AMERICAN REALTY INVESTORS INC
Form 10-K
April 04, 2012
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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, 2011

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	**75-2847135**
(State or other jurisdiction of	**(IRS Employer**
Incorporation or organization)	**Identification Number)**

1603 LBJ Freeway, Suite 300

Dallas, Texas	**75234**
(Address of principal executive offices)	**(Zip Code)**

(469) 522-4200

Registrant s Telephone Number, including area code

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

Title of Each Class	*Name of each exchange on which registered*
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 x

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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. x

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** x

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

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, 2011 (the last business day of the Registrant s most recently completed second fiscal quarter) was $3,956,131 based upon a total of 1,515,759 shares held as of June 30, 2011 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 22, 2012, there were 11,525,389 shares of common stock outstanding.

Documents Incorporated By Reference:

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

Consolidated Financial Statements of Transcontinental Realty Investors, Inc.; Commission File No. 1-9240

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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. 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 L.P.; 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.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange (NYSE) under the symbol (ARL). Approximately 87.4% of ARL s stock is owned by affiliated entities. ARL subsidiaries own approximately 82.7% 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 (NYSE) under the symbol (TCI). ARL has consolidated TCI s accounts and operations since March 2003.

On July 17, 2009, TCI, a subsidiary of ARL, acquired from Syntek West, Inc., (SWI), 2,518,934 shares of common stock, par value $0.01 per share of IOT at an aggregate price of $17,884,431 (approximately $7.10 per share), the full amount of which was paid by TCI through an assumption of an aggregate amount of indebtedness of $17,884,431 on the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT common stock acquired by TCI constituted approximately 60.4% of the issued and outstanding common stock of IOT. TCI had owned for several years an aggregate of 1,037,184 shares of common stock of IOT (approximately 25% of the issued and outstanding stock). After giving effect to the transaction on July 17, 2009, TCI owned an aggregate of 3,556,118 shares of IOT common stock which constituted over 80% of the shares of common stock of IOT outstanding. As of December 31, 2011, TCI owned 82.6% of the outstanding IOT common shares. Shares of IOT are traded on the American Stock Exchange (AMEX) under the symbol (IOT).

With TCI s acquisition of the additional shares on July 17, 2009, which increased the aggregate ownership to in excess of 80%, beginning in July 2009, IOT s results of operations are now consolidated with those of TCI for tax and financial reporting purposes. At the time of the acquisition, the historical accounting value of IOT s assets was $112 million and liabilities were $43 million. In that the shares of IOT acquired by TCI were from a related party, the values recorded by TCI are IOT s historical accounting values at the date of transfer. The Company s fair valuation of IOT s assets and liabilities at the acquisition date approximated IOT s book value.

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The net difference between the purchase price and historical accounting basis of the assets and liabilities acquired was $26.9 million and has been reflected by TCI as deferred income. The deferred income will be recognized upon the sale of the land that IOT held on its books as of the date of sale, to an independent third party.

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. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc., a Nevada corporation (Pillar), under a written Advisory Agreement that is reviewed annually by ARL s Board of Directors. The directors of ARL are also directors of TCI and IOT. The Chairman of the Board of Directors of ARL also serves as the Chairman of the Board of Directors of TCI and IOT. The officers of ARL also serve as officers of TCI, IOT and Pillar.

Prior to April 30, 2011, the Company s contractual Advisor and Cash Manager was Prime Income Asset Management, LLC (Prime). Effective April 30, 2011, Pillar, a Nevada corporation, the sole stockholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, the sole stockholder of which is Realty Advisors Management, Inc., a Nevada corporation which is owned 100% by a Trust known as the May Trust, became the Company s external Advisor and Cash Manager. Pillar s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for ARL s benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOT. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. Directors, Executive Officers and Corporate Governance The Advisor . ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Prior to December 31, 2010, Triad Realty Services, L.P. (Triad), an affiliate of Prime, provided management services for our commercial properties. Triad subcontracted the property-level management and leasing of our commercial properties (office buildings, shopping centers and industrial warehouses) to Regis Realty I, LLC (Regis I). Regis Hotel I, LLC, another Prime affiliate, managed the Company s hotel investments. Effective January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC (Regis), the sole member of which is Realty Advisors, LLC, manages our commercial and hotel properties, and provides brokerage services under similar terms as the previous agreements with Triad and Regis Realty I. Regis receives property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. Directors, Executive Officers and Corporate Governance Property Management and Real Estate Brokerage . ARL engages third-party companies to lease and manage its apartment properties.

Our primary business is the acquisition, development and ownership of income-producing residential, hotel and commercial real estate properties. In addition, we opportunistically acquire 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; and renting hotel rooms to guests. We also generate revenues from gains on sales of income-producing properties and land. At December 31, 2011, our income-producing properties consisted of:

- 17 commercial properties consisting of 11 office buildings, one industrial warehouse, four retail properties, and one parking garage, comprising in aggregate approximately 3.9 million square feet;

- One hotel comprising 161 rooms;

- 50 residential apartment communities totaling 9,317 units, excluding apartments being developed.

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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, 2011:

	Apartments		Commercial		Hotels	
Location	**No.**	**Units**	**No.**	**SF**	**No.**	**Rooms**
Alaska			1	20,715		
Arkansas	4	678				
Colorado					1	161
Florida			1	6,722		
Illinois			1	306,609		
Indiana			1	220,439		
Kansas	1	320				
Louisiana-New Orleans			5	1,356,813		
Louisiana-Other	2	384				
Mississippi	7	568	1	26,000		
Ohio	1	200				
Oklahoma			1	225,566		
Tennessee	2	312				
Texas-Greater Dallas-Ft Worth	20	3,936	5	1,652,885		
Texas-Greater Houston	3	656				
Texas-San Antonio	2	468				
Texas-Temple	2	452				
Texas-Other	6	1,343				
Wisconsin			1	122,205		
Total	50	9,317	17	3,937,954	1	161

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 join with various third-party development companies to construct residential apartment communities. We completed construction on five construction projects in 2011 and are in the predevelopment process on several residential apartment communities, scheduled for construction in 2012. At December 31, 2011, we had no apartment projects in development. 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.

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A maritime harbor town is being constructed on the 420 acre site of the former naval base of Olpenitz between the mouth of the River Schlei and the Baltic Sea in the state of Schleswig-Holstein in North Germany. The project is located less than 30 miles from the Danish border. The town will comprise a marina offering several thousand moorings, premium vacation homes each with their own landing stage as well as exclusive hotels, restaurants, shops and a range of leisure activities from sailing to golfing to cross country skiing. At the current time over 50 lots in Phase One, of an initial 180, have been sold and are in various stages of construction.

We have made 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.

At December 31, 2011, 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
Capital City Center	Jackson, MS	2007-2008	8	$ 12,500	Mixed use
Meloy Portage	Kent, OH	2004	53	5,119	Single-family residential
McKinney Multi-Tracts	McKinney, TX	1997-2008	204	20,497	Mixed use
Mercer Crossing	Dallas, TX	1996-2008	496	70,745	Mixed use
Pioneer Crossing	Austin, TX	1997-2005	39	1,494	Multi-family residential
Port Olpenitz	Kappeln, Germany	2008	420	32,067	Mixed use
Travis Ranch	Kaufman County, TX	2008	18	1,980	Multi-family residential
US Virgin Islands Multi-Tracts	St. Thomas, USVI	2005-2008	97	16,391	Single-family residential
Waco Multi-Tracts	Waco, TX	2005-2006	492	4,831	Single-family residential
Windmill Farms(1)	Kaufman County, TX	2008	2,900	43,742	Single-family residential
Woodmont Multi-Tracts	Dallas, TX	2006-2008	12	5,874	Mixed use
Other Land Holdings	Various	1990-2008	576	28,248	Various
Total Land Holdings			5,315	$ 243,488	

(1) Property was purchased by TCI in 2011. Development of the property began in 2008.

Significant Real Estate Acquisitions/Dispositions and Financings

A summary of some of the significant transactions for the year ended December 31, 2011 are discussed below:

On January 4, 2011, we recognized the December 23, 2010 sale of 18.84 acres of land known as Archon land located in Las Colinas, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of $5.5 million. The buyer assumed the existing mortgage of $4.0 million secured by the property. We recorded a gain of $0.1 million when ownership of the property transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group X, LP, a partnership that owned 7.19 acres of land known as Galleria West Lofts land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On January 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

The Company had a 75.0% limited partner interest in Woodmont TCI Group XI, LP, a partnership that owned 1.97 acres of land known as Galleria West Hotel land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On January 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

On January 4, 2011, we recognized the December 23, 2010 sale of 9.96 acres of land known as Limestone Canyon II land located in Austin, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of $0.6 million. We recorded a gain on sale of $0.2 million when ownership of the property transferred to the existing lender.

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On January 4, 2011, we recognized the January 3, 2011 sale of 72.14 acres of land known as Manhattan land located in Farmers Branch, Texas to ABCLD Income, LLC, a related party under common control, for a sales price of $4.1 million. The buyer assumed the existing mortgage of $2.4 million secured by the property. We recorded the sale when ownership of the property transferred to the existing lender.

On January 4, 2011, we recognized the December 23, 2010 sale of Teleport Blvd., a 6,833 square foot building and 3.70 acres of land located in Irving, Texas, to FRE Real Estate, Inc., a related party under common control, for a sales price of $0.7 million. We recorded a gain on sale of $0.4 million when ownership of the property transferred to the existing lender.

On January 4, 2011, we recognized the December 23, 2010 sale of Westgrove Air Plaza, a 79,652 square foot building located in Addison, Texas, to FRE Real Estate, Inc., a related party under common control, for a sales price of $4.5 million. The buyer assumed the existing mortgage of $2.3 million secured by the property. When ownership transferred to the existing lender, we recorded a gain on sale of $3.3 million.

On February 1, 2011, we recognized the July 30, 2009 sale of five land parcels totaling 21.99 acres located in Dallas County, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of $5.9 million. These land parcels were known as Bonneau land, Dalho land, HSM Cummings land, JHL Connell land and Walnut Hill land. The buyer assumed the existing mortgage of $5.9 million secured by the property. We recorded a gain on sale of $3.0 million when the buyer subsequently sold the land to a third party.

The Company had a 75.0% limited partner interest in Woodmont TCI Group XIII, LP, a partnership that owned 8.91 acres of land known as Las Colinas Station land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On February 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

The Company had a 75.0% limited partner interest in Woodmont TCI Group IX, LP, a partnership that owned 15.0 acres of land known as Galleria East Center Retail land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On February 4, 2011 the partnership transferred ownership of the property to the existing lender and there was no gain or loss recorded on the transfer.

On February 28, 2011, we refinanced the existing mortgage on Vistas of Vance Jackson apartments, a 240-unit complex located in San Antonio, Texas, for a new mortgage of $16.1 million. We received $0.1 million in cash after paying off the existing mortgage of $15.4 million and $0.6 million in closing costs. The note accrues interest at 4.80% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2051.

On March 1, 2011, we recognized the July 30, 2009 sale of 6.54 acres of land known as Chase Oaks land located in Plano, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of $1.5 million. The buyer assumed the existing mortgage of $1.8 million secured by the property. We recorded a gain on sale of $1.1 million when the buyer subsequently sold the land to a third party.

