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AMERICAN REALTY TRUST INC
Form 10-K405
April 02, 2001

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

FORM 10-K

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

For the Year Ended December 31, 2000

Commission File Number 1-15663

American Realty Investors, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

75-2847135
(I.R.S. Employer
Identification No.)

1800 Valley View Lane,
Suite 300, Dallas, Texas
(Address of Principal Executive Offices)

75234
(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 Common Stock, \$.01 par value	Name of each exchange on which registered New York Stock Exchange
--	--

Securities Registered Pursuant to Section 12(g) of the Act:

NONE

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 at least the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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]

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As of March 16, 2001, the Registrant had 11,829,217 shares of Common Stock outstanding. Of the total shares outstanding 4,837,695 were held by other than those who may be deemed to be affiliates, for an aggregate value of \$62,890,035 based on the closing price on the New York Stock Exchange on March 16, 2001. The basis of this calculation does not constitute a determination by the Registrant that all of such persons or entities are affiliates of the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended.

Documents Incorporated by Reference:

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc.;
Commission File No. 1-14784
Consolidated Financial Statements of Transcontinental Realty Investors, Inc.;
Commission File No. 1-9240

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PART I

ITEM 1. BUSINESS

American Realty Investors, Inc. ("ARI"), a Nevada corporation, is the successor through merger to American Realty Trust, Inc. ("ART"), a Georgia corporation and National Realty, L.P. ("NRLP"), a Delaware partnership.

On November 3, 1999, ART and NRLP jointly announced the agreement of their respective Boards to combine, in a tax-free exchange, under a new company, ARI. Prior to December 31, 1998, ART accounted for its investment in NRLP under the equity method. As of December 31, 1998, upon the election of a wholly-owned subsidiary of ART as general partner of NRLP, ART began consolidation of NRLP's accounts at that date and consolidation of its operations subsequent to that date.

The merger transaction was closed on August 2, 2000. NRLP unitholders, except for ART, received one share of ARI Common Stock for each unit of NRLP held. ART stockholders received .91 shares of ARI Common Stock for each share of ART Common Stock held. Each share of ART Preferred Stock was converted into one share of Preferred Stock of ARI, having substantially the same rights as ART's preferred stock. The ART shares of Common Stock ceased trading on the New York Stock Exchange on August 2, 2000. ARI Common Stock commenced trading on the New York Stock Exchange on August 3, 2000. For financial reporting purposes, the merger is treated as the purchase of NRLP by ART; accordingly, the historical information presented for ARI is that of ART.

Business Plan and Investment Policy

ARI's primary business is investing in equity interests in real estate (including equity securities of real estate-related entities), leases, joint venture development projects and partnerships and, to a lesser extent, financing real estate and real estate activities through investments in mortgage loans, including first, wraparound and junior mortgage loans. Information regarding the real estate and mortgage notes receivable portfolios of ARI is set forth in ITEM 2. "PROPERTIES" and in Schedules III and IV to the Consolidated Financial Statements included at ITEM 8. "CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

ARI, through its wholly owned subsidiary, Pizza World Supreme, Inc. ("PWSI"), operates and franchises pizza parlors featuring pizza delivery, carry-out and dine-in under the trademarks "Me-N-Ed's" and "Slices" in California and Texas. The first Me-N-Ed's pizza parlor opened in 1962. At December 31, 2000, there were 53 Me-N-Ed's pizza parlors in operation, consisting of 46 owned and seven franchised pizza parlors. Two of the owned pizza parlors were in Texas and the remainder were in California.

ARI's businesses are not seasonal. With regard to real estate investments, ARI is seeking both current income and capital appreciation. ARI's plan of operation is to continue, to the extent its liquidity permits, to make equity investments in income producing real estate such as hotels, apartments or commercial properties or equity

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ITEM 1. BUSINESS (Continued)

Business Plan and Investment Policy (Continued)

securities of real estate-related entities. ARI also intends to continue to pursue higher risk, higher reward investments, such as improved and unimproved land where it can obtain financing of substantially all of a property's purchase price. ARI intends to seek selected dispositions of certain of its assets, in particular, selected income producing properties in stabilized markets and certain of its land holdings where the prices obtainable for such assets justify their disposition. ARI has determined that it will no longer actively seek to fund or purchase mortgage loans. However, it may, in selected instances, originate mortgage loans or it may provide purchase money financing in conjunction with a property sale. See ITEM 2. "PROPERTIES" and Schedules III and IV to the Consolidated Financial Statements included in ITEM 8. "CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

ARI's Board of Directors has broad authority under ARI's governing documents to make all types of investments, and may devote available assets 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 of ARI's real estate portfolio will depend largely on the judgment of management as to changing investment opportunities and the level of risk associated with specific investments or types of investments. Management intends to attempt to maintain a real estate portfolio diversified by location and type of property.

In addition to its equity investments in real estate, ARI has also invested in private and open market purchases of the equity securities of Income Opportunity Realty Investors, Inc. ("IORI") and Transcontinental Realty Investors, Inc. ("TCI"), both affiliates of ARI. See ITEM 2. "PROPERTIES--Investments in Real Estate Companies and Real Estate Partnerships."

Management of the Company

Although the Board of Directors is directly responsible for managing the affairs of ARI and for setting the policies which guide it, its day-to-day operations are performed by Basic Capital Management, Inc. ("BCM"), a contractual advisor under the supervision of the Board. The duties of BCM include, among other things, locating, investigating, evaluating and recommending real estate and mortgage note investment and sales opportunities, as well as financing and refinancing sources. BCM also serves as a consultant in connection with ARI's business plan and investment policy decisions made by the Board. BCM is a company owned by a trust for the benefit of the children of Gene E. Phillips. Mr. Phillips serves as a representative of his children's trust, which owns BCM and, in such capacity had, until June 2000, substantial contact with the management of BCM and input with respect to its performance of

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ITEM 1. BUSINESS (Continued)

Management of the Company (Continued)

advisory services to ARI. As of March 16, 2001, BCM owned 6,218,458 shares of ARI's Common Stock, approximately 52.6% of the shares then outstanding. BCM is

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more fully described in ITEM 10. "DIRECTORS, EXECUTIVE OFFICERS AND ADVISOR OF THE REGISTRANT--The Advisor." BCM has been providing advisory services to ARI since February 6, 1989. BCM also serves as advisor to IORI and TCI. The officers of ARI, are also officers of IORI, TCI and BCM. Karl L. Blaha, President and a Director of ARI, also serves as President of IORI, TCI and BCM and Mark W. Branigan, Executive Vice President and Chief Financial Officer and a Director of ARI also serves as Executive Vice President and Chief Financial Officer of IORI, TCI and BCM.

Affiliates of BCM have provided property management services to ARI. Currently, Triad Realty Services, Ltd. ("Triad"), an affiliate, provides such property management services. Triad subcontracts with other entities for property-level management services. The general partner of Triad is BCM. The limited partners of Triad are Gene E. Phillips and GS Realty Services, Inc. ("GS Realty"), a related party. Triad subcontracts the property-level management and leasing of 14 of ARI's commercial properties (shopping centers, office buildings and a merchandise mart) and eight of its hotels to Regis Realty, Inc. ("Regis"), a related party, which is a company owned by GS Realty. Regis is entitled to receive property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. See ITEM 10. "DIRECTORS, EXECUTIVE OFFICERS AND ADVISOR TO THE REGISTRANT--The Advisor."

Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of the Advisory Agreement as discussed in ITEM 10. "DIRECTORS, EXECUTIVE OFFICERS AND ADVISOR OF THE REGISTRANT--The Advisor."

ARI has no employees itself, but PWSI has 867 employees. Employees of BCM render services to ARI.

Competition

Real Estate. The real estate business is highly competitive and ARI competes with numerous entities engaged in real estate activities (including certain entities described in ITEM 13. "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS--Related Party Transactions"), some of which have greater financial resources than ARI. Management believes that success against such competition is dependent upon the geographic location of the property, the performance of property-level managers in areas such as marketing, collections and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors with respect to commercial properties are the ease of access to the property, the adequacy of related facilities, such as parking, and sensitivity to market conditions in setting rent levels. With respect to apartments,

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ITEM 1. BUSINESS (Continued)

Competition (Continued)

competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the tenants. With respect to hotels, competition is also based upon market served, i.e., transient, commercial or group users. Management believes that beyond general economic circumstances and trends, the rate at which properties are renovated or the rate new properties are developed in the vicinity of each of ARI's properties, in particular its improved and unimproved land, are also competitive factors.

To the extent that ARI seeks to sell any of its properties, the sales prices for the properties may be affected by competition from other real estate entities

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and financial institutions, also attempting to sell properties in areas where ARI's properties are located, as well as aggressive buyers attempting to dominate or penetrate a particular market.

As described above and in ITEM 13. "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS--Related Party Transactions," the officers of ARI also serve as officers of IORI and TCI, both of which are also advised by BCM, and both of which have business objectives similar to ARI's. ARI's officers and advisor owe fiduciary duties to both IORI and TCI as well as to ARI under applicable law. In determining whether a particular investment opportunity will be allocated to ARI, IORI or TCI, management and the advisor consider the respective investment objectives of each and the appropriateness of a particular investment in light of the existing real estate and mortgage notes receivable portfolios of each. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity will 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 or some of the entities.

