Creek	Fort Worth, TX	44.17
Mason/Goodrich Land	Houston, TX	13.00
McKinney 36	Collin County, TX	34.48
McKinney Corners II	Collin County, TX	6.76
McKinney Ranch Land	McKinney, TX	169.74
Meloy/Portage Land	Kent, OH	52.95
Nashville Land	Nashville, TN	11.87
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35
Ocean Estates	Gulfport, MS	12.00
Pac Trust Land	Farmers Branch, TX	7.07
Palmer Lane (Las Praderas)	Austin, TX	367.43
Pantaze Land	Dallas, TX	6.00
Payne Land	Las Colinas, TX	149.70
Pioneer Crossing	Austin, TX	400.60
Pioneer Crossing	Austin, TX	38.54
Polo Estates At Bent Tree	Richardson, TX	5.87
Port Openitz GmbH	Kappelin, Germany	420.00
Pulaski Land	Pulaski County, AR	21.90
Ridgepoint Drive	Irving, TX	0.60
Seminary West Land	Fort Worth, TX	3.03
Senlac Land	Farmers Branch, TX	3.98
Senlac Land	Farmers Branch, TX	11.94
Sheffield Village	Grand Prairie, TX	13.90
Sisikiyou County Land	Siskiyou County, CA	20.70
Sladek Land	Travis County, TX	63.28
Southwood Plantation	Tallahassee, FL	12.90
Southwood Plantation 1394	Tallahassee, FL	14.52
Stanley Tools	Farmers Branch, TX	23.76
Texas Plaza Land	Irving, TX	10.33
Thompson Land I	Farmers Branch, TX	3.99
Thompson Land II	Farmers Branch, TX	3.32

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Land	Location	Acres
Tomlin Land	Farmers Branch, TX	9.20
Travis Ranch Land	Kaufman County, TX	833.39
Union Pacific Railroad Land	Dallas, TX	0.29
Valley Ranch Land	Irving, TX	30.00
Valley View (Hutton/Senlac)	Farmers Branch, TX	2.42
Valley View 34 (Mercer Crossing)	Farmers Branch, TX	2.19
Valley View/Senlac	Farmers Branch, TX	3.45
Valwood	Dallas, TX	257.05
Vineyards	Grapevine, TX	3.56
Vineyards II	Grapevine, TX	3.94
W Hotel	Dallas, TX	1.97
Waco 151 Land	Waco, TX	151.40
Waco Swanson	Waco, TX	350.70
Walker Land	Dallas County, TX	48.62
West End Land	Dallas, TX	5.50
Whorton Land	Bentonville, AR	79.70
Willowick Land	Pensacola, TX	39.78
Wilmer 88	Dallas, TX	87.60
Windmill Farms Harlan Land	Kaufman County, TX	245.95
Windmill Farms I	Kaufman County, TX	3,044.11
Total Land/Development		12,577.63

ITEM 3. LEGAL PROCEEDINGS

The ownership of property and provision of services to the public as tenants entails an inherent risk of liability. Although the Company and its subsidiaries are involved in various items of litigation incidental to and in the ordinary course of its business, in the opinion of Management, the outcome of such litigation will not have a material adverse impact upon the Company's financial condition, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders was held on November 20, 2008, at which proxies were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended (the Exchange Act). There was no solicitation in opposition to Management's nominees listed in the Proxy Statement, all of which were elected. At the Annual Meeting, stockholders were asked to consider and vote upon the election of Directors and the ratification of the selection of the independent public accountants for ARL for the fiscal year ending December 31, 2009. At the Meeting, stockholders elected the following individuals as Directors:

Director	Shares Voting	
	For	Withheld Authority
Henry A. Butler	10,216,655	29,720
Sharon Hunt	10,217,066	29,309
Robert A. Jakuszewski	10,216,913	29,462
Ted R. Munselle	10,217,272	29,103
Ted P. Stokely	10,216,679	29,696

There were no abstentions or broker non-votes on the election of Directors. With respect to the ratification of the appointment of Farmer, Fuqua & Huff, P.C. as independent auditors of the Company for the fiscal year ending December 31, 2008, and any interim period, at least 10,227,672 votes were received in favor of such proposal, 7,599 votes were received against such proposal, and 11,104 votes abstained.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

ARL's common stock is listed and traded on the New York Stock Exchange under the symbol ARL. The following table sets forth the high and low sales prices as reported in the consolidated reporting system of the New York Stock Exchange.