On March 22, 2011, we sold our investment in Cross County National Associates, LP to ABC Land Real Estate, LLC and ABC Land & Development, Inc., both related parties under common control, for a sales price of $9.5 million. This entity owns a 307,266 square foot retail center known as Cross County Mall located in Mattoon, Illinois. We provided $0.3 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 22, 2016. The buyer assumed the existing mortgage of $9.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On March 23, 2011, we sold 82.20 acres of land known as Denton Coonrod land located in Denton, Texas and 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of $2.9 million. We provided $1.6 million

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in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 23, 2016. The buyer assumed the existing mortgage of $1.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On January 3, 2012, ownership of Denton Coonrod land was transferred to the existing lender to satisfy the debt secured by the property and partial credit against debt related to another property. Any impairment necessary related to the inability to recover our original investment has been realized in 2011 and the sale that was deferred will be recognized in the first quarter of 2012 when ownership transferred to a third party.

On March 23, 2011, we sold our investment in TCI Courtyard, Inc. to One Realco Corporation, a related party under common control, for a sales price of $11.2 million. This entity owns Quail Hollow at the Lakes apartments, a 200-unit complex located in Holland, Ohio. The buyer assumed the existing mortgage of $11.2 million secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On March 23, 2011, we sold our membership interest in 1340 Poydras Corp. to ABCLD Real Estate, LLC, a related party under common control, for a sales price of $23.5 million. This entity owns a 378,895 square foot building located in New Orleans, Louisiana known as Amoco. The buyer assumed the existing mortgage of $19.5 million secured by the property. This transaction was rescinded as of the original transaction date and ownership transferred back to TCI.

On March 30, 2011, we sold six parcels, comprising approximately 195.52 acres of undeveloped land known as Dominion land, Hollywood Casino land, Stanley Tools land and Wilmer 88 land, all located in Dallas County, Texas, and Creekside land and Crowley land, both located in Fort Worth, Texas, to T Sorrento, Inc., a related party under common control, for a sales price of $16.6 million. We provided $9.3 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on March 30, 2016. The buyer assumed the existing mortgage of $7.3 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. On April 5, 2011, we recognized the sale of Creekside land, Crowley land and Wilmer 88 land when ownership of the property transferred to the existing lender.

On April 1, 2011, we sold of 6.80 acres of land known as Travis Ranch land located in Kaufman, Texas, to Kelly Lot Development, Inc., a related party under common control, for a sales price of $0.8 million. There was no gain or loss recorded on the sale of the land parcel.

On April 5, 2011, we recognized the July 30, 2009 sale of five land parcels, comprising approximately 30.18 acres of land known as Keenan Bridge land, Thompson land, Thompson II land, Tomlin land and Pac Trust land located in Dallas County, Texas, to One Realco Land Holdings, Inc., a related party under common control, for a sales price of $6.0 million. The buyer assumed the existing mortgage of $6.0 million secured by the property. We recorded a gain on sale of $2.1 million when ownership of the property transferred to the existing lender.

On April 5, 2011, we recognized the July 30, 2009 sale of 13.22 acres of land known as Hackberry land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of $3.9 million. The buyer assumed the existing mortgage of $3.9 million secured by the property. We recorded a gain on sale of $2.4 million when ownership of the property transferred to the existing lender.

On April 5, 2011, we recognized the July 30, 2009 sale of 14.43 acres of land known as Fortune Drive land located in Irving, Texas to One Realco Land Holdings, Inc., a related party under common control, for a sales price of $1.7 million. The buyer assumed the existing mortgage of $1.1 million secured by the property. We recorded a loss on sale of $0.4 million when ownership of the property transferred to the existing lender.

On April 5, 2011, we recognized the December 23, 2010 sale of 10.69 acres of land known as Temple land, located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of $0.4 million. We recorded a loss on sale of $0.1 million when ownership of the property transferred to the existing lender.

On April 5, 2011, we recognized the March 23, 2011 sale of our investment in Palmer Lane Golf, Inc. to One Realco Corporation, a related party under common control, for $13.8 million. This entity owns 376.25 acres of land known as Pioneer Crossing land located in Austin, Texas. The buyer assumed the existing mortgage, secured by the property, of $13.8 million. We recorded a loss on sale of $0.1 million when ownership of the property transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group III, LP, a partnership that owned 5.87 acres of land known as Polo Estates at Bent Tree land located in Dallas, Texas. The partnership was consolidated in accordance with ASC 810. On April 5, 2011 the partnership transferred ownership of the property to the existing lender and we recorded a gain on sale of $3.0 million.

On April 5, 2011, we recognized the March 30, 2011 sale of 87.62 acres of land known as Wilmer 88 land located in Dallas, Texas, 24.91 acres of land known as Crowley land located in Dallas, Texas and 30.07 acres of land known as Creekside land located in Fort Worth, Texas to T Sorrento, Inc., a related party under common control, for a sales price of $4.4 million. The buyer assumed the existing mortgage of $2.4 million secured by the property. We recorded a loss on sale of $2.0 million when ownership of the property transferred to the existing lender.

On April 28, 2011, we refinanced the existing mortgage on Mariposa Villas apartments, a 216-unit complex located in Dallas, Texas, for a new mortgage of $12.4 million. We paid off the existing mortgage of $11.8 million and $0.6 million in closing costs. The note accrues interest at 3.90% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on May 1, 2051.

On April 28, 2011, we refinanced the existing mortgage on Verandas at City View apartments, a 314-unit complex located in Fort Worth, Texas, for a new mortgage of $18.5 million. We paid off the existing mortgage of $17.3 million and $1.2 million in closing costs. The note accrues interest at 4.20% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on May 1, 2051.

On May 31, 2011, we refinanced the existing mortgage on Stonebridge at City Park apartments, a 240-unit complex located in Houston, Texas, for a new mortgage of $14.6 million. We paid off the existing mortgage of $13.9 million and $0.7 million in closing costs. The note accrues interest at 3.90% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on June 1, 2051.

On June 7, 2011, we recognized the September 15, 2011 sale of our investment in Pacific Center, LLC to ABC Land and Development, Inc., a related party under common control, for a sales price of $2.5 million. This entity owns the Piccadilly University Hotel, a 190-room hotel, located in Fresno, California. The buyer assumed the existing mortgage of $2.5 million secured by the property. We recorded a gain on sale of $3.6 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the June 2, 2011 sale of Alpenloan, a 28,594 square foot building and 8.16 acres of land, located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of $0.4 million. We recorded a loss on sale of $0.9 million when ownership of the property transferred to the existing lender.

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On June 7, 2011, we recognized the June 2, 2011 sale of 5.34 acres of land known as Archon land located in Irving, Texas and 1.31 acres of land known as Ackerley land located in Dallas, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of $0.7 million. The buyer assumed the existing mortgage of $0.7 million secured by the property. We recorded a loss on sale of $0.7 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 22, 2010 sale of Fenton Center, a 707,559 square foot building and 4.70 acres of land located in Dallas, Texas to ABCLD Properties, LLC, a related party under common control, for a sales price of $67.0 million. We recorded a loss on sale of $8.3 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 27.11 acres of land known as Kinwest land located in Irving, Texas to Fenton Real Estate, Inc., a related party under common control, for a sales price of $4.1 million. The buyer assumed the existing mortgage of $4.0 million secured by the property. We recorded a gain on sale of $1.1 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 20.85 acres of land known as McKinney Ranch land located in McKinney, Texas to Fenton Real Estate, Inc., a related party under common control, for a sales price of $5.4 million. The buyer assumed the existing mortgage of $5.4 million secured by the property. We recorded a gain on sale of $0.8 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 109.85 acres of land known as Payne North land located in Irving, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of $14.1 million. The buyer assumed the existing mortgage of $12.0 million secured by the property. We recorded a gain on sale of $4.6 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the December 23, 2010 sale of 97.28 acres of land known as Pioneer Crossing land located in Austin, Texas to FRE Real Estate, Inc., a related party under common control, for a sales price of $1.4 million. The buyer assumed the existing mortgage of $1.4 million secured by the property. We recorded a loss on sale of $1.8 million when ownership of the property transferred to the existing lender.

On June 7, 2011, we recognized the June 2, 2011 sale of 3.98 acres of land known as Senlac land located in Farmers Branch, Texas to One Realco Retail, Inc., a related party under common control, for a sales price of $0.5 million. The buyer assumed the existing mortgage of $0.5 million secured by the property. We recorded a gain on sale of $0.1 million when ownership of the property transferred to the existing lender for a credit against the loan balance.

On July 1, 2011, we sold 12.72 acres of land known as Centurion 12 land located in Fort Worth, Texas for a sales price of $1.1 million. We recorded a loss on sale of $0.3 million on the land parcel.

On July 1, 2011, we sold 48.62 acres of land known as Walker Cummings land located in Farmers Branch, Texas, to Realty Advisors, Inc., a related party under common control, for a sales price of $0.1 million, resulting in a loss on sale of $4.3 million. The loss resulted from this flood plain parcel being segregated from the Mercer Crossing land portfolio and the determination that it was worth less than the average cost of the acreage assigned to it as a part of the whole portfolio.

On July 5, 2011, we recognized the September 21, 2010 sale of a warehouse and 13.0 acres of land with a 29,784 square foot storage warehouse known as Eagle Crest located in Farmers Branch, Texas, to Warren Road Farm, Inc., a related party under common control, for a sales price of $3.8 million. The buyer assumed the existing mortgage of $2.4 million secured by the property. When ownership transferred to the existing lender, we recorded a gain on sale of $1.2 million.

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On July 5, 2011, we recognized the March 28, 2011 sale of One Hickory Center, a 97,361 square-foot office building and Two Hickory Center, a 96,539 square-foot office building, both located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of $19.5 million. The buyer assumed the existing mortgage of $19.4 million secured by the property. When ownership transferred to the existing lender, we recorded a gain on sale of $6.0 million.

On July 5, 2011, we recognized the December 23, 2010 sale of 6.6 acres of land known as Three Hickory land located in Farmers Branch, Texas, to Fenton Real Estate, Inc., a related party under common control, for a sales price of $1.3 million. There was no gain or loss recorded when ownership transferred to the existing lender.

On July 5, 2011, we recognized the September 21, 2010 sale of 245.95 acres of land known as Windmill Farms-Harlan land located in Kaufman County, Texas, to Warren Road Farm, a related party under common control, for a sales price of $6.7 million. The buyer assumed the existing mortgage of $5.5 million secured by the property. We recorded a loss on sale of $0.4 million when ownership transferred to the existing lender.

On July 12, 2011, we recognized the July 12, 2010 sale of our investment in Pioneer Crossing Hotels, LLC to One Realco Corporation, a related party under common control, for a sales price of $17.2 million. This entity owns the Piccadilly Airport Hotel, a 85-room hotel, the Piccadilly Inn Express Hotel, a 78-room hotel, and the Piccadilly Shaw Hotel, a 194-room hotel, all located in Fresno, California. In addition, we sold a $10.1 million intercompany receivable. The buyer assumed the existing mortgage of $27.3 million, secured by the property, but did not assume the obligation of ARL s guarantee on the loan. ARL recognized the sale upon transfer of ownership to the lender for credit against the loan. A lawsuit was filed, prior to the transfer of ownership to the lender, against the Company with regard to certain guaranties on these loans for amounts owed of $30.2 million. The Company is vigorously defending the lawsuit and has taken a reserve in the amount of the gain the company would have recognized upon the ownership transfer to a third party. We believe this reserve is in excess of the potential deficiency.