In addition, also as described in ITEM 13. "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS," ARI also competes with entities which are affiliates of BCM having similar investment objectives in the purchasing, selling, leasing and financing real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, BCM has informed ARI that it intends to continue to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

ARI is subject to all the risks incident to ownership and financing of real estate and interests therein, many of which relate to the general illiquidity of real estate investments. These risks include, but are not limited to, changes in general or local economic conditions, changes in interest rates and availability of permanent mortgage financing which may render the purchase, sale or refinancing of a property difficult or unattractive and which may make debt service burdensome; changes in real estate and zoning laws, increases in real estate taxes, federal or local economic or rent controls, floods, earth quakes, hurricanes and other acts of God and other factors beyond the control of management or the

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ITEM 1. BUSINESS (Continued)

Competition (Continued)

advisor. The illiquidity of real estate investments may also impair the ability of management to respond promptly to changing circumstances. Management believes that such risks are partially mitigated by the diversification by geographic region and property type of ARI's real estate and mortgage notes receivable portfolios. However, to the extent that property sales, new property investments, in particular improved and unimproved land, or mortgage lending are concentrated in any particular region the advantages of geographic diversification are mitigated.

Virtually all of ARI's real estate, equity security holdings in IORI and TCI and its trading portfolio of equity securities are held subject to secured indebtedness. Such borrowings increase the risk of loss because they represent a prior claim on ARI's assets and require fixed payments regardless of profitability. In the event of default, the lender may foreclose on the assets securing such indebtedness, and ARI could lose its investment in the pledged assets.

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Pizza Parlors. The pizza parlor business is highly competitive and is affected by changes in consumer tastes and eating habits, as well as national, regional and local economic conditions, and demographic trends. The performance of an individual pizza parlor can be affected by changes in traffic patterns, demographics, and the type, number and location of competing restaurants.

The quick-service restaurant industry is extremely competitive with respect to price, service, location and food quality. PWSI and its franchisees compete with a variety of other restaurants in the quick-service restaurant industry, including those that offer dine-in, carry-out and delivery services. These competitors include national and regional chains, franchisees of other restaurant chains and local owner-operated restaurants. Some of these competitors have been in existence longer and have an established market presence in certain geographic regions, and some have substantially greater financial, marketing and other resources than PWSI and its franchisees. PWSI competes for qualified franchisees with many other restaurant concepts, including national and regional restaurant chains.

PWSI's success is largely dependent upon the efforts of its management and other key personnel. The loss of the service of one or more members of management could have an adverse effect on PWSI's operations. Significant transitions in management involve important risks, including potential loss of key personnel, difficulties in implementing changes to operational strategies and maintaining relationships with franchisees.

At December 31, 2000, PWSI owned and operated 46 and franchised seven pizza parlors. The results achieved by PWSI's relatively small pizza parlor base may not be indicative of the results of a larger number of pizza parlors in a more geographically dispersed area. Because of PWSI's relatively small pizza parlor base, an unsuccessful pizza parlor has a more significant effect on PWSI's results of operations than would be the case in a company owning more pizza parlors.

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ITEM 1. BUSINESS (Continued)

Competition (Continued)

PWSI's existing pizza parlors, both owned and franchised, are located in California or Texas. At December 31, 2000, there were 51 pizza parlors in California and two in Texas. Accordingly, PWSI's results of operations may be affected by economic or other conditions in those regions. Also, given PWSI's present geographic concentration, publicity relating to PWSI's pizza parlors could have a more pronounced effect on PWSI's overall sales than might be the case if PWSI's pizza parlors were geographically dispersed.

All of PWSI's owned pizza parlors are operated on premises leased from third parties. Most of the pizza parlor leases provide for a minimum annual rent and additional rental payments if sales volumes exceed specified amounts. There can be no assurance that PWSI will be able to renew leases upon expiration or that the lease terms upon renewal will be as favorable as the current lease terms. In 2000, PWSI added one new franchised store and no company-owned stores, it sold one company-owned store and closed an additional three company-owned stores. In 2001, PWSI plans to expand its franchised stores and to construct and open four new company-owned stores.

ITEM 2. PROPERTIES

ARI's principal offices are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 and are in the opinion of management, suitable and adequate for

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ARI's present operations.

Details of ARI's real estate and mortgage notes receivable portfolios at December 31, 2000, are set forth in Schedules III and IV, respectively, to the Consolidated Financial Statements included at ITEM 8. "CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA." The discussions set forth below under the headings "Real Estate" and "Mortgage Loans" provide certain summary information concerning ARI's real estate and mortgage notes receivable portfolios.

At December 31, 2000, no single asset accounted for 10% or more of total assets. At December 31, 2000, 83% of ARI's assets consisted of real estate, 2% consisted of notes and interest receivable, 6% consisted of investments in equity investees, including IORI and TCI, and 3% consisted of pizza parlor equipment and related goodwill. The remaining 6% of ARI's assets were cash, cash equivalents, marketable equity securities and other assets. The percentage of assets invested in any one category is subject to change and no assurance can be given that the composition of ARI's assets in the future will approximate the percentages listed above.

ARI's real estate is geographically diverse. At December 31, 2000, ARI's real estate was located in all geographic regions of the continental United States, other than the Northeast region, as shown more specifically in the table under "Real Estate" below. ARI also holds mortgage notes receivable secured by real estate located in the

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ITEM 2. PROPERTIES (Continued)

Southeast, Southwest, Northeast and Midwest regions of the continental United States, as shown more specifically in the table under "Mortgage Loans" below.

Geographic Regions

Northeast region comprised of the states of Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont, and the District of Columbia. ARI has no properties in this region.

Southeast region comprised of the states of Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee and Virginia. ARI has 39 apartments, 4 commercial properties and 2 hotels in this region.

Southwest region comprised of the states of Arizona, Arkansas, Louisiana, New Mexico, Oklahoma and Texas. ARI has 14 apartments and 7 commercial properties in this region.

Midwest region comprised of the states of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, West Virginia and Wisconsin. ARI has 12 apartments, 2 commercial properties and 1 hotel in this region.

Mountain region comprised of the states of Colorado, Idaho, Montana, Nevada, Utah and Wyoming. ARI has 1 apartment, 2 commercial properties and 1 hotel in this region.

Pacific region comprised of the states of Alaska, California, Hawaii, Oregon and Washington. ARI has 2 commercial properties and 4 hotels in this region.

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* Includes one commercial property in Alaska.

Excluded from above are 59 parcels of improved and unimproved land, a hotel in Sofia, Bulgaria and a single family residence, as described below.

Real Estate

At December 31, 2000, 89% of ARI's assets were invested in real estate and the equity securities of IORI and TCI. ARI invests in real estate located throughout the continental United States, either on a leveraged or nonleveraged basis. ARI's real estate portfolio consists of properties held for investment, investments in partnerships, properties held for sale and investments in equity securities of IORI and TCI.

Types of Real Estate Investments. ARI's real estate consists of apartments, commercial properties (office buildings, shopping centers and a merchandise mart), hotels and improved and unimproved land. In

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ITEM 2. PROPERTIES (Continued)

Real Estate (Continued)

selecting real estate for investment, the location, age and type of property, gross rents, lease terms, financial and business standing of tenants, operating expenses, fixed charges, land values and physical condition are among the factors considered. Properties may be purchased subject to, or existing debt may be assumed and properties may be mortgaged, pledged or otherwise collateralized to obtain financing. The Board of Directors may alter the types of and criteria for selecting new real estate investments and for obtaining financing without a vote of stockholders.

Although ARI has typically invested in developed real estate, it may also invest in new construction or development either directly or in partnership with nonaffiliated parties or affiliates (subject to approval by the Board of Directors). To the extent that it invests in construction and development projects, such as the Lake Shore Villas Apartments, ARI is subject to business risks, such as cost overruns and construction delays, associated with such higher risk projects. In 2000, ARI completed construction of Lake Shore Villas, a 312 unit apartment in Harris County, Texas.

In the opinion of management, the properties owned by ARI are adequately covered by insurance.

The following table sets forth the percentages, by property type and geographic region, of owned real estate (excluding 59 parcels of improved and unimproved land, a hotel in Sofia, Bulgaria and a single family residence, described below) at December 31, 2000.

Region	Apartments	Commercial Properties	Hotels
-----	-----	-----	-----
Midwest.....	21%	35%	14%
Mountain.....	3	2	11
Pacific.....	--	18	46
Southeast.....	43	20	29

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Southwest.....	33	25	--
	---	---	---
	100%	100%	100%
	===	===	===

The foregoing table is based solely on the number of apartment units, amount of commercial square footage and number of hotel rooms owned and does not reflect the value of ARI's investment in each region. See Schedule III to the Consolidated Financial Statements included in ITEM 8. "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" for a detailed description of owned real estate.