	High 2008	Low	High 2007	Low
First Quarter	\$ 8.59	\$ 7.69	\$ 12.34	\$ 8.71
Second Quarter	\$ 10.00	\$ 8.08	\$ 13.04	\$ 8.79
Third Quarter	\$ 8.25	\$ 7.00	\$ 10.05	\$ 7.51
Fourth Quarter	\$ 10.50	\$ 7.25	\$ 9.85	\$ 7.50

On March 5, 2009, the closing market price of ARL's common stock on the New York Stock Exchange was \$10.75 per share, and was held by approximately 2,752 stockholders of record.

During the second quarter of 1999, the Board of Directors established the policy that dividend declarations on ARL's common stock would be determined on an annual basis following the end of each year. In accordance with that policy, the Board determined not to pay any dividends on common stock in 2008, 2007 or 2006. Future distributions to common stockholders will be dependent upon ARL's realized income, financial condition, capital requirements and other factors deemed relevant by the Board.

Under ARL's Amended Articles of Incorporation, 15,000,000 shares of Series A 10.0% Cumulative Convertible Preferred Stock are authorized with a par value of \$2.00 per share and a liquidation preference of \$10.00 per share plus accrued and unpaid dividends. Dividends are payable at the annual rate of \$1.00 per share, or \$.25 per share quarterly, to stockholders of record on the last day of each March, June, September, and December, when and as declared by the Board of Directors. The Series A Preferred Stock may be converted into common stock at 90.0% of the average daily closing price of ARL's common stock for the prior 20 trading days. At December 31, 2008, 3,390,913 shares of Series A Preferred Stock were outstanding and 869,808 shares were reserved for issuance as future consideration in various business transactions. Of the outstanding shares, 300,000 shares are owned by ART Edina, Inc., and 600,000 shares are owned by ART Hotel Equities, Inc., a wholly-owned subsidiary of ARL. Dividends are not paid on the shares owned by ARL subsidiaries.

Under ARL's Amended Articles of Incorporation, 231,750 shares of Series C Cumulative Convertible Preferred Stock are authorized with a par value of \$2.00 per share and liquidation preference of \$100.00 per share plus accrued and unpaid dividends. The Series C Preferred Stock bears a quarterly dividend of \$2.50 per share to stockholders of record on the last day of March, June, September and December when and as declared by the Board of Directors. The Series C Preferred Stock is reserved for conversion of the Class A limited partner units of ART Palm, L.P. (Art Palm). At December 31, 2008, 6,813,750 Class A units were outstanding. The Class A units may be exchanged for Series C Preferred Stock at the rate of 100 Class A units for each share of Series C Preferred Stock. After December 31, 2006, all outstanding shares of Series C Preferred Stock may be converted into ARL common stock. All conversions of Series C Preferred Stock into ARL common stock will be at 90.0% of the average daily closing price of ARL's common stock for the prior 20 trading days. At December 31, 2008, no shares of Series C Preferred Stock were outstanding.

Under ARL's Amended Articles of Incorporation, 91,000 shares of Series D 9.50% Cumulative Preferred Stock are authorized with a par value of \$2.00 per share, and a liquidation preference of \$20.00 per share. Dividends are payable at the annual rate of \$1.90 per year or \$.475 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. The

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Series D Preferred Stock is reserved for the conversion of the Class A limited partner units of Ocean Beach Partners, L.P. The Class A units may be exchanged for Series D Preferred Stock at the rate of 20 Class A units for each share of Series D Preferred Stock. At March 5, 2008, no shares of Series D Preferred Stock were outstanding.

Under ARL's Amended Articles of Incorporation, 500,000 shares of Series E 6.0% Cumulative Preferred Stock are authorized with a par value \$2.00 per share and a liquidation preference of \$10.00 per share. Dividends are payable at the annual rate of \$.60 per share or \$.15 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. At March 5, 2009, no Series E Preferred Stock were outstanding.