On August 2, 2011, we recognized the March 23, 2011 sale of 10.08 acres of land known as Centura land located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of $13.0 million. The buyer assumed the existing mortgage of $7.2 million secured by the property. We recorded a loss on sale of $0.6 million when ownership transferred to the existing lender.

On August 2, 2011, we recognized the April 25, 2011 sale of seven land parcels, comprising approximately 2,713.68 acres of undeveloped land known as Diplomat land, Kaufman Cogen land, Kaufman Stagliano land, Kaufman Taylor land, Payne South land, Senlac VHP land and Valley Ranch land located in Dallas County, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of $24.0 million. The buyer assumed the existing mortgage of $8.1 million secured by the property. We recorded a loss on sale of $3.5 million when ownership transferred to the existing lender.

On August 2, 2011, we recognized the March 23, 2011 sale of Parkway North, a 69,009 square-foot office building located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of $4.7 million. The buyer assumed the existing mortgage of $2.9 million secured by the property. We recorded a loss on sale of $1.4 million when ownership transferred to the existing lender.

On August 2, 2011, we recognized the December 23, 2010 sale of Signature Athletic Club, a 58,910 square-foot office building located in Dallas, Texas, to ABCLD Real Estate, LLC, a related party under common control, for a sales price of $2.1 million. The buyer assumed the existing mortgage of $1.3 million secured by the property. We recorded a loss on sale of $0.4 million when ownership transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group XII, LP, a partnership that owned 16.81 acres of land known as Las Colinas Village land located in Irving, Texas. The partnership was consolidated in accordance with ASC 810. On August 2, 2011 the partnership transferred ownership of the property to the existing lender and we recorded a gain on sale of $11.1 million.

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On August 5, 2011, we sold our 30% limited partner interest in a partnership that owned a 120-unit apartment complex known as Westwood apartments, located in Mary Ester, Florida, to Liberty Bankers Life Insurance Company, a related party under common control, for a sales price of $7.1 million. We received $5.1 million in cash, and the existing mortgage of $1.8 million, secured by the property, was paid in full. The property was sold to a related party; therefore the gain of $7.6 million was deferred and will be recognized upon sale to a third party.

On August 31, 2011, we recognized the December 23, 2010 sale of Cooley Building, a 27,041 square-foot office building, located in Dallas, Texas, to ABCLD Properties, LLC and ABCLD Income, LLC, both are related parties under common control, for a sales price of $2.8 million. The buyer assumed the existing mortgage of $2.6 million secured by the property. We recorded a gain on sale of $1.2 million on the sale when ownership transferred to a third party.

On August 31, 2011, we sold 100% of our membership interests in TCI Luna Ventures, LLC to ABCLD Income, LLC, a related party under common control, for a sales price of $2.0 million. This entity owns 26.71 acres of undeveloped land located in Dallas, Texas, known as Luna Ventures land. We provided $0.9 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on August 31, 2016. The buyer assumed the existing mortgage of $1.1 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 1, 2011, we sold seven land parcels, comprising approximately 107.73 acres of undeveloped land located in Austin, Texas, Dallas County, Texas, Denton County, Texas and Tarrant County, Texas, known as Andrew B land, Andrew C land, DeSoto Ranch land, Mansfield land, Pioneer Crossing land, Senlac land and Sheffield land, to TCI Luna Ventures, LLC, a related party under common control, for a sales price of $10.6 million. We provided $6.4 million in seller-financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 1, 2016. The buyer assumed the existing mortgage of $4.2 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost. In the first quarter of 2012, ownership of the Andrew B land and DeSoto Ranch land was transferred to the existing lender to satisfy a portion of the multi-tract collateral debt.

On September 21, 2011, we sold our investment in TCI Dedeaux Road, Inc. to One Realco Corporation, a related party under common control, for a sales price of $1,000. This entity owns 9.97 acres of undeveloped land located in Gulfport, Mississippi, known as Dedeaux land. The buyer assumed the existing mortgage of $2.0 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 27, 2011, we sold a 256-unit apartment complex known as Spyglass apartments, located in Dallas, Texas, for a sales price of $21.6 million. The buyer assumed the existing mortgage of $15.5 million secured by the property. We recorded a gain on sale of $6.7 million on the apartment sale.

On October 11, 2011, we recognized the March 11, 2011 sale of our 100% investment in ART Hawthorne, Inc. (ART Hawthorne) to ABC Land & Development, Inc. ART Hawthorne was the managing general partner in Hawthorn Lakes Associates, Ltd (Hawthorn), a partnership that owns the 344,975 square-foot Expo Building called the Denver Merchandise Mart located in Denver, Colorado. In a settlement agreement, ART Hawthorne transferred its managing general partner interest to Woodhaven-Hawthorne, Inc. in exchange for a 1.00% Class B limited partner interest and a release of ART Hawthorn and any ARL related party obligations under the loan guaranty. EQK Holdings, Inc., an ARL subsidiary, still holds a 99.00% limited partner interest in Hawthorn. Due to the release of all guarantees and any future obligations to the Partnership, from the Company, we no longer consolidate the Hawthorn partnership. The release of any obligations and the recognition of the sale of our general partner interest resulted in a gain of $11.9 million on the sale of our investment.

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On October 12, 2011, we recognized the January 26, 2011 sale of Willowbrook Village, a 179,741 square foot retail shopping center located in Coldwater, Michigan, to TX LTS Investments, Inc., a related party under common control, for a sales price of $7.8 million. The buyer assumed the existing mortgage of $5.6 million, secured by the property. We recorded a loss on sale of $2.5 million when ownership transferred to the existing lender.

The Company had a 75.0% limited partner interest in Woodmont TCI Group VIII, LP, a partnership that owned 7.37 acres of land known as Keller Springs Lofts land located in Addison, Texas. The partnership was consolidated in accordance with ASC 810. On October 20, 2011, the partnership sold the property for a sales price of $4.2 million. We recorded a loss on sale of $2.1 million on the land parcel.

On October 27, 2011, we recognized the April 1, 2011 sale of our investment in ART Collection, Inc. to One Realco Corporation, related party under common control, for a sales price of $16.8 million. This entity owns 257.52 acres of land known as Pioneer Crossing located in Austin, Texas. The buyer assumed the existing mortgage of $12.0 million secured by the property. A settlement agreement was reached with the existing lender pertaining to the real estate note made by a consolidated subsidiary of the Company. ARL has a liability of $3.0 million owed to the lender. The note accrues interest at prime+2.0% and payments of interest and principal are due monthly based upon a 20-year amortization schedule. The note matures on November 1, 2014, at which time the unpaid balance shall be due and payable. We recognized gain of $3.6 million on the sale.

On November 1, 2011, we acquired 100% of the membership interest in Bridgeview Plaza, LLC. On September 21, 2010, we sold our investment in EQK Bridgeview Plaza, Inc. to Warren Road Farm, Inc. (WRF), a related party under common control, for a sales price of $8.3 million to be paid via an assumption of debt of $6.2 million and seller-financing of $2.1 million. On October 4, 2010, WRF filed a voluntary petition seeking relief under Chapter 11 of the bankruptcy code. The approved bankruptcy plan was effective November 1, 2011, whereby TCI, for its contribution to the plan, was given 100% equity ownership in the entity. During the period of time that WRF owned the equity interest, it had also acquired 2900 acres of land known as Windmill Farms land located in Kaufman, TX, previously held by ARL, for a sales price of $64.5 million. ARL provided $33.8 million in seller-financing with a five-year note receivable. The note accrues interest at 6.0% and is payable at maturity on September 21, 2015. WRF assumed the existing mortgage of $30.7 million, secured by the property.

On November 2, 2011, we recognized the September 3, 2004 sale of Addison Hanger I, a 25,102 square foot industrial warehouse and Addison Hanger II, a 24,000 square foot industrial warehouse located in Addison, Texas, for a sales price of $4.5 million. At the time of the sale, TCI entered into a 10-year triple-net lease with the buyer. Therefore, this transaction was accounted for under the financing method and the properties continued to be consolidated. As of November 12, 2011, the lease with the buyer was terminated. Due to ongoing litigation related to the lease, TCI has deferred the gain recognition until the matter is resolved.

On November 30, 2011, we recognized the March 23, 2011 sale of 23.24 acres of land known as Cooks Lane land located in Tarrant County, Texas to Cross County National Associates, LP, a related party under common control, for a sales price of $1.1 million. The existing mortgage of $0.5 million, secured by the property, was paid in full. We recorded a loss on sale of $0.6 million on the land parcel.

On December 6, 2011, we recognized the December 23, 2010 sale of 257.05 acres of land known as Mercer Crossing land located in Farmers Branch, Texas to Fenton Real Estate, Inc., a related party under common control, for a sales price of $28.4 million. The buyer assumed the existing mortgage of $40.5 million secured by the property. We recorded a gain on sale of $14.8 million when ownership of the property transferred to the existing lender.

On December 21, 2011, we sold 17.07 acres of land known as Lamar Parmer Lane land located in Austin, Texas for a sales price of $1.4 million. The existing mortgage of $1.3 million, secured by the property, was paid in full. We recorded a loss on sale of $0.8 million on the land parcel.

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On December 28, 2011, we sold 100% of our common stock of Centura-Ewing, Inc. and Garden Centura, Inc. to Realty Advisors Management, Inc., a related party under common control, for a sales price of $20.4 million. These entities own a 1% general manager partnership interest and a 4% limited partnership interest in Garden Centura L.P., which owns a 412,215 square foot office building known as Centura Tower located in Dallas, Texas. Centura-Ewing, Inc. has an option to purchase the remaining 95% limited partner interest in Garden Centura, L.P. TCI received a 5-year promissory note for the full sales price. Interest at 30 day LIBOR plus 2% is due quarterly with the principal due at maturity on December 28, 2016. We recorded a gain on sale of $0.3 million when the stock was subsequently sold to an unrelated party.

In December 2010, there were various commercial and land holdings sold to FRE Real Estate, Inc. a related party under common control. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. and disclosed in the transactions above. As of December 31, 2011, there is one commercial building, Thermalloy, that remains in FRE Real Estate, Inc. We have deferred the recognition of the sales in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

The properties that we have sold to a related party under common control and have deferred the recognition of the sale are treated as subject to sales contract on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, we are currently in default on these mortgages primarily due to lack of payment although we are actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis.

We continue to invest in the development of apartments and various projects. During the twelve months ended December 31, 2011, we have expended $47.3 million on construction and development and capitalized $3.6 million of interest costs.

In reviewing the impairment reserves for our real estate holdings, there were reserves still remaining on properties that were no longer owned by the consolidated entities of $11.0 million that were adjusted for in the second quarter of 2011.

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 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.

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

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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 and IOT. TCI and IOT have business objectives similar to those of 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 Pillar 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, Pillar 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.americanrealtyinvest.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, we have posted the charters for the Audit Committee, Compensation Committee, and Governance and Nominating 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. We will also provide a copy of these documents free of charge to stockholders upon written request. The Company issues Annual Reports containing audited financial statements to its common shareholders.

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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, 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 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.

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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;

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, southeastern, and mid-western 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, 2011 of approximately $923.9 million. 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 our 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.

We anticipate only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able

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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. 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. 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.

We intend 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;

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- 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;
- we 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
- hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

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);

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.

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.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

Not applicable.