Excluded from the table above, are a 145 room hotel in Sofia, Bulgaria, a single family residence in Dallas, Texas and 59 parcels of improved and unimproved land consisting of: a 46.1 acre land parcel in Las Colinas, Texas; seven parcels of land in Dallas County, Texas, totaling 402.2 acres; four parcels of land in Irving, Texas, totaling 278.5 acres; an 82.4 acre land parcel in Oceanside, California; five parcels of land in Tarrant County, Texas, totaling 770.6 acres; two parcels of

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ITEM 2. PROPERTIES (Continued)

Real Estate (Continued)

land in Harris County, Texas, totaling 251.0 acres; five parcels of land in Collin County, Texas, totaling 234.6 acres; 12 parcels of land in Farmers Branch, Texas, totaling 145.3 acres; three parcels of land in Plano, Texas, totaling 87.8 acres; a 1,070.9 acre land parcel in Austin, Texas; three parcels of land in Palm Desert, California, totaling 825.6 acres; a 63.3 acre land parcel in Travis County, Texas; a 193.7 acre parcel of land in Houston, Texas; a 54.2 acre land parcel in Fort Worth, Texas; a 137.0 acre land parcel in Lewisville, Texas; a 7.6 acre land parcel in Carrollton, Texas; a 19.5 acre land parcel in Santa Clarita, California; a 138.7 acre land parcel in Nashville, Tennessee; three parcels of land in Riverside, California, totaling 1,677.8 acres; and five additional land parcels totaling approximately 84.0 acres. See Schedule III to the Consolidated Financial Statements included at ITEM 8. "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" for a detailed description of ARI's real estate portfolio.

A summary of the activity in the owned real estate portfolio during 2000 is as follows:

Owned properties at January 1, 2000.....	171
Properties purchased.....	4
Property constructed.....	1
Property obtained in exchange for a portion of a land parcel	1
Property split into two land parcels.....	1
Properties sold (excluding partial sales).....	(26)

Owned properties at December 31, 2000.....	152
	===

Properties Held for Investment. Set forth below are the properties held for investment and the monthly rental rate for apartments and the average annual rental rate for commercial properties and the average daily room rate and room revenue divided by total available rooms for hotels and occupancy at December 31, 2000, 1999 and 1998 for apartments and commercial properties and average

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occupancy during 2000, 1999 and 1998 for hotels:

Property	Location	Units/Square Footage	Rent Per Square Foot			Occu
			2000	1999	1998	
Apartments						
Arlington Place.....	Pasadena, TX	230 Units/205,476 Sq. Ft.	\$.68	\$.65	\$.64	93
Ashford.....	Tampa FL	56 Units/42,196 Sq. Ft.	.77	.76	.74	95
Bay Anchor.....	Panama City, FL	12 Units/10,700 Sq. Ft.	.53	.50	.54	100
Bent Tree.....	Addison, TX	292 Units/244,480 Sq. Ft.	.74	.71	.73	96
Blackhawk.....	Ft. Wayne, IN	209 Units/190,520 Sq. Ft.	.57	.56	.57	94
Bridgestone.....	Friendswood, TX	76 Units/65,519 Sq. Ft.	.68	.68	.67	99
Carriage Park.....	Tampa, FL	46 Units/36,750 Sq. Ft.	.82	.79	.80	91
Chalet I.....	Topeka, KS	162 Units/131,791 Sq. Ft.	.66	.64	.65	90
Chalet II.....	Topeka, KS	72 Units/49,164 Sq. Ft.	.71	.68	.70	92
Chateau.....	Bellevue, NE	115 Units/99,220 Sq. Ft.	.68	.69	.71	97
Chateau Bayou.....	Ocean Springs, MS	122 Units/105,536 Sq. Ft.	.65	.64	.71	89
Club Mar.....	Sarasota, FL	248 Units/230,180 Sq. Ft.	.67	.65	.65	99
Confederate Point....	Jacksonville, FL	206 Units/277,860 Sq. Ft.	.59	.58	.58	96
Conradi House.....	Tallahassee, FL	98 Units/49,900 Sq. Ft.	.71	.67	.71	98
Covered Bridge.....	Gainesville, FL	176 Units/171,416 Sq. Ft.	.66	.66	.64	99
Crossing Church.....	Tampa, FL	52 Units/40,024 Sq. Ft.	.83	.73	.73	96

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ITEM 2. PROPERTIES (Continued)

Real Estate (Continued)

Property	Location	Units/square Footage	Rent Per Square Foot		
			2000	1999	1998
Apartments - Continued					
Daluce.....	Tallahassee, FL	112 Units/95,432 Sq. Ft.	\$.61	\$.59	\$.59
Falcon House.....	Ft. Walton, FL	82 Units/71,220 Sq. Ft.	.63	.62	.62
Foxwood.....	Memphis, TN	220 Units/212,000 Sq. Ft.	.55	.55	.57
Georgetown.....	Panama City, FL	44 Units/36,160 Sq. Ft.	.62	.60	.61
Governor Square.....	Tallahassee, FL	168 Units/146,550 Sq. Ft.	.63	.61	.60
Grand Lagoon.....	Panama City, FL	54 Units/47,460 Sq. Ft.	.74	.71	.73
Greenbriar.....	Tallahassee, FL	50 Units/36,600 Sq. Ft.	.74	.71	.70
Kimberly Woods.....	Tucson, AZ	279 Units/249,678 Sq. Ft.	.59	.57	.59
La Mirada.....	Jacksonville, FL	320 Units/341,400 Sq. Ft.	.54	.54	.52
Lake Chateau.....	Thomasville, GA	98 Units/65,800 Sq. Ft.	.57	.55	.56
Lake Shore Villas.....	Harris County, TX	312 Units/259,176 Sq. Ft.	.89	*	*
Landings/marina.....	Pensacola, FL	52 Units/34,464 Sq. Ft.	.69	.68	.67
Lee Hills.....	Tallahassee, FL	16 Units/14,720 Sq. Ft.	.56	.52	.54
Mallard Lake.....	Greensboro, NC	336 Units/295,560 Sq. Ft.	.63	.62	.64
Mediterranean Villas....	San Antonio, TX	140 Units/158,960 Sq. Ft.	.50	.50	.49
Morning Star.....	Tallahassee, FL	82 Units/41,000 Sq. Ft.	.81	.77	.76
Nora Pines.....	Indianapolis, IN	254 Units/254,676 Sq. Ft.	.61	.60	.60
Northside Villas.....	Tallahassee, FL	81 Units/134,000 Sq. Ft.	.61	.58	.57
Oak Hill.....	Tallahassee, FL	92 Units/81,240 Sq. Ft.	.62	.60	.60

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Oak Tree.....	Grandview, MO	189 Units/160,591 Sq. Ft.	.62	.59	.60
Park Avenue.....	Tallahassee, FL	121 Units/78,979 Sq. Ft.	.83	.81	.79
Pheasant Ridge.....	Bellevue, NE	264 Units/243,960 Sq. Ft.	.61	.60	.62
Pinecrest.....	Tallahassee, FL	48 Units/46,400 Sq. Ft.	.59	.57	.57
Place One.....	Tulsa, OK	407 Units/302,263 Sq. Ft.	.59	.59	.42
Quail Point.....	Huntsville, AL	184 Units/202,602 Sq. Ft.	.46	.45	.44
Regency.....	Lincoln, NE	106 Units/111,700 Sq. Ft.	.62	.64	.67
Regency.....	Tampa, FL	78 Units/55,810 Sq. Ft.	.87	.82	.81
Rockborough.....	Denver, CO	345 Units/249,723 Sq. Ft.	.91	.82	.80
Rolling Hills.....	Tallahassee, FL	134 Units/115,730 Sq. Ft.	.63	.61	.61
Seville.....	Tallahassee, FL	62 Units/63,360 Sq. Ft.	.57	.56	.56
Shadowood.....	Addison, TX	184 Units/134,616 Sq. Ft.	.79	.76	.76
Stonebridge.....	Florissant, MO	100 Units/140,576 Sq. Ft.	.47	.46	.46
Stonegate.....	Tallahassee, FL	83 Units/34,900 Sq. Ft.	.80	.77	.77
Sun Hollow.....	El Paso, TX	216 Units/156,000 Sq. Ft.	.65	.65	.66
Sunset.....	Odessa, TX	240 Units/160,400 Sq. Ft.	.41	.42	.46
Timber Creek.....	Omaha, NE	180 Units/162,252 Sq. Ft.	.66	.70	.70
Valley Hi.....	Tallahassee, FL	54 Units/27,800 Sq. Ft.	.80	.76	.71
Villa Del Mar.....	Wichita, KS	162 Units/128,004 Sq. Ft.	.56	.59	.60
Villager.....	Ft. Walton, FL	33 Units/22,840 Sq. Ft.	.73	.70	.71
Villas.....	Plano, TX	208 Units/156,632 Sq. Ft.	.85	.81	.80
Waters Edge Iii.....	Gulfport, MS	238 Units/212,216 Sq. Ft.	.62	.61	.59
Westwood.....	Mary Ester, FL	120 Units/93,000 Sq. Ft.	.63	.67	.67
Westwood Parc.....	Tallahassee, FL	94 Units/55,950 Sq. Ft.	.74	.70	.69
White Pines.....	Tallahassee, FL	85 Units/17,000 Sq. Ft.	.53	.74	.74
Whispering Pines.....	Topeka, KS	320 Units/299,264 Sq. Ft.	.79	.52	.51
Windsor Tower.....	Ocala, FL	64 Units/66,000 Sq. Ft.	.50	.46	.45
Woodhollow.....	San Antonio, TX	546 Units/348,692 Sq. Ft.	.65	.64	.64
Woodlake.....	Carrollton, TX	256 Units/210,208 Sq. Ft.	.78	.77	.77
Woodsong Ii.....	Smyrna, GA	190 Units/207,460 Sq. Ft.	.60	.57	.56
Woodstock.....	Dallas, TX	320 Units/222,112 Sq. Ft.	.68	.65	.63
Office Buildings					
56 Expressway.....	Oklahoma City, OK	54,649 Sq. Ft.	11.23	7.92	9.53
Centura.....	Farmers Branch, TX	410,901 Sq. Ft.	25.01	*	*
Cooley Building.....	Farmers Branch, TX	27,000 Sq. Ft.	9.25	9.00	*
Encino Executive Plaza..	Encino, CA	177,211 Sq. Ft.	25.17	16.85	*
Executive Court.....	Memphis, TN	41,840 Sq. Ft.	11.04	13.22	10.64
Melrose Business Park...	Oklahoma City, OK	124,200 Sq. Ft.	3.22	2.73	3.03
One Hickory Centre.....	Farmers Branch, TX	102,615 Sq. Ft.	19.90	*	*
Rosedale Towers.....	Minneapolis, MN	84,798 Sq. Ft.	16.84	18.89	15.48