As an instrument amendatory to ARL's Amended Articles of Incorporation, 100,000 shares of Series J 8% Cumulative Convertible Preferred Stock have been designated pursuant to a Certificate of Designation filed March 16, 2006, with a par value of \$2.00 per share, and a liquidation preference of \$1,000 per share. Dividends are payable at the annual rate of \$80 per share, or \$20 per quarter, to stockholders of record on the last day of each of March, June, September and December, when and as declared by the Board of Directors. Although the Series J 8% Cumulative Convertible Preferred Stock has been designated, no shares have been issued as of March 5, 2009.

The following table sets forth information regarding purchases made by ARL of shares of ARL common stock on a monthly basis during the fourth quarter of 2008:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program⁽¹⁾	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance at September 30			931,665	68,335
October, 2008			931,665	68,335
November, 2008			931,665	68,335
December, 2008			931,665	68,335
Total				

- (1) The repurchase program was announced in September 2000. Through the program, 1,000,000 shares may be repurchased. The program has no expiration date.

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The following graph compares the cumulative total stockholder return on ARL's shares of common stock with the Dow Jones Equity Market Index (Dow Jones US Total Market) and the Dow Jones Real Estate Investment Index (Dow Jones US Real Estate). The comparison assumes that \$100 was invested on December 31, 2003 in shares of common stock and in each of the indices and further assumes the reinvestment of all dividends. Past performance is not necessarily an indicator of future performance.

	12/03	12/04	12/05	12/06	12/07	12/08
American Realty Investors Inc.	\$ 100.00	\$ 106.24	\$ 87.84	\$ 86.20	\$ 107.34	\$ 98.03
Dow Jones US	\$ 100.00	\$ 103.15	\$ 102.52	\$ 119.22	\$ 126.89	\$ 83.95
Dow Jones US Real Estate	\$ 100.00	\$ 130.13	\$ 141.85	\$ 188.88	\$ 151.38	\$ 90.01

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	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	\$ 181,920	\$ 169,394	\$ 142,138	\$ 119,560	\$ 102,131
Total operating expenses	178,943	162,886	138,495	123,629	121,844
Operating (loss) income	2,977	6,508	3,643	(4,069)	(19,713)
Other expenses	(91,619)	(42,746)	(34,799)	(43,034)	(39,392)
Loss before gain on land sales, minority interest, and income taxes	(88,642)	(36,238)	(31,156)	(47,103)	(59,105)
Gain on land sales	5,584	20,468	23,973	39,926	11,781
Minority interest	146	(2,652)	672	(3,056)	(7,270)
Income tax benefit	36,838	15,744	6,852	16,596	31,402
Net income (loss) from continuing operations	(46,074)	(2,678)	341	6,363	(23,192)
Net income from discontinuing operations, net of minority interest	68,708	29,240	12,725	41,054	56,386
Net income	22,634	26,562	13,066	47,417	33,194
Preferred dividend requirement	(2,487)	(2,490)	(2,491)	(2,572)	(2,601)
Net income applicable to common shares	\$ 20,147	\$ 24,072	\$ 10,575	\$ 44,845	\$ 30,593
PER SHARE DATA					
Earnings per share - basic					
Income (loss) from continuing operations	\$ (4.46)	\$ (0.51)	\$ (0.21)	\$ 0.37	\$ (2.44)
Discontinued operations	6.31	2.86	1.25	4.05	5.34
Net income applicable to common shares	\$ 1.85	\$ 2.35	\$ 1.04	\$ 4.42	\$ 2.90
Weighted average common share used in computing earnings per share	10,888,833	10,227,593	10,149,000	10,149,000	10,559,571
Earnings per share - diluted					
Income (loss) from continuing operations	\$ (4.46)	\$ (0.51)	\$ (0.16)	\$ 0.29	\$ (2.44)
Discontinued operations	6.31	2.86	0.97	3.13	5.34
Net income applicable to common shares	\$ 1.85	\$ 2.35	\$ 0.81	\$ 3.42	\$ 2.90
Weighted average common share used in computing diluted earnings per share	10,888,833	10,227,593	13,106,000	13,106,000	10,559,571
BALANCE SHEET DATA					
Real Estate, net	\$ 1,613,402	\$ 1,485,859	\$ 1,272,424	\$ 1,113,105	\$ 983,422
Notes and interest receivable, net	77,003	83,467	52,631	81,440	72,661
Total assets	1,842,153	1,777,854	1,493,671	1,345,795	1,190,843
Notes and interest payables	1,382,629	1,400,877	1,124,765	1,021,822	939,921
Stock-secured noted payable	14,026	17,546	22,452	22,549	18,663
Stockholders equity	215,678	192,386	160,489	148,397	103,009
Book value per share	\$ 19.81	\$ 18.81	\$ 15.81	\$ 12.80	\$ 8.89