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ITEM 2. *PROPERTIES*

On December 31, 2011, our portfolio consisted of 68 income producing properties consisting of 50 apartments, 17 commercial properties, and one hotel. The apartments have a total of 9,317 units. The commercial properties consist of 11 office buildings, one industrial warehouse, four retail centers and one parking garage. The hotel has a total of 161 rooms. The average annual dollar per square foot for the Company s apartment/residential portfolio is $11.68 and $9.20 for the commercial portfolio. In addition, we own or control 5,315 acres of improved and unimproved land held for future development or sale. The table below shows information relating to those properties.

Apartments	Location	Units	Occupancy
Anderson Estates	Oxford, MS	48	100.00%
Blue Lake Villas I	Waxahachie, TX	186	95.70%
Blue Lake Villas II	Waxahachie, TX	70	94.30%
Blue Ridge	Midland, TX	290	99.30%
Breakwater Bay	Beaumont, TX	176	91.50%
Bridgewood Ranch	Kaufman, TX	106	95.30%
Capitol Hill	Little Rock, AR	156	92.30%
Curtis Moore Estates	Greenwood, MS	104	92.30%
Dakota Arms	Lubbock, TX	208	94.20%
David Jordan Phase II	Greenwood, MS	32	93.80%
David Jordan Phase III	Greenwood, MS	40	92.50%
Desoto Ranch	DeSoto, TX	248	87.90%
Dorado Ranch	Odessa, TX	224	99.10%
Falcon Lakes	Arlington, TX	248	95.60%
Heather Creek	Mesquite, TX	200	96.00%
Huntington Ridge	DeSoto, TX	198	96.00%
Laguna Vista	Dallas, TX	206	98.10%
Lake Forest	Houston, TX	240	90.80%
Legends of El Paso	El Paso, TX	240	94.60%
Lodge at Pecan Creek(1)	Denton, TX	192	35.40%
Mansions of Mansfield	Mansfield, TX	208	98.60%
Mariposa Villas	Dallas, TX	216	95.40%
Mission Oaks	San Antonio, TX	228	91.20%
Monticello Estate	Monticello, AR	32	90.60%
Northside on Travis	Sherman, TX	200	96.50%
Paramount Terrace	Amarillo. TX	181	92.80%
Parc at Clarksville	Clarksville, TN	168	93.50%
Parc at Denham Springs(1)	Denham Springs, LA	224	81.70%
Parc at Maumelle	Little Rock, AR	240	95.00%
Parc at Metro Center	Nashville, TN	144	100.00%
Parc at Rogers	Rogers, AR	250	98.40%
Pecan Pointe	Temple, TX	232	94.00%
Portofino	Farmers Branch, TX	224	96.40%
Preserve at Pecan Creek	Denton, TX	192	93.80%
River Oaks	Wylie, TX	180	98.30%
Riverwalk Phase I	Greenville, MS	32	90.60%
Riverwalk Phase II	Greenville, MS	72	93.10%
Savoy of Garland	Garland, TX	144	96.50%
Sonoma Court(1)	Rockwall, TX	124	79.80%
Stonebridge at City Park	Houston, TX	240	91.30%
Sugar Mill	Baton Rouge, LA	160	91.90%
Toulon(1)	Gautier, MS	240	46.70%
Treehouse	Irving, TX	160	93.80%
Verandas at City View	Fort Worth, TX	314	97.80%
Vistas of Pinnacle Park	Dallas, TX	332	93.10%
Vistas of Vance Jackson	San Antonio, TX	240	97.50%
Whispering Pines	Topeka, KS	320	90.60%
Windsong	Fort Worth, TX	188	93.10%
	Total Apartment Units	**8,897**	

Apartment Subject to Sale Contract	Location	Units	Occupancy

Quail Hollow	Holland, OH	200	98.50%
	Total Apartments Subject to Sale	**200**	

Apartment Held for Sale	**Location**	**Units**	**Occupancy**
Wildflower Villas	Temple, TX	220	93.20%
	Total Apartments Held for Sale	**220**	
	Total Apartments	**9,317**	

(1) These properties had construction completed in 2011 and are currently in lease-up.

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Office Buildings	Location	SqFt	Occupancy
225 Baronne[(1)]	New Orleans, LA	422,037	0.00%
305 Baronne	New Orleans, LA	37,081	34.48%
600 Las Colinas	Las Colinas, TX	510,173	66.72%
1010 Common	New Orleans, LA	512,593	42.38%
Amoco Building	New Orleans, LA	378,895	68.67%
Browning Place (Park West I)	Farmers Branch, TX	625,463	87.72%
Eton Square[(2)]	Tulsa, OK	43,695	36.13%
Ergon Office Building	Jackson, MS	26,000	0.00%
Senlac (VHP)	Farmers Branch, TX	2,812	100.00%
Sesame Square	Anchorage, AK	20,715	87.52%
Stanford Center	Dallas, TX	336,632	98.33%
		2,916,096	

Parking Garage	Location	SqFt	Occupancy
Clark Garage	New Orleans, LA	6,207	34.44%
	Total Parking Garage	**6,207**	

Retail Centers	Location	SqFt	Occupancy
Bridgeview Plaza	LaCrosse, WI	122,205	90.45%
Cross County Mall	Matoon, IL	306,609	76.78%
Dunes Plaza	Michigan City, IN	220,439	22.54%
Fruitland Plaza	Fruitland Park, FL	6,722	0.00%
	Total Retail Centers	**655,975**	

Retail Center Subject to Sales Contract	Location	SqFt	Occupancy
Eton Square[(2)]	Tulsa, OK	181,871	75.21%
	Total Retail Center Subject to Sales Contract	**181,871**	

Industrial Warehouse Subject to Sales Contract	Location	SqFt	Occupancy
Thermalloy	Farmers Branch, TX	177,805	100.00%
	Total Industrial Warehouses Subject to Sales Contract	**177,805**	
	Total Commercial	**3,937,954**	

Hotel Subject to Sales Contract	Location	Rooms	Occupancy Rate	Room Rate	Total Available Rooms
Inn at the Mart (Comfort Inn)	Denver, CO	161	49.10%	$ 70.74	$ 34.72
	Total Hotel Rooms Subject to Sales Contract	161			

(1) Vacant since 2005's hurricane Katrina. Plans to renovate in the future.
(2) Eton Square is considered one commercial propety that includes both office and retail space.

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Lease Expirations

The table below shows the lease expirations of the commercial properties over a ten-year period (dollars in thousands):

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	Percentage of Gross Rentals
2012	487,113	$ 8,726,958	$ 17.92	8.6%	26.1%
2013	501,943	$ 8,532,624	$ 17.00	8.8%	25.5%
2014	546,446	$ 4,487,231	$ 8.21	9.6%	13.4%
2015	114,821	$ 1,599,384	$ 13.93	2.0%	4.8%
2016	436,642	$ 3,967,917	$ 9.09	7.7%	11.8%
2017	190,814	$ 3,287,631	$ 17.23	3.4%	9.8%
2018	23,098	$ 404,350	$ 17.51	0.4%	1.2%
2019	100,561	$ 2,151,800	$ 21.40	1.8%	6.4%
2020		$	$	0.0%	0.0%
Thereafter	20,121	$ 349,235	$ 17.36	0.4%	1.0%
Total	2,421,559	$ 33,507,130		42.7%	100%

(1) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2011 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements which may be estimates as of such date.

1013 Common St	New Orleans, LA	0.41
Audubon	Adams County, MS	48.20
Backlick Land	Springfield, VA	4.00
Copperridge	Dallas, TX	3.90
Denham Springs	Denham Springs, LA	4.38
Dunes Plaza Vacant Land	Michigan City, IN	14.62
Elm Fork Land	Denton County, TX	35.84
Folsom Land	Dallas, TX	36.38
Gautier Land	Gautier, MS	40.06
GNB Land	Farmers Branch, TX	45.00
Hollywood Casino Land Tract II	Farmers Branch, TX	13.85
Hunter Equities Land	Dallas, TX	2.56
Jackson Capital City Center	Jackson, MS	7.95
Kinwest Manor	Irving, TX	7.98
Lacy Longhorn Land	Farmers Branch, TX	17.12
LaDue Land	Farmers Branch, TX	8.01
Lake Shore Villas	Humble, TX	19.51
Lubbock Land	Lubbock, TX	2.86
Luna (Carr)	Farmers Branch, TX	2.60
Manhanttan Land	Farmers Branch, TX	36.75
Marine Creek	Forth Worth, TX	44.17
McKinney 36	Collin County, TX	34.05
McKinney Ranch Land	McKinney,TX	169.74

Meloy/Portage Land	Kent, OH	52.95
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35

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Ocean Estates	Gulfport, MS	12.00
Port Olpenitz GmbH	Kappelin, Germany	420.00
Southwood Plantation 1394	Tallahassee, FL	14.52
Texas Plaza Land	Irving, TX	10.33
Travelers Land	Farmers Branch, TX	193.17
Travis Ranch Land	Kaufman County, TX	10.00
Travis Ranch Retail	Kaufman County, TX	8.13
Union Pacific Railroad Land	Dallas, TX	0.04
US Virgin Islands Land	US Virgin Islands	96.60
Valley View 34 (Mercer Crossing)	Farmers Branch, TX	2.19
Valley View/Senlac	Farmers Branch, TX	3.45
Waco 151 Land	Waco,TX	151.40
Waco Swanson	Waco, TX	340.65
Walker Land	Dallas County, TX	82.59
Willowick Land	Pensacola, TX	39.78
Windmill Farms Land	Kaufman County, TX	2,900.00
	Total Land/Development	**4,938.89**

Land Subject to Sales Contract	Location	Acres
Dedeaux	Gulfport, MS	10.00
Denton (Andrew B)	Denton, TX	22.90
Denton (Andrew C)	Denton, TX	5.20
Denton Coonrod	Denton, TX	82.80
Desoto Ranch	Desoto, TX	8.02
Dominion Tract	Dallas, TX	10.59
Hollywood Casino Land Tract I	Farmers Branch, TX	19.71
Luna Ventures	Farmers Branch, TX	26.74
Mansfield Land	Mansfield, TX	21.89
Pioneer Crossing Tract II	Austin, TX	38.54
Senlac Land Tract II	Farmers Branch, TX	11.94
Sheffield Village	Grand Prairie, TX	13.90
Stanley Tools	Farmers Branch, TX	23.76
Whorton Land	Bentonville, AR	79.70
	Total Land Subject to Sales Contract	**375.69**
	Total Land	**5,314.58**

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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.

American Realty Trust, Inc (ART) and its subsidiary ART Midwest, Inc have been embroiled in a lawsuit with a Mr. David Clapper and companies related to Mr. Clapper (The Clapper Entities) since 1999. The origins of the matter began in 1998 in a transaction whereby ART Midwest was to acquire eight apartments from the Clapper Entities. Through the years there have been ruling both for and against ART in this matter however in October 2011 a final ruling was issued whereby the Clapper Entities were awarded approximately $74 million including $26 million in damages and $48 million in interest. This ruling was against ART and its subsidiary ART Midwest and not the Company or any other subsidiary of the Company.

ART believes there were serious errors in the judge s ruling and has filed an appeal of the judge s ruling. ART further believes that should the Clapper Entities ultimately prevail that it has claims against a third party who was involved in this matter. These claims cannot be pursued until the main case with the Clapper Group is ultimately resolved.

Should the Clapper Group ultimately prevail the only defendants in this matter are ART and ART Midwest, Inc. whose total assets and net worth as of December 31, 2011 was approximately $10 million. Neither the Company nor any of its subsidiaries other than ART have guaranteed or indemnified either ART or ART Midwest, Inc.