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ITEM 2. PROPERTIES (CONTINUED)

Real Estate (Continued)

Property	Location	Square Footage	Rent Per Square Foot			
			2000	1999	1998	20
Office Buildings - Continued						
Two Hickory Centre.....	Farmers Branch, TX	167,981 Sq. Ft.	\$21.07	\$18.71	\$	*
University Square.....	Anchorage, AK	22,260 Sq. Ft.	14.07	13.26	13.83	

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Shopping Centers						
Collection.....	Denver, CO	267,812 Sq. Ft.	9.83	11.19	8.92	
Cross County Mall.....	Mattoon, IL	304,575 Sq. Ft.	5.10	6.05	4.99	
Cullman.....	Cullman, AL	92,466 Sq. Ft.	3.27	3.98	3.91	
Oaktree Village.....	Lubbock, TX	45,623 Sq. Ft.	6.64	9.29	8.27	
Regency Point.....	Jacksonville, FL	67,410 Sq. Ft.	12.58	12.58	12.36	
Westwood.....	Tallahassee, FL	149,855 Sq. Ft.	6.74	6.68	6.77	
Merchandise Mart						
Denver Mart.....	Denver, CO	509,008 Sq. Ft.	10.98	10.34	11.35	
Single Family Residence						
Tavel Circle.....	Dallas, TX	2,271 Sq. Ft.	--	--	--	

Property	Location	Rooms	Average Room Rate			Occupancy	
			2000	1999	1998	2000	1999
Hotels							
Best Western.....	Virginia Beach, VA	110 Rooms	\$103.94	\$94.15	\$92.65	60	62
Grand Hotel Sofia.....	Sofia, Bulgaria	145 Rooms	*	*	*	*	*
Holiday Inn.....	Kansas City, MO	196 Rooms	70.67	64.09	65.38	72	81
Piccadilly Airport.....	Fresno, CA	185 Rooms	70.22	69.52	68.53	61	59
Piccadilly Chateau.....	Fresno, CA	78 Rooms	56.38	57.09	55.18	58	56
Piccadilly Shaw.....	Fresno, CA	194 Rooms	70.96	71.80	70.63	69	63
Piccadilly University.....	Fresno, CA	190 Rooms	67.11	68.90	67.42	55	49
Quality Inn.....	Denver, CO	161 Rooms	52.83	55.01	54.07	69	63
Williamsburg Hospitality House.....	Williamsburg, VA	296 Rooms	93.28	88.76	85.87	60	58

* Property was purchased or constructed in 1999 or 2000.

Occupancy presented above and throughout this ITEM 2. is without reference to whether leases in effect are at, below or above market rates.

In 2000, ARI purchased the following properties:

Property	Location	Acres/rooms	Purchase	Net Cash	Debt	Int
			Price	Paid	Incurred	
(dollars in thousands)						
Land						
Clark	Farmers Branch, TX	3.25 Acres	\$ 2,971	\$ --	\$ --	/(1)/
Kelly	Collin County, TX	.75 Acres	130	20	100	/(2)/
Mastenbrook	Collin County, TX	157.86 Acres	3,200	704	2,400	/(2)/
Sladek	Travis County, TX	63.3 Acres	712	316	427	/(2)/
Hotel						
Grand Hotel Sofia/(3)/	Sofia, Bulgaria	145 Rooms	17,975	17,975		--

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ITEM 2. PROPERTIES (Continued)

Real Estate (Continued)

- (1) Exchanged for 19.74 acres of Frisco Bridges land.
- (2) Seller financing.
- (3) ARI purchased 100% of the outstanding stock of World Trade Company, owner of an 80% interest in the hotel, from One Realco Corporation, an affiliate, for \$18.0 million in cash.
- (4) Property sold in September 2000.

In 2000, ARI sold the following properties:

Property	Location	Units/ Sq.ft./acres	Sales Price	Net Cash Received	Debt Discharged	Gain (Loss) On Sale
(dollars in thousands)						
Apartments						
Candlelight Square	Lenexa, KS	119 Units	\$ 4,800	\$1,289	\$ 2,832	\$ 3
Fair Oaks	Eules, TX	208 Units	6,850	609	5,711	3
Four Seasons	Denver, CO	384 Units	16,600	6,543	9,220	(1) 8
Hidden Valley	Grand Rapids, MI	176 Units	10,900	2,271	8,000	(1) 8
Pines	Little Rock, AR	257 Units	4,650	1,281	3,063	2
Sherwood Glen	Urbandale, IA	180 Units	6,250	1,244	4,626	(1) 4
Summerwind	Reseda, CA	172 Units	9,000	3,082	5,568	(1) 6
Windtree	Reseda, CA	159 Units	8,350	2,911	5,063	(1) 6
Whispering Pines	Canoga Park, CA	102 Units	5,300	1,597	3,437	(1) 3
Shopping Center						
Harbor Plaza	Aurora, CO	45,863 Sq.Ft.	4,132	1,868	1,732	2
Katella Plaza	Orange, CA	62,290 Sq.Ft.	1,814	283	1,188	
Preston Square	Dallas, TX	35,508 Sq.Ft.	5,820	2,761	2,576	2
Office Building						
Marina Playa	Santa Clara, CA	124,205 Sq.Ft.	25,750	6,082	7,766	17
Land						
Duchesne	Duchesne, UT	420 Acres	43	42	--	
Frisco Bridges	Collin County, TX	15.00 Acres	2,675	706	2,000	
Frisco Bridges	Collin County, TX	19.74 Acres	2,971	--	--	(2)
Frisco Bridges	Collin County, TX	24.3 Acres	4,194	(435)	4,000	
Frisco Bridges	Collin County, TX	127.4 Acres	27,500	7,411	18,570	6
Katy	Harris County, TX	0.02 Acres	2	2	--	
Keller	Tarrant County, TX	749.1 Acres	10,000	3,892	4,500	3
Mason/Goodrich	Houston, TX	1.1 Acres	129	--	116	
Mason/Goodrich	Houston, TX	12.8 Acres	2,536	--	1,803	1
Mason/Goodrich	Houston, TX	6.8 Acres	1,198	114	991	
Mason/Goodrich	Houston, TX	20.5 Acres	3,560	497	1,308	
Mastenbrook	Collin County, TX	157.9 Acres	4,445	1,890	2,275	
McKinney Corners II	Collin County, TX	14.6 Acres	500	(599)	1,050	
McKinney Corners I, II, III, IV, V	Collin County, TX	82.0 Acres	9,150	613	8,123	1
Monterrey	Riverside, CA	20.67 Acres	4,300	189	4,000	2
Nashville	Nashville, TN	2.6 Acres	405	--	345	
Nashville	Nashville, TN	1.31 Acres	250	43	251	
Nashville	Nashville, TN	1.78 Acres	306	21	250	

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Nashville	Nashville, TN	3.0 Acres	523	19	450	
Pantex	Collin County, TX	182.5 Acres	8,160	2,373	4,546	(1)
Parkfield	Denver, CO	2.6 Acres	615	(1)	584	
Parkfield	Denver, CO	326.8 Acres	13,164	7,969	3,279	3
Pioneer Crossing	Austin, TX	377.15 Acres	5,700	4,983	--	
Plano Parkway	Plano, TX	4.79 Acres	543	87	400	
Rasor	Plano, TX	43.01 Acres	1,850	--	1,604	
Rasor	Plano, TX	5.4 Acres	915	--	915	
Rasor	Plano, TX	41.1 Acres	3,779	3,587	--	1
Rowlett Creek	Collin County, TX	80.4 Acres	2,262	919	1,173	
Salmon River	Salmon River, ID	3.0 Acres	45	44	--	

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ITEM 2. PROPERTIES (Continued)

Real Estate (Continued)

Property	Location	Units/ Sq.ft./acres	Sales Price	Net Cash Received	Debt Discharged	Gain (Loss) On Sale
(dollars in thousands)						
Land - Continued						
Valley Ranch	Irving, TX	22.4 Acres	\$1,455	\$ --	\$1,375	\$ (585)
Vann Cattle	Collin County, TX	126.6 Acres	3,564	1,872	1,471	1,257
Vista Business	Travis County, TX	5.4 Acres	620	14	577	173
Vista Business	Travis County, TX	36.43 Acres	3,015	1,378	1,368	(51)
Wakefield	Collin County, TX	70.3 Acres	1,981	1,239	612	478

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- (1) Debt assumed by purchaser.
(2) Exchanged for 3.25 acres of Clark land.