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business, Risk Factors, and Management's Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar expressions which refer to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments;

failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;

potential liability for uninsured losses and environmental contamination;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-K, including those described under the caption Risk Factors.

The risks included here are not exhaustive. Other sections of this report, including Part I, Item 1A. Risk Factors, include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of

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all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

Overview

ARL was organized in 1999. In August 2000, ARL acquired American Realty Trust, Inc. (ART) and National Realty, L.P. (NRLP). ART was the successor to a business trust organized in 1961 to provide investors with a professionally managed, diversified portfolio of real estate and mortgage loan investments selected to provide opportunities for capital appreciation as well as current income. The business trust merged into ART in 1987. ART owns a portfolio of real estate and mortgage loan investments. NRLP was organized in 1987, and subsequently acquired all of the assets and assumed all of the liabilities of 35 public and private limited partnerships. NRLP also owned a portfolio of real estate and mortgage loan investments.

ARL subsidiaries own approximately 82.8% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc., a Nevada corporation (TCI), which has its common stock listed and traded on the New York Stock Exchange, Inc. (NYSE). ARL has consolidated TCI s accounts and operations since March 31, 2003. At December 31, 2007, TCI owned approximately 24.9% of the outstanding common stock of Income Opportunity Realty Investors, Inc., (IOT), a public company whose shares are listed and traded on the American Stock Exchange.

Approximately 76% of ARL s common stock is owned by Realty Advisors and its subsidiaries(Prime, Inc, and OneRealco Stock Holdings, Inc.). Other affiliated companies own approximately 12% of ARL s outstanding common shares. ARL is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with TCI. ARL does not qualify as a Real Estate Investment Trust (REIT) for federal income tax purposes primarily due to ARL s majority ownership of the Company. In addition, TCI owns 276,972 shares of common stock of ARL.

ARL is an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. The Company s portfolio of income-producing properties includes residential apartment communities, office buildings, hotels, a trade mart located in Denver, Colorado and other commercial properties. ARL s investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. ARL acquires land primarily in in-fill locations or high-growth suburban markets. ARL is an active buyer and seller and during 2008 acquired over \$119 million and sold over \$179 million of land and income-producing properties. As of December 31, 2008, the Company owned approximately 11,437 units in 59 residential apartment communities, one single family residential, 34 commercial properties comprising almost 5.9 million rentable square feet and five hotels containing a total of 808 rooms. In addition, ARL owned 12,578 acres of land held for development and 5 projects under construction. The Company currently owns income-producing properties and land in 20 states as well as in the U.S. Virgin Islands. ARL finances its acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. ARL finances its development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. The Company will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of its wholly owned properties. When the Company sells assets, it may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. The Company generates operating revenues primarily by leasing apartment units to residents; leasing office, retail and industrial space to

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commercial tenants; and renting hotel rooms to guests. ARL is advised by Prime under a contractual arrangement that is reviewed annually by ARL's Board of Directors. ARL's commercial properties are managed by Regis Commercial while the Company's hotels are managed by Regis Hotel. ARL currently contracts with five third-party companies to manage the Company's apartment communities.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate

Upon acquisitions of real estate, ARL assesses the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and allocates the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired above and below market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

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Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, property taxes, insurance, and other project costs incurred during the period of development.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods.

SFAS No. 144 requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Properties. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Investment in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, ARL accounts for our investments in unconsolidated real estate ventures under the equity method of accounting because the Company exercises significant influence over, but does not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the Company's balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, ARL's net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, ARL's recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, the Company consolidates those in which we are the primary beneficiary.