As of December 31, 2011 the Company reserved $10 million which represents 100% of both the asset and book value of ART. In January 2012, the Company sold ART and its subsidiaries for a $10 million note. The note will be fully reserved by the Company and valued at zero. Subsequent to the sale ART filed for Chapter Eleven bankruptcy protection.

ARL, through a subsidiary, is developing a maritime harbor town on the 420 acre site of the former naval base of Olpenitz in Kappeln, Germany. At the current time over 50 lots in Phase One, of an initial 180, have been sold and are in various stages of construction. There have been disputes with our local partner related to his mismanagement of the project which resulted in our replacing him as the managing partner and led to filing for bankruptcy protection in Germany to completely remove him from the project. We believe that the value of the land and development in process will satisfy the existing creditors and return our investment. We are working on a plan for the bankruptcy court and expect to continue our involvement in the development of this project.

During the fourth quarter of the fiscal year covered by this Report, no proceeding previously reported was terminated.

ITEM 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

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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:

	2011		2010	
	High	**Low**	**High**	**Low**
First Quarter	$ 10.49	$ 2.95	$ 12.40	$ 8.50
Second Quarter	$ 4.85	$ 1.75	$ 11.53	$ 7.59
Third Quarter	$ 2.66	$ 1.62	$ 9.33	$ 7.50
Fourth Quarter	$ 2.75	$ 1.15	$ 8.99	$ 6.81

On March 22, 2012, the closing market price of ARL s common stock on the New York Stock Exchange was $1.50 per share, and was held by approximately 3,000 stockholders of record.

Performance Graph

The following graph compares the cumulative total stockholder return on ARL s shares of common stock with the Dow Jones Industrial Average (Dow Jones Industrial) and the Dow Jones Real Estate Investment Index (Dow Jones Real Estate). The comparison assumes that $100 was invested on December 31, 2006 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.

$100 invested on 12/31/06 in stock or index-including reinvestment of dividends.

Fiscal year ending December 31.

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	12/06	12/07	12/08	12/09	12/10	12/11
American Realty Investors, Inc.	$ 100.00	$ 124.52	$ 113.72	$ 155.65	$ 101.02	$ 23.76
Dow Jones Industrial	$ 100.00	$ 106.43	$ 70.42	$ 83.67	$ 92.89	$ 98.03
Dow Jones US Real Estate	$ 100.00	$ 80.15	$ 47.65	$ 62.22	$ 78.76	$ 83.12

ARL s Board of Directors has established a policy that dividend declarations on 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 2011, 2010 or 2009. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company s financial condition and requirements, future prospects, restrictions in financing agreements, business conditions 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, 2011, 3,353,954 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, 2011, 1,414,205 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 March 5, 2012, 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 $0.475 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 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, 2012, 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, 2012, no Series E Preferred Stock was 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

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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, 2012.

On September 1, 2000, the Board of Directors approved a share repurchase program authorizing the repurchase of up to a total of 1,000,000 shares of ARL Common Stock. This repurchase program has no termination date. In August 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of Common Stock which results in a total authorization under the repurchase program for up to 1,250,000 shares. 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 2011:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance at September 30, 2011			978,250	271,750
October 31, 2011		$	978,250	271,750
November 30, 2011		$	978,250	271,750
December 31, 2011		$	978,250	271,750
Total				

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ITEM 6. ***SELECTED FINANCIAL DATA***

AMERICAN REALTY INVESTORS, INC.

	For the Years Ended December 31,				
	2011	2010	2009	2008	2007
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	$ 118,357	$ 116,123	$ 113,318	$ 111,854	$ 99,541
Total operating expenses	163,673	168,516	158,605	133,798	128,717
Operating loss	(45,316)	(52,393)	(45,287)	(21,944)	(29,176)
Other expenses	(47,202)	(48,321)	(53,235)	(52,911)	(7,746)
Loss before gain on land sales, non-controlling interest, and income taxes	(92,518)	(100,714)	(98,522)	(74,855)	(36,922)
Gain (loss) on land sales	34,247	(10,103)	11,605	5,584	20,468
Income tax benefit	18,040	2,030	1,490	33,684	5,324
Net loss from continuing operations	(40,231)	(108,787)	(85,427)	(35,587)	(11,130)
Net income from discontinuing operations, net of non-controlling interest	33,504	2,592	2,768	62,556	40,344
Net income (loss)	(6,727)	(106,195)	(82,659)	26,969	29,214
Net (income) loss attributable to non-controlling interest	7,017	11,448	12,518	(4,335)	(2,652)
Net income (loss) attributable to American Realty Investors, Inc.	290	(94,747)	(70,141)	22,634	26,562
Preferred dividend requirement	(2,456)	(2,488)	(2,488)	(2,487)	(2,490)
Net income (loss) applicable to common shares	$ (2,166)	$ (97,235)	$ (72,629)	$ 20,147	$ 24,072
PER SHARE DATA					
Earnings per share basic					
Loss from continuing operations	$ (3.10)	$ (8.71)	$ (6.55)	$ (3.80)	$ (1.48)
Income from discontinued operations	2.91	0.23	0.24	5.60	3.68
Net income (loss) applicable to common shares	$ (0.19)	$ (8.48)	$ (6.31)	$ 1.80	$ 2.20
Weighted average common share used in computing earnings per share	11,517,431	11,463,084	11,514,038	11,165,805	10,974,565
Earnings per share diluted					
Loss from continuing operations	$ (3.10)	$ (8.71)	$ (6.55)	$ (3.80)	$ (1.48)
Income from discontinued operations	2.91	0.23	0.24	5.60	3.68
Net income (loss) applicable to common shares	$ (0.19)	$ (8.48)	$ (6.31)	$ 1.80	$ 2.20
Weighted average common share used in computing diluted earnings per share	11,517,431	11,463,084	11,514,038	11,165,805	10,974,565
BALANCE SHEET DATA					
Real estate, net	$ 1,026,630	$ 1,332,585	$ 1,581,521	$ 1,613,402	$ 1,485,859
Notes and interest receivable, net	101,540	88,614	83,144	77,003	83,467

Total assets	1,235,471	1,557,275	1,806,054	1,842,153	177,854
Notes and interest payables	913,965	1,228,681	1,394,076	1,382,629	1,400,877
Stock-secured notes payable	26,898	23,100	24,853	14,026	17,546
Shareholders equity	95,257	106,265	211,349	297,578	254,547
Book value per share	$ 8.27	$ 9.27	$ 18.36	$ 26.65	$ 23.19

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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 Annual 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 whicl 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

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings, hotels and other commercial properties. Our 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. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during 2011 we sold $414.7 million of land and income-producing properties. As of December 31, 2011, we owned 9,317 units in 50 residential apartment communities, 17 commercial properties comprising approximately 3.9 million rentable square feet and one hotel containing 161 rooms. In addition, we own 5,315 acres of land held for development with a 420-acre holiday resort project in Germany currently in development.

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 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. We 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 our wholly owned properties. When we sell assets, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. We generate operating revenues primarily by leasing apartment units to residents; leasing office, retail and industrial space to commercial tenants; and renting hotel rooms to guests.

We have historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition 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 our best interest.

Prior to April 30, 2011, we were advised by Prime under a contractual arrangement that is reviewed annually by our Board of Directors. Effective April 30, 2011, Pillar became the Company s external Advisor and Cash Manager under similar terms as the previous agreement with Prime that is more fully described in Part III, Item 10. Directors, Executive Officers and Corporate Governance The Advisor . Prior to December 31, 2010, Triad Realty Services, L.P. (Triad) managed the Company s commercial properties and Regis Realty I, LLC (Regis Realty) provided brokerage services. Triad and Regis Realty are affiliates of Prime. Effective January 1, 2011, Regis Realty Prime, LLC (Regis), an affiliate of Pillar, manages our commercial properties and provides brokerage services under similar terms as the previous agreements with Triad and Regis Realty. See Part III, Item 10. Directors, Executive Officers and Corporate Governance Property Management and Real Estate Brokerage. We currently contract with third-party companies to lease and manage our apartment communities.

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States (GAAP). In June 2009, the Financial Accounting Standards Board (FASB) completed its accounting guidance codification project. The FASB Accounting Standards Codification (ASC) became effective for our financial statements issued subsequent to September 30, 2009 and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating our accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC guidance as the sole source of authoritative literature. The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 Consolidation , whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force (EITF) Issue 04-5, Investor s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (EITF 04-5). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities are included in consolidated net income. Our investments in Gruppa Florentina, LLC and LK-Four Hickory, LLC are accounted for under the equity method. Our investment in Garden Centura, L.P. was accounted for under the equity method until December 28, 2011, when it was sold to a third party

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above-market and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with ASC Topic 805 Business Combinations , and allocate 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.

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We record acquired above-market 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.

Depreciation and Impairment

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. If we determine that impairment has occurred, the affected assets must be reduced to their face value.

ASC Topic 360 Property, Plant and Equipment 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 we 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 ASC Topic 835-20 Interest Capitalization of Interest and ASC Topic 970 Real Estate General . 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.

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Investment in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, we account for our investments in unconsolidated real estate ventures under the equity method of accounting because we exercise significant influence over, but do 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 our 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, our 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, our 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, we consolidate those in which we are the primary beneficiary.

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 ASC Topic 805 Business Combinations , we recognize rental revenue of acquired in-place above-market 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 and the associated gains or losses of real estate are recognized in accordance with the provisions of ASC Topic 360-20, Property, Plant and Equipment Real Estate Sale . The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Non-performing Notes Receivable

We consider a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments in accordance with the terms of the agreement.

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Interest Recognition on Notes Receivable

For notes other than surplus cash notes, we record interest income as earned in accordance with the terms of the related loan agreements. On cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income is only recognized to the extent cash is received.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership s real estate that represents the primary source of loan repayment. See Note 3 Notes and Interest Receivable for details on our notes receivable.

Fair Value of Financial Instruments

We apply the guidance in ASC Topic 820, Fair Value Measurements and Disclosures, to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity s own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1	Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Unobservable inputs that are significant to the fair value measurement.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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, 2011, 2010, and 2009 as included in Part II, Item 8. Consolidated Financial Statements and Supplementary Data of this report. The prior year s property portfolios have been adjusted for subsequent sales. Continued operations relates to income producing properties that were held during those years as adjusted for sales in the subsequent years.

At December 31, 2011, 2010, and 2009, we owned or had interests in a portfolio of 68, 82, and 98 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 reclassed to discontinued operations as of December 31, 2011 for the year presented. The table below shows the number of income producing properties held by year.

	2011	2010	2009
Continued operations	67	61	62
Sales subsequent to year end	1	21	36
Total property portfolio	68	82	98

Comparison of the year ended December 31, 2011 to the same period ended December 31, 2010:

Our net income applicable to common shares increased $95.0 million as compared to the prior year. The current year net loss applicable to common shares was a loss of $2.2 million, which includes gain on land sales of $34.2 million and net income from discontinued operations of $33.5 million, as compared to the prior year net loss applicable to common shares of $97.2 million, which includes loss on land sales of $10.1 million and net income from discontinued operations, of $2.6 million. We also recorded a decrease in impairment on notes receivable and real estate assets of $2.5 million.