In 2000, ARI financed/refinanced or obtained second mortgage financing on the following:

Property	Location	Acres/ Units/sq.ft.	Debt Incurred	Debt Discharged	Net Cash Received
(dollars in thousands)					
Apartments					
Bent Tree	Addison, TX	292 Units	\$ 8,900	\$ 6,685	\$ 5,900
Chateau Bayou	Ocean Springs, MS	122 Units	1,007	--	900
Confederate Point	Jacksonville, FL	206 Units	7,440	5,879	1,000
Rockborough	Denver, CO	345 Units	2,222	--	1,900
Waters Edge	Gulfport, MS	238 Units	7,532	3,993	3,400
Whispering Pines	Topeka, KS	320 Units	7,530	6,829	3,400
Office Buildings					
Centura Tower	Farmers Branch, TX	410,910 Sq.Ft.	15,000	--	14,600

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Land

Centura, Clark and Woolley	Farmers Branch, TX	10.08 Acres	7,150	--	6,9
Frisco Bridges	Collin County, TX	127.41 Acres	18,000	11,900	6,1
Frisco Bridges	Collin County, TX	62.84 Acres	7,800	4,985	2,4
Katy	Harris County, TX	130.6 Acres	4,250	4,042	
Mason/Goodrich	Houston, TX	235.00 Acres	2,250	--	1,9
Nashville	Nashville, TN	144.82 Acres	10,000	2,034	7,0
Pioneer Crossing	Austin, TX	599.78 Acres	12,500	12,021	(4
Keller	Fort Worth, TX	30.13 Acres	8,000 / (3) /	--	7,7
Lacy Longhorn	Farmers Branch, TX	17.12 Acres	-- / (3) /	--	
McKinney Corners	McKinney, TX	10.98 Acres	-- / (3) /	--	
Thompson	Farmers Branch, TX	3.99 Acres	-- / (3) /	--	
Tomlin	Farmers Branch, TX	9.00 Acres	-- / (3) /	--	
Tree Farm	Dallas, TX	10.36 Acres	-- / (3) /	--	

- (1) Net of release and prepayment fees.
- (2) Variable interest rate.
- (3) Single note, with all properties as collateral.
- (4) Property sold in July 2000.
- (5) Debt maturity date extended to July 2001.

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ITEM 2. PROPERTIES (Continued)

Real Estate (Continued)

Properties Held for Sale. Set forth below are the properties held for sale, consisting of improved and unimproved land:

Property	Location	Acres
Bonneau.....	Dallas County, TX	8.4
Centura Holdings.....	Farmers Branch, TX	6.4
Chase Oaks.....	Plano, TX	29.0
Clark.....	Farmers Branch, TX	3.3
Croslin.....	Dallas County, TX	.8
Dalho.....	Farmers Branch, TX	3.4
Desert Wells.....	Palm Desert, CA	420.0
Eldorado Parkway.....	Collin County, TX	8.5
Frisco Bridges.....	Collin County, TX	46.8
FRWM Cummings.....	Farmers Branch, TX	6.5
Hollywood Casino.....	Farmers Branch, TX	51.7
HSM.....	Farmers Branch, TX	6.2
Jeffries Ranch.....	Oceanside, CA	82.4
JHL Connell.....	Carrollton, TX	7.6
Katrina.....	Palm Desert, CA	333.6
Katy Road.....	Harris County, TX	130.6
Keller.....	Tarrant County, TX	30.9
Kelly.....	Collin County, TX	.8
Lacy Longhorn.....	Farmers Branch, TX	17.1
Las Colinas I.....	Las Colinas, TX	46.1
Leone.....	Irving, TX	8.2
Marine Creek.....	Fort Worth, TX	54.2
Mason/Goodrich.....	Houston, TX	193.7
Mastenbrook.....	Collin County, TX	157.9

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McKinney Corners II.....	Collin County, TX	20.6
Mendoza.....	Dallas County, TX	.4
Messick.....	Palm Desert, CA	72.0
Monterrey.....	Riverside, CA	65.0
Nashville.....	Nashville, TN	138.7
Pioneer Crossing.....	Austin, TX	1,070.9
Plano Parkway.....	Plano, TX	23.3
Rasor.....	Plano, TX	35.5
Santa Clarita.....	Santa Clarita, CA	19.5
Scoggins.....	Tarrant County, TX	232.8
Scout.....	Tarrant County, TX	472.5
Sladek.....	Travis County, TX	63.3
Stagliano.....	Farmers Branch, TX	3.2
Thompson.....	Farmers Branch, TX	4.0
Thompson II.....	Dallas County, TX	3.5
Tomlin.....	Farmers Branch, TX	9.2
Tree Farm--LBJ.....	Dallas County, TX	10.4
Valley Ranch.....	Irving, TX	245.4
Valley Ranch III.....	Irving, TX	12.5
Valley Ranch IV.....	Irving, TX	12.4
Valley View 34.....	Farmers Branch, TX	33.9

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ITEM 2. PROPERTIES (Continued)

Real Estate (Continued)

Property	Location	Acres
Valwood.....	Dallas County, TX	246.1
Varner Road.....	Riverside, CA	127.8
Vineyards.....	Tarrant County, TX	15.8
Vineyards II.....	Tarrant County, TX	18.6
Vista Ridge.....	Lewisville, TX	137.0
Walker.....	Dallas County, TX	132.6
Willow Springs.....	Riverside, CA	1,485.0
Woolley.....	Farmers Branch, TX	.4
Yorktown.....	Harris County, TX	120.4
Other (5 properties).....	Various	84.0

Mortgage Loans

In addition to real estate, a portion of ARI's assets are invested in mortgage notes receivable, secured by income-producing real estate, unimproved land and partnership interests. Management expects that the percentage of ARI's assets invested in mortgage loans will continue to decline, as ARI will no longer seek to fund or acquire new mortgage loans. However, ARI may, in selected instances, originate mortgage loans or it may provide purchase money financing in conjunction with a property sale. Management intends to service and hold for investment the mortgage notes currently in the portfolio. Mortgage notes receivable consist of first, wraparound and junior mortgage loans.

Types of Mortgage Activity. In addition to originating its own mortgage loans, ARI had previously acquired existing mortgage loans either directly from builders, developers or property owners, or through mortgage banking firms, commercial banks or other qualified brokers. BCM, in its capacity as a mortgage servicer, services ARI's mortgage notes receivable.

Types of Properties Subject to Mortgages. The types of properties securing

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mortgage notes receivable at December 31, 2000, consisted of apartments, an office building, unimproved land and partnership interests. The type of properties subject to mortgages in which ARI invests may be altered without a vote of stockholders.

As of December 31, 2000, the obligors on \$11.2 million or 68% of the mortgage notes receivable portfolio were affiliates of ARI. Also at that date, \$3.1 million or 19% of the mortgage notes receivable portfolio was nonperforming.

The following table sets forth the percentages (based on the outstanding mortgage loan balance at December 31, 2000), by geographic region, of the commercial properties that serve as collateral for ARI's mortgage notes receivable. Excluded are \$10.2 million of mortgage notes secured by unimproved land and other security. See Schedule IV to the

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ITEM 2. PROPERTIES (Continued)

Mortgage Loans (Continued)

Consolidated Financial Statements included in ITEM 8. "CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" for additional details of ARI's mortgage notes receivable portfolio.

Region -----	Commercial Properties -----
Southwest.....	100.0% =====

A summary of the activity in the mortgage notes receivable portfolio during 2000 is as follows:

Mortgage notes receivable at January 1, 2000.....	19
Loans funded.....	6
Loans collected in full.....	(13)
Loans sold.....	(1)

Mortgage notes receivable at December 31, 2000.....	11
	===

During 2000, \$4.4 million in interest and \$39.9 million in principal was collected on mortgage notes receivable.

First Mortgage Loans. These loans generally provide for level periodic payments of principal and interest sufficient to substantially repay the loan at or prior to maturity, but may involve interest-only payments or moderate or negative amortization of principal or all interest and a "balloon" principal payment at maturity. With respect to first mortgage loans, it is ARI's general policy to require that the borrower provide a title policy or an acceptable legal opinion of title as to the validity and the priority of ARI's mortgage lien over all other obligations, except liens arising from unpaid property taxes and other exceptions normally allowed by first mortgage lenders.

The following discussion briefly describes first mortgage loans funded in 2000, as well as events that affected previously funded first mortgage loans during 2000.

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During 1998, a \$942,000 loan was funded to Ellis Development Company, Inc. The loan was secured by a 4.5 acre parcel of land in Abilene, Texas, bore interest at 14.0% per annum and had an extended maturity date of August 2000. All principal and interest were due at maturity. In March 2000, the loan was collected in full, including accrued but unpaid interest.

In June and July 1998, a \$4.2 million loan was funded to Cuchara Partners, Ltd. and Ski Rio Partners, Ltd., affiliates of JNC Enterprises, Inc. ("JNC"). The loan was secured by (1) a first lien on approximately 450 acres of land in Huerfano County, Colorado, known as Cuchara Valley Mountain Ski Resort; (2) assignment of a \$2.0 million promissory note secured by approximately 2,623 acres of land in Taos

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ITEM 2. PROPERTIES (Continued)

Mortgage Loans (Continued)

County, New Mexico, known as Ski Rio Resort; and (3) a pledge of all related partnership interests. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In the fourth quarter of 1998, \$109,000 was received on the sale of 11 parcels of the collateral property in Taos, New Mexico. In August and September 1999, paydowns totaling \$2.6 million were received. In April 2000, the remainder of the loan, with a then principal balance of \$1.6 million was collected in full, including accrued but unpaid interest.