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Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with SFAS No. 141, we recognize rental revenue of acquired in-place above and below market leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

Reimbursements of operating costs, as allowed under most of our commercial tenant leases, consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, and are recognized as revenue in the period in which the recoverable expenses are incurred. We record these reimbursements on a gross basis, since we generally are the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less.

For hotel properties, revenues for room sales and guest services are recognized as rooms are occupied and services are rendered.

An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

Sales of real estate are recognized when and to the extent permitted by Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate (SFAS No. 66), as amended by SFAS No. 144. Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using the deposit, installment, cost recovery or financing method, whichever is appropriate. When ARL provides seller financing, gain is not recognized at the time of sale unless the buyer's initial investment and continuing investment are deemed to be adequate as determined by SFAS No. 66 guidelines.

Non-performing Notes Receivable

ARL considers a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments. Any new note receivable that results from a modification or extension of a note considered non-performing will also be considered non-performing, without regard to the borrower's adherence to payment terms.

Interest Recognition on Notes Receivable

Interest income is not recognized on notes receivable that have been delinquent for 60 days or more. In addition, accrued but unpaid interest income is only recognized to the extent that the net realizable value of the underlying collateral exceeds the carrying value of the receivable.

Allowance for Estimated Losses

A valuation allowance is provided for estimated losses on notes receivable considered to be impaired. Impairment is considered to exist when it is probable that all amounts due under the terms of the note will not be collected. Valuation allowances are provided for estimated losses on notes receivable to the extent that the investment in the note exceeds management's estimate of fair value of the collateral securing such note.

Table of Contents**Fair Value of Financial Instruments**

The following assumptions were used in estimating the fair value of our notes receivable, marketable equity securities and notes payable. For performing notes receivable, the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For non-performing notes receivable, the estimated fair value of our interest in the collateral property was used. For marketable equity securities, fair value was based on the year-end closing market price of each security. For notes payable, the fair value was estimated using current rates for mortgages with similar terms and maturities.

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, hotels, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties, and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each phase of the project, we lease up that phase and include those revenues in our continued operations. Once a developed property becomes leased up (80% or more) and is held the entire period for both years; under comparison it is considered to be included in the same property portfolio. Income producing properties that we have sold during the year are reclassified to discontinuing operations for all periods presented.

The following discussion is based on our Consolidated Statements of Operations for the twelve months ended December 31, 2008, 2007, and 2006 as included in Part II, Item 8. Financial Statements and Supplementary Data of this report. The prior year's property portfolios have been adjusted for subsequent sales. Continue operations relates to income producing properties that were held during those years as adjusted for sales in the subsequent years.

At December 31, 2008, 2007, and 2006, we owned or had interests in a portfolio (the Total Property Portfolio) of 99, 110, and 130 income producing properties, respectively. For discussion purposes, we broke this out between continued operations and discontinued operations. The total property portfolio represents all income producing properties held as of December 31 for the year end presented. Sales subsequent to year end represent properties that were held as of year end for the years presented, but sold in the next year. Continuing operations represents all properties that have not been reclassified to discontinued operations as of December 31, 2008 for the year presented. The table below shows the number of income producing properties held by year.

	2008	2007	2006
Continued operations	98	82	90
Sales subsequent to year end	1	28	40
Total property portfolio	99	110	130

Comparison of the year ended December 31, 2008 to the same period ended December 31, 2007;

Our net income applicable to common shares decreased \$3.9 million as compared to the prior year. The current year net income applicable to common shares was \$20.1 million, which includes gain on land sales of \$5.6 million and net income from discontinued operations, net of minority interest of \$67.2 million, as compared to prior year net income applicable to common shares of \$24.1 million, which includes gain on land sales of \$20.4 million and net income from discontinued operations, net of minority interest of \$30.6 million.

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Revenues

Rental revenues increased by \$12.5 million which by segment is an increase in apartment revenues of \$12.9 million and land of \$2.3 million, offset by a decrease in our hotels of \$1.6 million and a decrease in our land and other segment of \$1.1 million. Within our apartment portfolio, the majority of the increase came from our developed properties in the lease up phase which increased \$11.5 million. Our acquisition of Bridgewood apartments accounted for \$0.7 million of the increase with the remaining increase coming from our same property portfolio. We have increased occupancies within our apartment portfolio and there is an overall increased demand for new apartments. Our land portfolio revenues increased as a result of the temporary increase in oil and gas prices. We receive royalty revenues from some of our land holdings. Revenues from our same hotel portfolio are down due to decreased stays, which we attribute to the current state of the economy.