Revenues

Rental and other property revenues were $118.3 million for the twelve months ended December 31, 2011. This represents an increase of $2.2 million as compared to the prior year revenues of $116.1 million. This change, by segment, is an increase in the apartment portfolio of $8.0 million, an increase in the hotel portfolio of $0.1 million, offset by a decrease in the commercial portfolio of $5.9 million. Within the apartment portfolio, the same properties increased by $3.2 million and the developed properties increased by $4.8 million. Within the commercial portfolio, the same properties decreased by $5.9 million due to an increase in vacancy, which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were $67.2 million for the twelve months ended December 31, 2011. This represents an increase of $0.4 million as compared to the prior year operating expenses of $66.8 million. This change, by segment, is an increase in our apartment portfolio of $2.2 million, an increase in our hotel portfolio of $0.2 million, offset by a decrease in our commercial portfolio of $1.0 million and a decrease in our land and

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other portfolios of $1.0 million. Within the apartment portfolio, the same properties decreased by $0.2 million due to a decrease in overall costs and additional repairs and maintenance. The developed properties increased expenses by $2.4 million. The increase in our hotel portfolio is due to the increase in variable costs that are directly associated with stays within the hotel. Within the commercial portfolio, the same properties decreased by $1.0 million.

Depreciation expense was $20.4 million for the twelve months ended December 31, 2011. This represents a decrease of $1.7 million as compared to the prior year depreciation expense of $22.1 million**.** This change, by segment, is an increase in our apartment portfolio of $0.6 million, an increase in our other portfolio of $0.2 million, offset by a decrease in our commercial portfolio of $2.5 million. Within the apartment portfolio, the same properties decreased by $0.6 million and the developed properties in the lease up phase increased by $1.2 million. Once an apartment complex is considered stabilized , we begin to depreciate the assets. The decrease in the commercial portfolio of $2.5 million was attributable to the same properties.

General and administrative expenses were $13.7 million for the twelve months ended December 31, 2011. This represents an increase of $1.5 million as compared to the prior year expense of $12.2 million. This change is due to an increase in administrative expenses and professional services.

The current year provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets was $49.1 million. This was a decrease of $2.5 million as compared to the prior year expense of $51.6 million. In the current year, impairment was recorded as an additional loss in the investment portfolio of $5.2 million in the apartment properties we currently hold, $5.3 million in commercial properties we currently hold, $21.6 million in land parcels we currently hold, $6.6 million in land that was sold, $0.4 million in impairment on our investments in unconsolidated entities and a $10.0 million reserve related to the assets held by American Realty Trust, Inc. at December 31, 2011. The majority of the impairment losses were taken on the properties that are treated as subject to sales contract where, subsequent to the sale to a related party under common control, negotiations have occurred for the property ownership to transfer to the lender and estimated current property values are lower than our current basis. In 2010, impairment was recorded as an additional loss in the investment portfolio of $47.6 million in land we currently hold and a $4.0 million increase in impairment on notes receivable.

Other income (expense)

Other income was $2.4 million for the twelve months ended December 31, 2011. This represents a decrease of $6.4 million as compared to the prior year income of $8.8 million. The decrease was due to revenue received in the prior year for an incentive fee from Regis I.

Interest income was $10.9 million for the twelve months ended December 31, 2011. This represents an increase of $2.5 million as compared to the prior year income of $8.4 million. This change was due to the receipt of interest payments due on our Unified Housing surplus cash flow notes. Interest is recognized when interest payments are received. More interest payments were received in the current year.

Mortgage and loan interest expense was $60.7 million for the twelve months ended December 31, 2011. This represents a decrease of $5.5 million as compared to the prior year expense of $66.2 million. This change, by segment, is a decrease in the apartment portfolio of $0.8 million, a decrease in the commercial portfolio of $0.3 million, a decrease in the land portfolio of $2.8 million and a decrease in the other portfolio of $1.6 million. Within the apartment portfolio, the same apartment portfolio decreased $3.4 million and the developed properties increased $2.6 million due to properties in the lease-up phase. Once an apartment is completed, the interest expense is no longer capitalized. The land portfolio decrease was due to land sales.

Gain on land sales increased for the twelve months ended December 31, 2011, as compared to the prior period. In the current period, we sold 7,821.97 acres of land in 46 separate transactions for an aggregate sales

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price of $249.5 million, receiving $121,710 in cash and recorded a gain of $34.2 million. The average sales price was $31,896 per acre. In the prior year, we sold 1,243.88 acres of land in 17 separate transactions for an aggregate sales price of $31.0 million, receiving $8,984 in cash and recorded a loss of $10.1 million.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale as of the year ended December 31, 2011. Included in discontinued operations are a total of 20 and 31 properties as of 2011 and 2010, respectively. Properties sold in 2011 that were held in 2010 have been reclassified to discontinued operations for 2010. In 2011, we sold two apartment complexes (Spyglass, Westwood), 12 commercial properties (Addison Hanger I, Addison Hanger II, Alpenloan, Cooley Building, Fenton Center, One Hickory, Parkway North, Signature, Teleport Blvd, Two Hickory, Westgrove Air Plaza, Willowbrook Village), four hotels (Piccadilly Airport, Piccadilly Chateau, Piccadilly Shaw, Piccadilly University), 13 acres of land with a storage warehouse (Eagle Crest), one trade show and exhibit hall (Denver Merchandise Mart) and one apartment complex held for sale (Wildflower Villas). In 2010, we sold nine apartment complexes (Baywalk, Chateau, Foxwood, Island Bay, Kingsland Ranch, Longfellow Arms, Marina Landing, Mason Park and Villager), one commercial building (217 Rampart), and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). In addition, we recognized the deferred gains on the sales of seven apartment complexes (Bridges on Kinsey, Limestone Canyon, Limestone Ranch, Longfellow Arms, Sendero Ridge, Tivoli and Villager) and four commercial properties (2010 Valley View, Cullman Shopping Center, Kmart Cary and Parkway Centre) that were sold in prior years in accordance with the requirements per ASC Topic 360-20 Property, Plant, and Equipment Real Estate Sales . The operations related to these properties sold are reclassed to prior years discontinued operations. The gains on sale of the properties sold were also included in discontinued operations for those years as shown in the table below (dollars in thousands):

	For the Year Ended December 31,	
	2011	**2010**
Revenue		
Rental	$ 25,209	$ 52,622
Property operations	17,632	35,403
	7,577	17,219
Expenses		
Other income	49	3,697
Interest	(6,676)	(17,657)
General and administrative	(1,556)	(482)
Litigation settlement		(5)
Depreciation	(3,876)	(8,367)
Provision for asset impairment	(881)	(9,723)
	(12,940)	(32,537)
Net loss from discontinued operations before gains on sale of real estate, taxes, and fees	(5,363)	(15,318)
Gain on sale of discontinued operations	56,907	19,306
Income from discontinued operations before tax	51,544	3,988
Tax expense	(18,040)	(1,396)
Income from discontinued operations	$ 33,504	$ 2,592

Comparison of the year ended December 31, 2010 to the same period ended December 31, 2009:

The net loss applicable to common shares increased $24.6 million for the twelve months ended December 31, 2010, as compared to the prior year. In 2010, the net loss applicable to common shares was $97.2

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million, which includes a loss on land sales of $10.1 million and net income from discontinued operations of $2.6 million, as compared to the prior year net loss applicable to common shares of $72.6 million, which includes a gain on land sales of $11.6 million and net income from discontinued operations of $2.8 million. We also recorded an increase in impairment on notes receivable and real estate assets of $7.0 million.

Revenues

Rental and other property revenues were $116.1 million for the twelve months ended December 31, 2010. This represents an increase of $2.8 million, as compared to the prior year revenues of $113.3 million. This change, by segment, is an increase in the apartment portfolio of $3.0 million, an increase in the other portfolio of $2.7 million, offset by a decrease in the commercial portfolio of $1.9 million and a decrease in the land portfolio of $1.0 million. Within the apartment portfolio, the same properties decreased by $0.2 million due to lower overall operating costs and additional repair and maintenance. The developed properties increased by $3.2 million. Within the commercial portfolio, the same properties decreased by $1.9 million due to an increase in vacancy, which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were $66.8 million for the twelve months ended December 31, 2010. This represents an increase of $2.3 million, as compared to the prior year operating expenses of $64.5 million. This change, by segment, is a decrease in the apartment portfolio of $1.0 million, a decrease in the commercial portfolio of $0.1 million, a decrease in the other portfolio of $0.2 million, offset by an increase in the land portfolio of $3.6 million. Within the apartment portfolio, the same properties decreased by $1.5 million due to a decrease in overall costs and additional repairs and maintenance. The developed apartments increased expenses by $0.5 million. The decrease within the commercial portfolio of $0.1 million was due to a decrease in our same properties. The increase within the land portfolio was primarily due to an adjustment in 2009 to correct over accrual of 2008 real estate property taxes, resulting in recording lower operating expenses in 2009.

Depreciation expense was $22.1 million for the twelve months ended December 31, 2010. This represents an increase of $2.5 million, as compared to the prior year expense of $19.6 million. This change, by segment, is an increase in the apartment portfolio of $1.7 million, an increase in our land and other portfolios of 1.1 million, offset by decrease in the commercial portfolio of $0.3 million. The increase within our apartment portfolio was due to an increase of $0.2 million in the same properties and an increase of $1.5 million in the developed properties. Developed apartment properties are depreciated as we complete each phase and lease-up the properties. The increase within the land and other portfolios was due to a prior year adjustment recorded in 2009.

The provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets was $51.6 million for the twelve months ended December 31, 2010. This is an increase of $7.0 million as compared to the prior year period. Impairment was recorded as an additional loss in the investment portfolio of $47.6 million in land we currently hold and a $4.0 million increase in impairment on notes receivable. The properties that were considered subject to sales contract were reviewed by management at the time of the sale or during the reorganization process in the fourth quarter. Impairment was taken to the extent the basis of the property exceeded the current value. In 2009, we recorded a $44.6 million allowance in the investment portfolio of $1.9 million in commercial properties we currently hold, $35.6 million in land we currently hold and $7.1 million in land that was sold for a loss.

Other income (expense)

Other income was $8.8 million for the twelve months ended December 31, 2010. This represents an increase of $5.2 million, as compared to the prior year income of $3.6 million. The increase was due to revenue received from a consulting agreement with EurEnergy Resources Poland Sp.zoo.o. and an incentive fee from Regis I.

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Interest income was $8.4 million for the twelve months ended December 31, 2010. This represents a decrease of $1.3 million as compared to the prior year income of $9.7 million. This change was due to the receipt of interest payments due on our Unified Housing surplus cash flow notes. Interest is recognized when interest payments are received.

Mortgage and loan interest expense was $66.2 million for the twelve months ended December 31, 2010. This represents an increase of $0.4 million as compared to the prior year expense of $65.8 million. This change, by segment, is an increase in the apartment portfolio of $3.3 million, an increase in the commercial portfolio of $0.3 million, an increase in the other portfolio of $1.4 million, offset by a decrease in the land portfolio of $4.6 million. Within the apartment portfolio, the same apartment portfolio increased $1.5 million and the developed properties increased $1.8 million due to properties in the lease-up phase. Once an apartment is completed, the interest expense is no longer capitalized. The land portfolio decrease was due to land sales.

Litigation settlement expense decreased by $1.1 million as compared to the prior year. There were no litigation settlement expenses in 2010. Expenses were incurred in 2009 resolving the Caruth-Preston litigation, Denver Merchandise Mart s Darrell Hare litigation and the Sunset litigation.