In June 1998, a \$365,000 loan was funded to RB Land & Cattle, L.L.C. The loan was secured by 7,200 acres of unimproved land near Crowell, Texas, and the personal guarantee of the owner and manager of the borrower. The loan matured in December 1998. All principal and interest were due at maturity. In January 2000, the loan was collected in full, including accrued but unpaid interest.

In July 2000, ARI sold a 749.1 acre tract of its Keller land parcel for \$10.0 million, receiving \$8.7 million in cash and providing purchase money financing of the remaining \$1.3 million of the sales price. The loan bears interest at 12.0% per annum. A payment of \$500,000 principal and interest was collected in September 2000 and all remaining principal and interest is due July 31, 2001. The loan is secured by 100% of the shares of DM Development, Inc. and an assignment of land sales proceeds. The loan had a principal balance of \$817,000 at December 31, 2000. In March 2001, \$850,000 in principal and interest was collected.

In August 2000, ARI sold a 20.5 acre tract of its Mason Goodrich land parcel for \$3.6 million, receiving \$2.1 million in cash and providing purchase money financing of the remaining \$1.5 million of the sales price. The loan bore interest at 13.5% per annum, and matured in December 2000. All principal and interest were due at maturity. In February 2001, the loan was collected in full, including accrued but unpaid interest.

Wraparound Mortgage Loans. A wraparound mortgage loan, sometimes called an all-inclusive loan, is a mortgage loan having an original principal amount equal to the outstanding balance under a prior existing mortgage loan plus the amount actually advanced under the wraparound mortgage loan. Wraparound mortgage loans may provide for full, partial or no amortization of principal. ARI's policy is to make wraparound mortgage loans in amounts and on properties on which it would otherwise make a first mortgage loan.

The following discussion briefly describes wraparound mortgage loans funded in

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2000.

In June 2000, the 124,322 sq.ft. Marina Playa Office Building in Santa Clara, California, was sold for \$25.8 million, ARI received \$7.0 million in cash and provided financing of \$18.8 million in the form of a

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ITEM 2. PROPERTIES (Continued)

Mortgage Loans (Continued)

wraparound mortgage note. Subsequently, ARI sold the note receivable, net of the underlying debt, for \$6.2 million, retaining a \$3.9 million participation. In August 2000, the participation was collected in full, including accrued but unpaid interest.

Junior Mortgage Loans. Junior mortgage loans are loans secured by mortgages that are subordinate to one or more prior liens either on the fee or a leasehold interest in real estate. Recourse on the loans ordinarily includes the real estate which secures the loan, other collateral and personal guarantees of the borrower.

The following discussion briefly describes junior mortgage loans funded in 2000, as well as events that affected previously funded junior mortgage loans during 2000.

In August 1999, a \$2.6 million loan was funded to JNC. The loan was subsequently split into two pieces. The loans were secured by second liens on a 3.5 acre and a 1.2561 acre parcel of land in Dallas, Texas, the guarantee of the borrower and the personal guarantees of its shareholders. The loans bore interest at 16.0% per annum and matured in February 2000. All principal and interest were due at maturity. In March and April 2000, the loans were collected in full, including accrued but unpaid interest.

In October 1998, a \$2.1 million loan was funded to Frisco Panther Partners, Ltd., a JNC affiliate. The loan was secured by a second lien on 408.23 acres of land in Frisco, Texas, the guarantee of the borrower and the personal guarantees of its partners. In January 1999, a paydown of \$820,000 was received on this loan. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In April 2000, the loan with a then principal balance of \$663,000 was collected in full, including accrued but unpaid interest.

In December 1998, \$3.3 million of a \$5.0 million loan commitment was funded to JNC. In January 1999, a \$1.3 million paydown was received on the loan and subsequently an additional \$3.0 million was funded, increasing the loan balance to \$5.0 million. The loan was secured by a second lien on 1,791 acres of land in Denton County, Texas and a second lien on 91 acres of land in Collin County, Texas. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In April 2000, the loan was collected in full, including accrued but unpaid interest.

Other. In September 1999, in conjunction with the sale of two apartments in Austin, Texas, \$2.1 million in purchase money financing was provided, secured by limited partnership interests in two limited partnerships owned by the buyer. The financing bore interest at 16.0% per annum, required monthly payments of interest only at 6.0%, beginning in February 2000 and required a \$200,000 principal paydown in December 1999, which was not received, and matured in

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August 2000. ARI had the option of obtaining the buyer's general and limited partnership

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ITEM 2. PROPERTIES (Continued)

Mortgage Loans (Continued)

interests in the collateral partnerships in full satisfaction of the financing. In March 2000, ARI agreed to forbear foreclosing on the collateral securing the note and released one of the partnership interests, in exchange for a payment of \$250,000 and executed deeds of trusts on certain properties owned by the buyer. In March 2000, the borrower made a \$1.1 million payment, upon receipt of which ARI returned the deeds of trust. The borrower executed a replacement promissory note for the remaining note balance of \$1.0 million, which is unsecured, non-interest bearing and matures in April 2003. In April 2000, ARI funded a \$100,000 loan to the borrower. The loan is secured by five second lien deeds of trust, is non-interest bearing and matures in September 2001.

In December 1999, a note with a principal balance of \$1.2 million, secured by a pledge of a partnership interest in a partnership which owns real estate in Addison, Texas, matured. The maturity date was extended to April 2000 in exchange for an increase in the interest rate to 14.0% per annum. All other terms remained the same. In February 2001, the loan amount was increased to \$1.6 million and the maturity date was extended to June 2001.

During 1998 and 1999, \$2.1 million of a \$2.2 million loan commitment was funded to Varner Road Partners, L.L.C. The loan was secured by a 129.77 acre parcel of unimproved land in Riverside County, California and a pledge of the membership interests of the borrower. The loan matured in November 1999. Principal and accrued interest were not paid at maturity and a deed to the property was accepted in lieu of foreclosure. No loss was incurred, as the fair market value of the property, less estimated costs of sale, exceeded the carrying value of the note.

In August 1998, a \$635,000 loan was funded to La Quinta Partners, LLC. The loan was secured by interest bearing accounts prior to their being used as escrow deposits toward the purchase of 956 acres of land in La Quinta, California, and the personal guarantee of the manager of the borrower. The loan had an extended maturity date of November 1999. All principal and interest were due at maturity. In November and December 1998, \$250,000 in principal paydowns were received. In the second quarter of 1999, the loan was modified, increasing the interest rate to 15.0% per annum and extending the maturity to November 1999. Accrued but unpaid interest was added to the principal balance, increasing it by \$42,000 to \$402,000. In the fourth quarter of 1999, an additional \$2,000 was funded increasing the loan balance to \$404,000. In March 2000, \$25,000 in interest was collected and the loan's maturity was extended to April 2000. The borrower did not repay the loan at maturity. In March 2001, a settlement was reached, whereby ARI collected \$410,000 in full satisfaction of the note.

In 1997 and 1998, a \$3.8 million loan was funded to Stratford & Graham Developers, L.L.C. In 1999, an additional \$305,000 was funded, increasing the loan balance to \$4.1 million. The loan was secured by 1,485 acres of unimproved land in Riverside County, California, and

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ITEM 2. PROPERTIES (Continued)

Mortgage Loans (Continued)

matured in June 1999. The loan was not paid at maturity. The deed to the collateral property was accepted in December 1999, in lieu of foreclosure. No loss was incurred, as the fair market value of the collateral property, less estimated costs of sale, exceeded the carrying value of the note.

Related Party. In February 1999, ARI funded a \$5.0 million unsecured line of credit to One Realco Corporation ("One Realco") which owns approximately 12.8% of the outstanding shares of ARI's Common Stock. All principal and interest are due at maturity in February 2002, and the line of credit is guaranteed by BCM, ARI's advisor. In March 2000, the line was modified and extended, increasing the loan commitment to \$11.0 million, and an additional \$1.2 million was funded. In exchange for the modification, the borrower paid all accrued interest and pledged collateral consisting of a \$10.0 million promissory note secured by the stock of World Trade Company, Ltd. ("World Trade"), which owns 80% of an entity which owns a hotel in Sofia, Bulgaria. In July 2000, the line was again modified, increasing the loan commitment to \$15.0 million. In September 2000, the line of credit with a then principal balance of \$14.6 million was paid in full, including accrued but unpaid interest. Subsequently, ARI acquired 100% of the stock of World Trade for \$18.0 million. The unsecured line of credit remains available to be drawn upon by One Realco.

In 1998, a loan commitment of \$1.8 million was funded to Warwick of Summit, Inc. ("Warwick"). The loan was secured by a second lien on a shopping center in Rhode Island, by 100% of the stock of the borrower and by the personal guarantee of the principal shareholder of the borrower. The loan bears interest at 14.0% per annum and had an extended maturity date of December 2000. All principal and interest were due at maturity. In December 1999, the borrower sold the collateral property and \$810,000 of the net proceeds were paid to ARI, of which \$386,000 was applied to interest and the remaining \$424,000 was applied to principal, reducing the principal balance to \$1.7 million. Escrowed monies of \$377,000 were to be received in 2000. However, through December 2000, only \$50,000 had been received. The loan is currently unsecured. Richard D. Morgan, a Warwick shareholder, serves as a director of ARI.