Expenses

Property operating expenses increased by \$10.8 million, which by segment is an increase in our apartments of \$9.3 million, an increase in our commercial properties of \$1.3 million, an increase in our land and other segments of \$0.7 million, offset by a decrease in our hotels of \$0.5 million. Within the apartment portfolio, the same apartment properties increase of \$2.4 million is due to an increase in overall costs and additional repairs and maintenance. The developed apartments increased expenses by \$6.5 million, and the current year acquisition increased expenses by \$0.4 million. The increase within the commercial portfolio was due to an increase from acquired properties of \$3.1 million, offset by a decrease in our same property portfolio of \$1.8. The increase within our land and other portfolios is due to the continued increase in land holding costs. The decrease in our hotel portfolio is due to the decrease in variable costs that are directly associated with stays within the hotel.

Depreciation expense increased by \$3.5 million, which by segment is \$3.1 million due to our apartments, \$0.4 million due to our commercial buildings, and \$0.2 million due to our hotels, offset by a decrease in our land holdings of \$0.2 million. The increase within our apartment portfolio was due to increases in our same properties of \$1.4 million, acquired properties of \$0.2 million and developed properties of \$1.5 million. The same apartment property portfolio increase due to depreciation on newly capitalized items. Developed apartment properties are depreciated as we complete each phase and lease up the properties.

Other income (expense)

Interest income increased by \$2.2 million, the increase is due to receipt of interest income on the Unified Housing Foundation, Inc. notes receivables. These receivables are excess cash flow notes. As such, we do not record interest income on the receivable, unless we receive cash payments.

We had an increase in our interest expense of \$3.5 million, which by segment is an increase in our apartment portfolio of \$6.8 million, an increase in our commercial portfolio of \$0.8 million and an increase in our other portfolio of \$0.6 million; which is offset by a decrease in our hotel portfolio of \$0.9 million and a decrease in our land portfolio of \$3.8 million. The increase within our apartment portfolio is mainly due to the increase within our developed properties in the lease up phase of \$6.0 million. During the construction phase the interest expense is capitalized. When the properties are completed and begin lease up, the interest is expensed. The remaining increase is \$0.3 million from our acquired properties and \$0.5 million in additional expense from our same property portfolio. Within our commercial portfolio we had an increase of \$0.9 million from our same properties, offset by a decrease in our acquired properties due to the decrease in variable rates tied to Prime. The decreased interest expense within our hotels was due to the rates being tied to Prime, and the decreased Prime rate. The decrease in our land and other portfolios is primarily due to the sale of properties and the disposition of the debt upon sale.

Earnings from unconsolidated subsidiaries and investees were a loss of \$1.9 million. This represents our portion of income (equity pickup) for unconsolidated subsidiaries and joint ventures. These investees posted an aggregate loss for the twelve months ended December 31, 2008.

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Involuntary conversion decreased by \$34.8 million. There were no involuntary conversions in the current year. The prior year gain on involuntary conversion relates to the collection of insurance proceeds in 2007 for the damage sustained at our New Orleans commercial properties from hurricane Katrina in 2005.

Provision for allowance on notes receivable and impairment was \$12.4 million for the twelve months ended December 31, 2008. We recorded a \$5.0 million allowance for doubtful receivables and a \$7.4 million allowance for doubtful collectability of certain investments within our portfolio. In 2007, we wrote down the Executive Court apartments for \$0.2 million and the Encon Warehouse for \$0.8 million.

Litigation settlement expense decreased as compared to the prior year. The majority of the decrease was due recording a \$1.3 million in expense related to the settlement of the Sunset litigation that was not previously accrued in the prior year. The Sunset litigation was settled September 18, 2007.

Gain on land sales has decreased by \$14.9 million. The current state of the banking industry has significantly impacted the banks willingness to originate loans. Land loans seem to be more sensitive to this than most other types of loans. We have found it difficult to complete land transactions with third parties, as the banks willingness and/or ability to fund land transactions seems limited. The current economic conditions have resulted in fewer land transactions in the current year.