Gain on land sales decreased by $21.7 million. In 2010, we sold 1,243.88 acres of land in 17 transactions for an aggregate sales price of $31.0 million, receiving $8,984 in cash and recorded a loss of $10.1 million. The average sales price was $20,701 per acre. In 2009, we sold 1,244.93 acres of land in 11 separate transactions for an aggregate sales price of $40.9 million, receiving $9.1 million in cash, recorded a gain on sale of $8.2 million and recognized $3.4 million in prior year deferred gain due to the payoff of seller financing. The average sales price was $32,833 per acre.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale. Included in discontinued operations are a total of 31 and 40 properties as of 2010 and 2009, respectively. The prior periods discontinued operations have been adjusted to reflect properties held during those years that were subsequently sold or held for sale as of December 31, 2011. In 2010, we sold 9 apartment complexes (Baywalk, Chateau, Foxwood, Island Bay, Kingsland Ranch, Longfellow Arms, Marina Landing, Mason Park and Villager), one commercial building (217 Rampart) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). In addition, we also recognized the gains on the sales of four apartment complexes (Limestone Canyon, Limestone Ranch, Sendero Ridge and Tivoli) that were sold in a prior year in accordance with the requirements per ASC Topic 360-20 Property, Plant, and Equipment Real Estate Sales . In 2009, we sold three apartment complexes (Bridges on Kinsey, Bridgestone, and Chateau Bayou), five commercial properties (2010 Valley View, 5000 Space Center, 5360 Tulane, Cullman Shopping Center and Parkway Centre) and one townhouse. In addition, we recognized the deferred gain on the sale of the Hartford building sold in 2002 in accordance with the requirements per ASC Topic 360-20 Property, Plant, and Equipment Real Estate Sales . The operations related to these properties sold are reclassed to prior years discontinued operations. The gains on sale of the properties sold are also included in discontinued operations for those years as shown in the table below (dollars in thousands):

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	For the Year Ended December 31, 2010	2009
Revenue		
Rental	$ 52,622	$ 75,171
Property operations	35,403	45,241
	17,219	29,930
Expenses		
Other income	3,697	705
Interest	(17,657)	(23,970)
General and administrative	(482)	(432)
Litigation settlement	(5)	(407)
Depreciation	(8,367)	(11,674)
Provision for asset impairment	(9,723)	
	(32,537)	(35,778)
Net loss from discontinued operations before gains on sale of real estate, taxes, and fees	(15,318)	(5,848)
Gain on sale of discontinued operations	19,306	10,106
Income from discontinued operations before tax	3,988	4,258
Tax expense	(1,396)	(1,490)
Income from discontinued operations	$ 2,592	$ 2,768

Liquidity and Capital Resources

General

Our principal liquidity needs are:

- fund normal recurring expenses;
- meet debt service and principal repayment obligations including balloon payments on maturing debt;
- fund capital expenditures, including tenant improvements and leasing costs;
- fund development costs not covered under construction loans; and
- fund possible property acquisitions.

Our principal sources of cash have been and will continue to be:

- property operations;

- proceeds from land and income-producing property sales;
- collection of mortgage notes receivable;
- collections of receivables from affiliated companies;
- refinancing of existing debt and additional borrowings; and
- additional borrowings, including mortgage notes payable, and lines of credit.

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks willingness and/or ability to originate loans affects our ability to buy and sell property, and refinance existing debt. We are unable to foresee the extent and length of this down-turn. A continued and extended decline could materially impact our cash flows. We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans, which are converted to traditional mortgages upon completion of the project.

We may also issue additional equity securities, including common stock and preferred stock. Management anticipates that our cash at December 31, 2011, along with cash that will be generated in 2012 from property operations, may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet its liquidity requirements. Although the past cannot predict the future, historically, management has been successful at refinancing and extending a portion of the Company s current maturity obligations and selling assets as necessary to meet current obligations.

Management reviews the carrying values of ARL s properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings to the extent that the investment in the note exceeds management s estimate of the fair value of the collateral securing such note. The mortgage note receivable review includes an evaluation of the collateral property securing each note. The property review generally includes: (1) selective property inspections, (2) a review of the property s current rents compared to market rents, (3) a review of the property s expenses, (4) a review of maintenance requirements, (5) a review of the property s cash flow, (6) discussions with the manager of the property, and (7) a review of properties in the surrounding area.

Cash flow summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows in Part II, Item 8. Consolidated Financial Statements and Supplementary Data and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below (dollars in thousands).

	2011	2010	Variance
Net cash provided by (used in) operating activities	$ 23,553	$ (7,139)	$ 30,692
Net cash provided by investing activities	$ 301,412	$ 198,074	$ 103,338
Net cash used in financing activities	$ (317,302)	$ (183,173)	$ (134,129)

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have an affiliated account in which excess cash is transferred to or from. The majority of the overall increase in cash provided by operating activities is due to the reduction in obligations to our affiliates.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income producing properties, and capital improvements to existing properties. We used $47.3 million on construction and development of five apartment projects and a maritime harbor town during 2011. This is a decrease of $2.6 million from the prior year. We have discontinued certain projects and put some projects on hold, while continuing to development our apartment properties. We continue to make capital improvements on our existing properties but spent significantly less in 2011 on land development than in the prior year. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income producing properties. We sold two apartment complexes, four hotels, twelve commercial buildings and one trade show and

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exhibit hall, providing over $183.8 million of sales proceeds along with 7,821.97 acres of land sales providing $174.1 million of sales proceeds. The majority of the sales proceeds were used to cover the loan obligations. Sales proceeds are gross of the loan assumptions.

Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. Proceeds from notes payable associated with the new loans and refinancing provided $156.8 million. We used $19.1 million to make recurring note payments, $297.3 million for maturing notes, including payoffs required on sold properties and $155.9 million assumption of debt related to the sales of income producing properties and land.

Equity Investments.

ARL has from time to time purchased shares of IOT and TCI. The Company may purchase additional equity securities of IOT and TCI through open market and negotiated transactions to the extent ARL s liquidity permits.

Equity securities of TCI held by ARL (and of IOT held by TCI) may be deemed restricted securities under Rule 144 of the Securities Act of 1933 (Securities Act). Accordingly, ARL may be unable to sell such equity securities other than in a registered public offering or pursuant to an exemption under the Securities Act for a one-year period after they are acquired. Such restrictions may reduce ARL s ability to realize the full fair value of such investments if ARL attempted to dispose of such securities in a short period of time.

Contractual Obligations

We have contractual obligations and commitments primarily with regards to the payment of mortgages. The following table aggregates our expected contractual obligations and commitments and includes items not accrued, per Generally Accepted Accounting Principles, through the term of the obligation such as interest expense and operating leases. Our aggregate obligations subsequent to December 31, 2011 are shown in the table below (dollars in thousands):

	Total	2012	2013	2014-2016	Thereafter
Long-term debt obligation[1]	$ 1,612,762	$ 263,531	$ 142,705	$ 164,604	$ 1,041,922
Capital lease obligation					
Operating lease obligation	49,168	736	745	2,296	45,391
Purchase obligation					
Other long-term debt liabilities reflected on the Registrant s Balance Sheet under GAAP					
Total	$ 1,661,930	$ 264,267	$ 143,450	$ 166,900	$ 1,087,313

(1) ARL s long-term debt may contain financial covenants that, if certain thresholds are not met, could allow the lender to accelerate principal payments or cause the note to become due immediately.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, ARL may be potentially liable for removal or remediation costs, as well as certain other potential costs relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

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Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on ARL s business, assets or results of operations.

Inflation

The effects of inflation on ARL s operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect the sales values of properties and the ultimate gains to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments and the cost of new financings as well as the cost of variable interest rate debt will be affected.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.***

ARL s primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments that bear interest at variable rates that fluctuate with market interest rates and maturing debt that has to be refinanced. ARL s future operations, cash flow and fair values of financial instruments are also partially dependent on the then existing market interest rates and market equity prices.

As of December 31, 2011, our $923.9 million debt portfolio consisted of approximately $732.3 million of fixed-rate debt and approximately $191.6 million of variable-rate debt with interest rates ranging from 2.0% to 12.5%. Our overall weighted average interest rate at December 31, 2011 and 2010 was 7.29% and 6.78%, respectively.

ARL s interest rate sensitivity position is managed by the capital markets department. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. ARL s earnings are affected as changes in short-term interest rates affect its cost of variable-rate debt and maturing fixed-rate debt.

If market interest rates for variable-rate debt average 100 basis points more in 2012 than they did during 2011, ARL s interest expense would increase and net income would decrease by $1.9 million. This amount is determined by considering the impact of hypothetical interest rates on ARL s borrowing cost. The analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in ARL s financial structure.

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The following table contains only those exposures that existed at December 31, 2011. Anticipation of exposures of risk on positions that could possibly arise was not considered. ARL s ultimate interest rate risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars are in thousands):

	2012	2013	2014	2015	2016	Thereafter	Total
Assets							
Market securities at fair value							$
Note Receivable							
Variable interest rate fair value							$
Instrument s maturities	$	$	$	$	$	$	$
Instrument s amortization							
Interest							
Average Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Fixed interest rate fair value							106,292
Instrument s maturities	8,645	1,077		272	20,387	75,911	106,292
Instrument s amortization							
Interest	5,909	5,167	4,974	4,957	4,957	47,319	73,283
Average Rate	5.56%	5.26%	5.12%	5.11%	5.11%	5.41%	

	2012	2013	2014	2015	2016	Thereafter	Total
Notes Payable							
Variable interest rate fair value							$ 191,597
Instrument s maturities	$ 163,358	$ 10,823	$ 2,706	$	$ 191	$ 10,523	$ 187,601
Instrument s amortization	1,882	737	386	318	208	465	3,996
Interest	1,965	932	554	394	375	1,293	5,513
Average Rate	3.98%	5.15%	5.73%	5.60%	5.63%	3.24%	
Fixed interest rate fair value							$ 732,266
Instrument s maturities	$ 51,438	$ 91,001	$ 58,584	$	$ 256	$ 56,746	$ 258,025
Instrument s amortization	7,802	6,300	5,683	5,831	6,091	442,534	474,241
Interest	37,086	32,912	29,692	26,834	26,501	530,361	683,386
Average Rate	6.46%	5.73%	6.45%	5.53%	5.53%	4.90%	

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ITEM 8. ***CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

All other schedules are omitted because they are not required, are not applicable, or the information required is included in the Consolidated Financial Statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of and

Stockholders of American Realty Investors, Inc.