Beginning in 1997 through January 1999, a \$1.6 million loan commitment was funded to Bordeaux Investments Two, L.L.C. ("Bordeaux"). The loan is secured by (1) a 100% interest in Bordeaux, which owns a shopping center in Oklahoma City, Oklahoma; (2) 100% of the stock of Bordeaux Investments One, Inc., which owns 6.5 acres of undeveloped land in Oklahoma City, Oklahoma; and (3) the personal guarantees of the Bordeaux members. The loan bears interest at 14.0% per annum. In November 1998, the loan was modified to allow payments based on monthly cash flow of the collateral property and the maturity date was extended to December 1999. In the second quarter of 1999, the loan was again modified, increasing the loan commitment to \$2.1 million and an additional \$33,000 was funded. In the third quarter of 1999, an additional \$213,000 was funded. The property has had no cash flow, therefore, interest on the

ITEM 2. PROPERTIES (Continued)

Mortgage Loans (Continued)

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loan ceased being accrued in the second quarter of 1999. In October 1999, a \$724,000 paydown was received, which was applied first to accrued interest due of \$261,000 then to principal, reducing the loan balance to \$1.4 million. In June 2000, the note was further modified, increasing the loan commitment to \$1.5 million, extending the maturity date to December 2000, and payments to net revenues of the shopping center. The loan was not repaid at maturity. Richard D. Morgan, a Bordeaux member, serves as a director of ARI.

In April 1999, ARI funded a \$2.0 million loan commitment to Lordstown, L.P. The loan is secured by a second lien on land in Ohio and Florida, by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of Lordstown, L.P., and a profits interest in subsequent land sales. The loan bears interest at 14.0% per annum and matured in March 2000. At December 2000, the loan remains unpaid. A corporation controlled by Richard D. Morgan, is the general partner of Lordstown, L.P. Mr. Morgan serves as a director of ARI.

Also in April 1999, ARI funded a \$2.4 million loan commitment to 261, L.P. The loan is secured by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of 261, L.P. and a profits interest in subsequent land sales. The loan bore interest at 14.0% per annum and matured in March 2000. In August 2000, the loan was collected in full, including accrued but unpaid interest. A corporation controlled by Richard D. Morgan, is the general partner of 261, L.P. Mr. Morgan serves as a director of ARI.

Investments in Real Estate Companies and Real Estate Partnerships

Real estate entities. ARI's investment in real estate entities includes the equity securities of two publicly traded real estate companies, IORI and TCI, and interests in real estate joint venture partnerships. BCM, ARI's advisor, also serves as advisor to IORI and TCI.

Since acquiring its initial investments in IORI and TCI in 1989, ARI has made additional investments in the equity securities of both entities through private and open market purchases. The cost with respect to shares of IORI and TCI at December 31, 2000 totaled \$23.3 million. The aggregate carrying value (cost plus or minus equity in income or losses and less distributions received) of the equity securities of IORI and TCI was \$38.5 million at December 31, 2000 and the aggregate market value was \$29.6 million. The aggregate investee book value of IORI and TCI based upon the December 31, 2000 financial statements of each entity was \$60.4 million. See ITEM 13. "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS."

The Board of Directors has authorized the expenditure of up to an aggregate of \$50.0 million to acquire, in open market purchases, shares of IORI and TCI, excluding private purchase transactions which are separately authorized. As of December 31, 2000, ARI had expended an aggregate of \$8.6 million to acquire shares of IORI and TCI, in open

ITEM 2. PROPERTIES (Continued)

Investments in Real Estate Companies and Real Estate Partnerships (Continued)

market purchases, in accordance with these authorizations. ARI expects to make additional investments in the equity securities of IORI and TCI to the extent its liquidity permits. On October 3, 2000, ARI and IORI entered into a stock option agreement which provided IORI and ARI with an option to purchase 1,858,900 shares of common stock of TCI from a third party. On October 19, 2000,

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IORI assigned all of its rights to purchase such shares to ARI. ARI may exercise the option at any time prior to April 5, 2001. The total cost to purchase the TCI shares is \$30.7 million. In October 2000, ARI paid \$5.6 million of the option price.

The equity securities of IORI and TCI were purchased for the purpose of investment based principally on the opinion of management that the securities of each were and are currently undervalued. The determination to purchase additional equity securities of IORI and TCI will be made on an entity-by-entity basis and will depend on the market price of each entity's equity securities relative to the value of its assets, the availability of sufficient funds and the judgment of management regarding the relative attractiveness of alternative investment opportunities. Substantially all of the equity securities of IORI and TCI are pledged as collateral for borrowings.

Pertinent information regarding ARI's investment in the equity securities of the IORI and TCI at December 31, 2000, is summarized below (dollars in thousands):

Investee -----	Percentage of ARI's Ownership at December 31, 2000 -----	Carrying Value of Investment at December 31, 2000 -----	Equivalent Investee Book Value at December 31, 2000 -----	Market Value of Investment at December 31, 2000 -----
IORI	27.1%	\$ 8,052	\$10,839	\$ 3,510
TCI . .	24.7	30,473	49,538	26,078

IORI and TCI each own a considerable amount of real estate, much of which they have held for many years. Because of depreciation, these entities may earn substantial amounts in periods in which they sell real estate and will probably incur losses in periods in which they do not. ARI's reported income or loss attributable to these entities will differ materially from its cash flow attributable to them.

ARI does not have a controlling equity interest in either of IORI or TCI and therefore it cannot, acting by itself, determine either the individual investments or the overall investment policies of either of them. However, due to ARI's equity investments in, and the existence of common officers with, each of IORI and TCI and that IORI and TCI have the same advisor as ARI and that Karl L. Blaha, a Director and President of ARI, is also the President of IORI, TCI and BCM, ARI's advisor, ARI may be considered to have the ability to exercise significant influence over the operating and investing policies of IORI and TCI. ARI accounts

ITEM 2. PROPERTIES (Continued)

Investments in Real Estate Companies and Real Estate Partnerships (Continued)

for its investment in IORI and TCI using the equity method. Under the equity method, ARI recognizes its proportionate share of the income or loss from the operations of IORI and TCI currently, rather than when realized through dividends or on sale. The carrying value of ARI's investment in IORI and TCI, as set forth in the table above, is the original cost of investment in each adjusted for ARI's proportionate share of IORI's and TCI's income or loss and

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distributions received.

The following summary description of IORI and TCI is based upon information publicly reported by each entity.

IORI. IORI is a Nevada corporation which was originally organized on December 14, 1984, as a California business trust and commenced operations on April 10, 1985. IORI's business is investing in real estate through direct equity investments and partnerships. IORI holds equity investments in apartments and commercial properties (office buildings) in the Pacific, Southeast and Southwest regions of the continental United States with a concentration in the Southwest region. At December 31, 2000, IORI owned 16 income producing properties located in three states. These properties consisted of seven apartments comprising 777 units and seven office buildings with an aggregate of 459,549 sq. ft. In addition, IORI owned two parcels of unimproved land, totaling 205 acres.

IORI reported a net income of \$16.8 million in 2000 as compared to \$1.3 million in 1999. IORI's net income in 2000 included \$20.9 million of gains from the sale of real estate, whereas its net income in 1999 included gains on sale of real estate of \$1.5 million. IORI's cash flow from property operations was \$6.6 million in 2000. At December 31, 2000, IORI had total assets of \$96.5 million, which consisted of \$86.3 million in real estate held for investment, \$8.1 million in investments in partnerships and other assets and \$2.1 million in cash and cash equivalents.

ARI received a total of \$213,000 in dividends from IORI in 2000.

TCI. TCI is a Nevada corporation which was originally organized on September 6, 1983, as a California business trust, and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired, through merger, Continental Mortgage and Equity Trust ("CMET"), both of which, at the time, were equity investees of ARI. Pursuant to the merger agreement, TCI acquired all of the outstanding CMET shares of beneficial interest in a tax-free exchange of shares, issuing 1.181 shares of its common stock for each outstanding CMET share.

TCI has investment policies similar to those of IORI. TCI holds equity investments in apartments, commercial properties (office buildings, industrial warehouses and shopping centers) and hotels throughout the continental United States with a concentration in the Southeast and Southwest regions. At December 31, 2000, TCI owned 119 income producing

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ITEM 2. PROPERTIES (Continued)

Investments in Real Estate Companies and Real Estate Partnerships (Continued)

properties located in 18 states. These properties consisted of 60 apartments comprising 10,759 units, 37 office buildings with an aggregate of 4.5 million sq. ft., 12 industrial warehouses with an aggregate of 2.1 million sq. ft., six shopping centers with an aggregate of 622,661 sq. ft., a fitness club with 56,532 sq. ft. and four hotels with a total of 209 rooms. In addition, TCI owned 23 parcels of unimproved land, totaling 793 acres. TCI also holds mortgage notes receivable secured by real estate located in the Southeast and Southwest regions of the continental United States.