Discontinued operations relates to properties that were either sold or held for sale as of the year ended December 31, 2008. Included in discontinued operations are a total of 28 and 41 properties as of 2008 and 2007, respectively. Properties sold in 2008 that were held in 2007 have been reclassified to discontinued operations for 2007. In 2008, we had one property, Chateau Bayou apartments, pending sale, and sold 27 properties which consisted of 20 apartment complexes (Arbor Pointe, Ashton Way, Autumn Chase, Courtyard, Coventry Pointe, Fairways, Forty-Four Hundred, Fountains at Waterford, Hunters Glen, Southgate, Sunchase, Thornwood, Westwood Square, Woodview, Fairway View Estate, Willow Creek, Fountain Lake, Mountain Plaza, Sunset, and Governors Square), three commercial buildings (Lexington Center, Executive Court, and Encon Warehouse), and four hotels (City Suites, Majestic Inn, Willow, and Hotel Akademia). In 2007, we sold 13 income producing properties which consists of nine apartments (Bluff at Vista Ridge, Somerset, El Chapparral, Harper s Ferry, Oak Park IV, Med Villa, Villa Del Mar, Arlington Place, and Woodlake), three commercial buildings (Forum office building, Durham Center, Four Hickory), and one hotel (Atlantic Sands). The gain on sale of the properties is also included in discontinued operations for those years as shown in the table below (dollars in thousands).

	For Years Ended December 31,	
	2008	2007
Revenue		
Rental	\$ 6,431	\$ 51,937
Property operations	2,971	32,912
	3,460	19,025
Expenses		
Interest	(6,544)	(16,352)
General and administration	(1,552)	(102)
Depreciation	(349)	(4,803)
	(8,445)	(21,257)
Net income (loss) from discontinued operations before gains on sale of real estate, taxes, fees and minority interest	(4,985)	(2,232)
Gain on sale of discontinued operations	119,572	53,375
Net income/sales fee to affiliate	(10,994)	(2,050)
Minority interest	(4,480)	(1,682)
Equity of investees gain on sale	6,591	(2,427)
Income from discontinued operations, net of minority interest before tax	105,704	44,984
Tax expense	(36,996)	(15,744)

Income from discontinued operations, net of minority interest	\$ 68,708	\$ 29,240
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Comparison of the year ended December 31, 2007 to the same period ended December 31, 2006;

Revenues

We had an increase in our rental and other property revenues of \$27.3 million, which by segment is an increase in the apartment portfolio of \$7.8 million, an increase in the commercial portfolio of \$23.8 million, and increase in the Hotel portfolio of \$0.4 million, offset by decreases in the land and other portfolios of \$0.7 million in aggregate. Within the apartment portfolio, the same properties increased by \$1.3 million and the developed properties in the lease up phase increased by \$6.5 million. The occupancy rates in our same properties remains strong and we continue to see a growing demand for new apartments. Within our commercial portfolio, the acquired properties increased by \$19.8 million, offset by decreases in the same properties of \$4.0 million. The purchase of Browning Place and Fenton Centre (formerly known as Park West One and Two) in 2007 attributed to the increase from the acquired properties, while the majority of the decrease in the same properties was due to a loss of a significant tenant.

Expenses

We had an increase in our property operating expenses of \$13.0 million as compared to prior period, which by segment is an increase in the apartments of \$3.9 million, an increase in the commercial of \$10.1 million, an increase in other of \$2.1 million, offset by a decrease in hotel and land of \$1.9 million and \$1.2 million respectively. Within the apartment portfolio, the vast majority of the increase is due to the developed apartments in the lease up phase. We continue to complete phases and start up operations. Within the commercial portfolio, the vast majority of the increase is due to the acquisition of the purchase of Browning Place and Fenton Centre. We acquired these properties in January 2007. The increase in the hotel properties is from the same property portfolio.

We had an increase in depreciation and amortization expense of \$1.9 million, which by segment is an increase in apartments of \$0.5 million and an increase in commercial of \$1.4 million. The increase within our apartment portfolio is due to the additional depreciation from our developed properties in the lease up phase. Within our commercial portfolio of \$2.6 million of the increase is from the acquisition of Browning Place and Fenton Centre, which is offset by a decrease in our same properties of \$1.2 million.