Dallas, Texas

We have audited the accompanying consolidated balance sheets of American Realty Investors, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2011. American Realty Investors, Inc. s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 17, American Realty Investors, Inc. s management intends to sell land and income producing properties and refinance or extend debt secured by real estate to meet the Company s liquidity needs.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Realty Investors, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Schedules III and IV are presented for the purpose of complying with the Securities and Exchange Commission s rules and are not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Farmer, Fuqua & Huff, PC

Plano, Texas

March 30, 2012

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AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	$ 1,120,122	$ 1,170,214
Real estate held for sale at cost, net of depreciation ($1,752 or 2011 and $0 for 2010)	15,015	
Real estate subject to sales contracts at cost, net of depreciation ($9,790 for 2011 and $75,639 for 2010)	49,982	295,921
Less accumulated depreciation	(158,489)	(133,550)
Total real estate	1,026,630	1,332,585
Notes and interest receivable		
Performing (including $104,969 in 2011 and $89,982 in 2010 from affiliates and related parties)	110,136	99,839
Non-performing	4,787	3,123
Less allowance for estimated losses (including $8,962 and $9,926 in 2011 and 2010 from affiliates and related parties)	(13,383)	(14,348)
Total notes and interest receivable	101,540	88,614
Cash and cash equivalents	20,312	12,649
Investments in unconsolidated subsidiaries and investees	10,746	12,491
Other assets (including $11 in 2011 and $164 in 2010 from affiliates and related parties)	76,243	110,936
Total assets	$ 1,235,471	$ 1,557,275
Liabilities and Shareholders Equity		
Liabilities:		
Notes and interest payable	$ 855,619	$ 913,134
Notes related to assets held for sale	13,830	
Notes related to assets subject to sales contracts	44,516	315,547
Stock-secured notes payable	26,898	23,100
Affiliate payables	10,294	12,219
Deferred revenue (including $71,964 in 2011 and $90,496 in 2010 from sales to related parties)	78,750	98,504
Accounts payable and other liabilities (including $1,822 in 2011 and $1,558 in 2010 to affiliates and related parties)	110,307	88,506
	1,140,214	1,451,010
Shareholders equity:		
Preferred stock, $2.00 par value, authorized 15,000,000 shares, issued and outstanding Series A, 3,353,954 shares in 2011 and $3,389,546 in 2010 (liquidation preference $10 per share), including 900,000 shares in 2011 and 2010 held by subsidiaries	4,908	4,979
Common stock, $.01 par value, authorized 100,000,000 shares; issued 11,941,174 and 11,874,138, and outstanding 11,525,389 and 11,466,853 shares in 2011 and in 2010	115	114
Treasury stock at cost; 415,785 and 407,285 shares in 2011 and 2010 and 236,587 and 276,972 shares held by TCI (consolidated) as of 2011 and 2010	(6,395)	(6,333)
Paid-in capital	105,388	110,419
Retained earnings	(47,486)	(47,776)
Accumulated other comprehensive loss	(786)	(786)
Total American Realty Investors, Inc. shareholders equity	55,744	60,617

Non-controlling interest	39,513	45,648
Total equity	95,257	106,265
Total liabilities and equity	$ 1,235,471	$ 1,557,275

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2011	2010	2009
	(dollars in thousands, except share and par value amounts)		
Revenues:			
Rental and other property revenues (including $223 and $955 and $1,118 for 2011 and 2010 and 2009 respectively from affiliates and related parties)	$ 118,357	$ 116,123	$ 113,318
Expenses:			
Property operating expenses (including $1,252 and $1,026 and $1,634 for 2011 and 2010 and 2009 respectively from affiliates and related parties)	67,203	66,841	64,488
Depreciation and amortization	20,380	22,105	19,602
General and administrative (including $2,429 and $4,517 and $5,867 for 2011 and 2010 and 2009 respectively from affiliates and related parties)	13,719	12,212	14,254
Provision on impairment of notes receivable and real estate assets	49,146	51,588	44,578
Advisory fee to affiliate	13,225	15,770	15,683
Total operating expenses	163,673	168,516	158,605
Operating loss	(45,316)	(52,393)	(45,287)
Other income (expense):			
Interest income (including $9,989 and $7,363 and $8,886 for 2011 and 2010 and 2009 respectively from affiliates and related parties)	10,948	8,425	9,701
Other income	2,393	8,788	3,550
Mortgage and loan interest (including $1,710 and $3,374 and $2,595 for 2011 and 2010 and 2009 respectively from affiliates and related parties)	(60,713)	(66,229)	(65,757)
Gain on the sale of investments	91	673	
Earnings from unconsolidated subsidiaries and investees	79	(200)	35
Gain on foreign currency translation		222	292
Litigation settlement			(1,056)
Total other expenses	(47,202)	(48,321)	(53,235)
Loss before gain on land sales, non-controlling interest, and taxes	(92,518)	(100,714)	(98,522)
Gain (loss) on land sales	34,247	(10,103)	11,605
Loss from continuing operations before tax	(58,271)	(110,817)	(86,917)
Income tax benefit	18,040	2,030	1,490
Net loss from continuing operations	(40,231)	(108,787)	(85,427)
Discontinued operations:			
Loss from discontinued operations	(5,363)	(15,318)	(5,848)
Gain on sale of real estate from discontinued operations	56,907	19,306	10,106
Income tax expense from discontinued operations	(18,040)	(1,396)	(1,490)
Net income from discontinued operations	33,504	2,592	2,768
Net income (loss)	(6,727)	(106,195)	(82,659)
Net loss attributable to non-controlling interests	7,017	11,448	12,518
Net income (loss) attributable to American Realty Investors, Inc.	290	(94,747)	(70,141)
Preferred dividend requirement	(2,456)	(2,488)	(2,488)
Net income (loss) applicable to common shares	$ (2,166)	$ (97,235)	$ (72,629)

Earnings per share basic			
Loss from continuing operations	$ (3.10)	$ (8.71)	$ (6.55)
Discontinued operations	2.91	0.23	0.24
Net income (loss) applicable to common shares	$ (0.19)	$ (8.48)	$ (6.31)
Earnings per share diluted			
Loss from continuing operations	$ (3.10)	$ (8.71)	$ (6.55)
Discontinued operations	2.91	0.23	0.24
Net income (loss) applicable to common shares	$ (0.19)	$ (8.48)	$ (6.31)
Weighted average common share used in computing earnings per share	11,517,431	11,463,084	11,514,038
Weighted average common share used in computing diluted earnings per share	11,517,431	11,463,084	11,514,038
Amounts attributable to American Realty Investors, Inc.			
Loss from continuing operations	$ (40,231)	$ (108,787)	$ (85,427)
Income from discontinued operations	33,504	2,592	2,768
Net income (loss)	$ (6,727)	$ (106,195)	$ (82,659)

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

For the Three Years Ended December 31, 2011

(dollars in thousands)

	Total Capital	Comprehensive Loss	Series A Preferred Stock	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance, December 31, 2008	$ 297,578	$ 58,730	$ 4,979	11,874,138	$ 114	$ (5,954)	$ 92,609	$ 119,599	$ 4,331	$ 81,900
Unrealized loss on investment securities	(2,775)	(2,775)							(2,145)	(630)
Net loss	(82,659)	(82,659)						(70,141)		(12,518)
Acquisition of non-controlling interest	1,692						(1,528)			3,220
Series A preferred stock cash dividend ($1.00 per share)	(2,487)							(2,487)		
Balance, December 31, 2009	$ 211,349	$ (26,704)	$ 4,979	11,874,138	$ 114	$ (5,954)	$ 91,081	$ 46,971	$ 2,186	$ 71,972
Unrealized loss on foreign investments	(786)								(786)	
Unrealized loss on investment securities		2,186							(2,186)	2,186
Net loss	(106,195)	(106,195)						(94,747)		(11,448)
Acquisition of non-controlling interest	5,657						21,799			(16,142)
Distribution to non-controlling interests	(1,259)									(1,259)
Sale of controlling interest	366						27			339
Repurchase of treasury stock	(379)					(379)				
Series A preferred stock cash dividend ($1.00 per share)	(2,488)						(2,488)			
Balance, December 31, 2010	$ 106,265	$ (130,713)	$ 4,979	11,874,138	$ 114	$ (6,333)	$ 110,419	$ (47,776)	$ (786)	$ 45,648
Net income (loss)	(6,727)	(6,727)						290		(7,017)
	(195)						(145)			(50)

Acquisition of non-controlling interest										
Distribution to non-controlling interests	(808)						(325)			(483)
Sale of controlling interest	(791)						(2,206)			1,415
Repurchase of treasury stock	(62)					(62)				
Conversion of preferred stock into common stock	31		(71)	67,036	1		101			
Series A preferred stock cash dividend ($1.00 per share)	(2,456)						(2,456)			
Balance, December 31, 2011	$ 95,257	$ (137,440)	$ 4,908	11,941,174	$ 115	$ (6,395)	$ 105,388	$ (47,486)	$ (786)	$ 39,513

The accompanying notes are an integral part of these consolidated financial statements.

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AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net loss applicable to common shares	$ (6,727)	$ (106,195)	$ (82,659)
Adjustments to reconcile net loss applicable to common shares to net cash provided by (used in) operating activities:			
(Gain) loss on sale of land	(34,247)	10,103	(11,605)
Depreciation and amortization	24,255	30,460	32,418
Provision on impairment of notes receivable and real estate assets	50,027	61,311	44,578
Amortization of deferred borrowing costs	2,816	4,187	5,676
Earnings from unconsolidated subsidiaries and investees	(80)	(200)	35
Earnings due to non-controlling interest			22,446
Gain on foreign currency translation		(222)	(292)
Gain on sale of income producing properties	(56,907)	(19,306)	(10,106)
(Increase) decrease in assets:			
Accrued interest receivable	(8,663)	(2,440)	1,520
Restricted cash			(271)
Other assets	181	6,375	(13,559)
Prepaid expense	2,321	437	(1,127)
Escrow	21,594	7,990	(3,035)
Earnest money	1,414	821	(1,723)
Rent receivables	7,253	(2,250)	(413)
Increase (decrease) in liabilities:			
Accrued interest payable	2,202	6,758	(116)
Affiliate payables	(1,924)	(8,355)	(2,444)
Other liabilities	20,038	3,387	(2,685)
Net cash provided by (used in) operating activities	23,553	(7,139)	(23,362)
Cash Flow From Investing Activities:			
Proceeds from notes receivables	18,621	20,847	8,000
Originations of notes receivables	(21,921)	(29,455)	
Acquisition of land held for development		(4,937)	(11,844)
Proceeds from sales of income producing properties	183,823	210,411	44,356
Proceeds from sale of land	174,054	59,554	42,029
Proceeds from sale of investment in unconsolidated real estate entities	(9)		
Investment in unconsolidated real estate entities	581	858	16,740
Improvement of land held for development	(2,995)	(4,929)	(13,542)
Improvement of income producing properties	(4,191)	(3,136)	(3,233)
Investment in marketable securities		(1,267)	2,775
Acquisition of income producing properties			(5,971)
Acquisition of non-controlling interest	(195)		
Sale of non-controlling interest		22	
Sale of controlling interest	961		
Construction and development of new properties	(47,317)	(49,894)	(32,457)
Net cash provided by investing activities	301,412	198,074	46,853
Cash Flow From Financing Activities:			
Proceeds from notes payable	156,821	193,499	62,408
Recurring amortization of principal on notes payable	(19,052)	(12,629)	(26,528)
Payments on maturing notes payable	(297,287)	(252,595)	(61,505)
Debt assumption by buyer	(155,893)	(101,851)	
Deferred financing costs	(887)	(5,143)	(4,534)
Stock-secured borrowings	2,291	(328)	8,000
Distributions to non-controlling interests	(808)	(1,259)	
Preferred stock dividends Series A	(2,456)	(2,488)	(2,487)
Repurchase/sale of treasury stock	(62)	(379)	

Issuance of common stock	30		
Conversion of preferred stock into common stock	1		
Net cash used in financing activities	(317,302)	(183,173)	(24,646)
Net increase (decrease) in cash and cash equivalents	7,663	7,762	(1,155)
Cash and cash equivalents, beginning of period	12,649	4,887	6,042
Cash and cash equivalents, end of period	$ 20,312	$ 12,649	$ 4,887
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 67,389	$ 76,223	$ 83,948