General and administrative expenses increased \$7.3 million. The majority of the increase is from \$2.0 million in legal fees included in 2007, not included in 2006. The 2006 amount also includes credits for litigation reimbursements of \$3.3 million. In addition, the reimbursement costs to the advisor were higher in 2007 than in 2006.

Advisory fees to affiliate increased by \$2.2 million. The increase in fees was due to higher gross assets in 2007 than in 2006.

Other income (expense)

We had an increase in interest expense of \$21.6 million as compared to prior period. The increase is due to new loans on acquisitions, refinancings, and changes in variable rate debt. The breakdown by segment is an increase in apartments of \$4.6 million, an increase in commercial of \$6.5 million, an increase in hotels of \$2.6 million, an increase in land of \$3.4 million, and in increase in other of \$4.5 million. The increase in the apartment portfolio is due to interest expense on the developed properties in the lease up phase. As phases of the properties are completed and begin lease up the previously capitalized interest is expensed. The increase of \$6.5 million in the commercial portfolio is due to the acquisition of the Browning Place and Fenton Centre (formerly known as Park West One and Two buildings). The increase in the hotel portfolio is due to refinancing the existing debt on three of the four Piccadilly hotels; known as the Shaw, Chateau, and Airport. The increase within the land portfolio is due to the acquisition of properties and refinancing of existing debt.

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Gain on involuntary conversion increased by \$14.3 million. The gain relates to the collection of insurance proceeds of \$34.7 million and \$20.5 million from the damages sustained at our New Orleans commercial properties from Hurricane Katrina during 2005 during the years ended 2007 and 2006, respectively.

In 2007, we recorded an impairment write down for Executive Court and Encon Warehouse for \$0.2 million and \$0.8 million, respectively.

In 2006 we sold a note receivable at a loss recording a discount of \$1.2 million. There have been no subsequent sales of note receivables.

Litigation settlement was \$1.0 million in 2007 due to paying expenses towards the settlement of the Sunset litigation that were not previously accrued. The Sunset litigation was settled September 18, 2007. There were no significant litigation settlement expenses in 2006.

Gain on land sales decreased by \$3.5 million. In 2007, we sold 252 acres of land in 18 separate transactions with an aggregate sales price of \$36.0 million, receiving \$13.1 million in cash. The average sales price was \$142,000 per acre. The sales relate to the land properties known as; Desoto Ranch (easement), 28.9 acres of McKinney Ranch, 3.4 acres Mandahl Bay, 2.3 acres West End, 3.0 acres Miro Lago, 4.0 acres Hines Meridian, 86.0 acres RB, 4.6 acres Grapevine Vineyards, 75.4 acres Metro Center, 1.2 acres Katrina, 39.2 acres Windmill Farm, and 4.0 acres Vista Ridge. In 2006, we sold 317 acres of land in 19 separate transactions for at an average sales price of \$195,000 per acre.

Discontinued operations relates to properties that were either sold or held for sale as of the year ended December 31, 2008. Properties that were sold subsequent to the yearend that were held during those years have been reclassified as discontinued operations for those periods presented. Included in discontinued operations are properties that were sold in 2008 and reclassified to discontinued operations for the years 2007 and 2006, except for the Thornwood apartments which was purchased in 2007 and sold in 2008. Included in discontinued operations are a total of 41 and 46 properties as of 2007 and 2006, respectively. In 2007, we sold 13 income producing properties which consists of nine apartments (Bluff at Vista Ridge, Somerset, El Chaparral, Harper s Ferry, Oak Park IV, Med Villa, Villa Del Mar, Arlington Place, and Woodlake), three commercial buildings (Forum OB, Durham Center, Four Hickory), and one hotel (Atlantic Sands). In 2006, we sold six income producing properties which consists of five apartment complexes (Apple Lane, Plantation, Timbers, Will-o-Wick, and Oak Tree), and one hotel (Williamsburg). The gain on sale of the properties is also included in discontinued operations for those years presented as shown in the table below (dollars in thousands).

**For Years Ended December 31,
2007**