TCI reported net income of \$29.8 million in 2000 and \$30.2 million in 1999. TCI's net income in 2000 included gains from the sale of real estate of \$50.6 million, whereas its net income in 1999 included gains from the sale of real

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estate of \$40.5 million. TCI's cash flow from property operations was \$56.6 million in 2000. At December 31, 2000, TCI had total assets of \$731.9 million, which consisted of \$639.0 million in real estate held for investment, \$1.8 million in real estate held for sale, \$5.3 million in investments in real estate entities, \$8.2 million in notes and interest receivable, \$55.2 million in investments in marketable equity securities and other assets and \$22.3 million in cash and cash equivalents. At December 31, 2000, TCI owned 345,728 shares of IORI's common stock, approximately 22.8% of the shares then outstanding.

In 2000, ARI received a total of \$1.6 million in dividends from TCI.

Elm Fork, L.P. In September 1997, a limited partnership, of which ARI was the 1% general partner and 21.5% limited partner, purchased a 422.4 acre parcel of unimproved land in Denton County, Texas, for \$16.0 million in cash. ARI contributed \$3.6 million in cash with the remaining \$12.4 million being contributed by the other limited partners. In September 1997, the partnership obtained financing of \$6.5 million secured by the land. The mortgage bears interest at 10% per annum, requires quarterly payments of interest only and matures in September 2001. The net financing proceeds were distributed to the partners, ARI receiving \$2.9 million of its initial capital contribution. The partnership agreement also provides that the limited partners receive a 12% preferred cumulative return before any sharing of partnership profits occurs. One Realco, one of the limited partners in the partnership owns approximately 12.8% of the outstanding shares of ARI's Common Stock. In June 2000, ARI sold its partnership interests for \$2.0 million in cash, retaining an option to repurchase its interests for \$2.0 million plus an amount equal to 20% times the number of days from the date of the agreement to the exercise date. On January 9, 2001, ARI exercised its repurchase option. ARI recognized neither gain nor loss on the sale and subsequent repurchase. At December 31, 2000, 267.8 acres remained unsold.

ART Florida Portfolio II, Ltd. In June 2000, Vestavia Lakes Apartments partnership, in Orlando, Florida, in which ART Florida Portfolio II, Ltd. owned an interest, was sold. A loss was incurred on the sale, of

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ITEM 2. PROPERTIES (Continued)

Investments in Real Estate Companies and Real Estate Partnerships (Continued)

which ARI's share was \$967,000, which is included in equity income (loss) of investees in the accompanying Consolidated Statement of Operations.

EQK Realty Investors I. In October 2000, ARI acquired a 100% interest in EQK Realty Investors, I ("EQK"), a real estate investment trust for \$1.1 million in cash and \$1.21 million in Series A Preferred Stock (121,332 shares). At the date of acquisition, EQK's assets consisted of \$2.0 million in cash.

ITEM 3. LEGAL PROCEEDINGS

ARI is involved in various lawsuits arising in the ordinary course of business. In the opinion of ARI's management the outcome of these lawsuits will not have a material impact on ARI's financial condition, results of operations or liquidity.

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

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Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

ARI's Common Stock is traded on the New York Stock Exchange using 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.

QUARTER ENDED	HIGH	LOW
March 31, 2001 (through March 16, 2001).....	\$ 14 33/64	\$ 12 19/32
March 31, 2000.....	17 1/2	16 1/8
June 30, 2000.....	16 7/8	4 1/2
September 30, 2000.....	17	7
December 31, 2000.....	17 1/4	13 7/16
March 31, 1999.....	17 3/8	15 1/2
June 30, 1999.....	16 3/4	15 7/16
September 30, 1999.....	16 1/2	14 7/8
December 31, 1999.....	17 5/8	16 1/2

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ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS (Continued)

As of March 16, 2001, the closing market price of ARI's Common Stock on the New York Stock Exchange was \$13.00 per share.

As of March 16, 2001, ARI's Common Stock was held by 3,356 stockholders of record.

During the second quarter of 1999, the Board of Directors established the policy that dividend declarations on ARI's Common Stock would be determined on an annual basis following the end of each year. In accordance with that policy, the Board determined not to pay any dividends in 2000. Future distributions to Common stockholders will be dependent upon ARI's realized income, financial condition, capital requirements and other factors deemed relevant by the Board.

Dividends declared and paid in 1999 were as follows:

Date Declared	Record Date	Payment Date	Amount Per Share
March 4, 1999	March 22, 1999	April 5, 1999	\$.05

ARI reported to the Internal Revenue Service that 100% of the dividend paid in

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1999 represented a return of capital.

There are 15,000,000 shares of Series A 10% Cumulative Convertible Preferred Stock 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 after August 15, 2003, into Common Stock at 90% of the average daily closing price of ARI's Common Stock for the prior 20 trading days. At December 31, 2000, 2,721,332 shares of Series A Preferred Stock were outstanding and 1,877,465 shares were reserved for issuance as future consideration in various business transactions.

There are 80,000 shares of Series B 10% Cumulative Convertible Preferred Stock authorized; with a par value of \$2.00 per share and a liquidation preference of \$100.00 per share plus accrued but unpaid dividends. The Series B Preferred Stock bears an annual dividend of \$11.00 per share or \$2.75 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 B Preferred Stock is reserved for conversion of the Class A limited partner units of Valley Ranch, L.P. In March 1999, an agreement was reached for ARI to acquire the eight million Class A units then outstanding, for \$1.00 per unit. At December 31, 2000, four million of the Class A units remained to be purchased with two million units to be purchased in each of May 2001 and 2002. At December 31, 2000, no Series B Preferred Stock was outstanding.

There are 231,750 shares of Series C Cumulative Convertible Preferred Stock authorized; with a par value of \$2.00 per share and liquidation

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ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS (Continued)

preference of \$100.00 per share plus accrued and unpaid dividends. The Series C Preferred Stock bears a quarterly dividend of \$.90 per share through June 30, 2001 and \$2.50 per share thereafter, 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.L.C. 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. At December 31, 2000, shares of Series C Preferred Stock could be converted into 25,000 shares of ARI Common Stock. On or after June 30, 2002 and 2003, additional shares of Series C Preferred Stock may be converted into 25,000 shares of ARI Common Stock, in each year. On or after December 31, 2005, additional shares of Series C Preferred Stock may be converted into 25,000 shares of ARI Common Stock. On or after December 31, 2006, all remaining outstanding shares of Series C Preferred Stock may be converted into ARI Common Stock. All conversions of Series C Preferred Stock into ARI Common Stock will be at 90% of the average daily closing price of ARI's Common Stock for the prior 20 trading days. At December 31, 2000, no Series C Preferred Stock was outstanding. In January 2001, 2.5 million Class A limited partner units of ART Palm, L.L.C. were redeemed for \$2.5 million in cash.

There are 91,000 shares of Series D 9.50% Cumulative Preferred Stock authorized; with a par value of \$2.00 per share, and a liquidation preference of \$20.00 per share. Dividends are payable at the annual rate of \$1.90 per year or \$.475 per

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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. No more than one-third of the Class A units may be exchanged prior to May 31, 2001. Between June 1, 2001 and May 31, 2006 all unexchanged Class A units are exchangeable. At December 31, 2000, no shares of Series D Preferred Stock were outstanding.

There are 500,000 shares of Series E 6% Cumulative Preferred Stock 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 December 31, 2000, 50,000 shares of Series E Preferred Stock were outstanding.

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ITEM 6. SELECTED FINANCIAL DATA

	For the Years End		
	2000	1999	19
	(dollars in thousands)		
EARNINGS DATA			
Revenue.....	\$ 172,750	\$ 193,980	\$
Expense.....	272,045	324,789	1
	(99,295)	(130,809)	(
(Loss) from operations.....			
Equity in income of investees.....	5,246	11,847	
Gain on sale of real estate.....	96,728	129,260	
	2,679	10,298	(
Income (loss) before extra-ordinary gain.....	2,679	10,298	(
Extraordinary gain.....	--	--	--
	2,679	10,298	(
Net income (loss).....			
Preferred dividend requirement.....	(2,327)	(2,281)	
	352	8,017	\$ (
Income (loss) applicable to Common shares.....	\$ 352	\$ 8,017	\$ (
	.03	.75	\$
PER SHARE DATA			
(Loss) before extraordinary gain.....	\$.03	\$.75	\$
Extraordinary gain.....	--	--	--

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Net income (loss) applicable to Common shares.....	\$.03	\$.75	\$
		=====		=====	=====
Dividends per Common share.....	\$	--	\$.05	\$
Weighted average shares outstanding.....		10,399,890		10,759,416	10,6

For the Years En

-----	-----	-----
2000	1999	19
-----	-----	-----

(dollars in thousan

BALANCE SHEET DATA

Real estate, net.....	\$	653,744	\$	771,630	\$	7
Notes and interest receivable, net.....		13,831		38,604		
Total assets.....		787,015		919,546		9
Notes and interest payable.....		616,331		706,196		7
Margin borrowings.....		13,485		33,264		
Stockholders' equity.....		73,402		46,266		
Book value per share.....	\$	7.06	\$	4.30	\$	

Shares and per share data have been adjusted for the two-for-one Common Stock split effected February 17, 1997.

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

Introduction

ARI is the successor through merger to ART and NRLP. ART was organized in 1961 to provide investors with a professionally managed, diversified portfolio of real estate and mortgage loan investments selected to provide opportunities for capital appreciation as well as current income. ART owns a portfolio of real estate and mortgage loan investments. NRLP was organized in 1987, and subsequently acquired all of the assets and assumed all of the liabilities of 35 public and private limited partnerships. NRLP owns a portfolio of real estate and mortgage loan investments.

Effective December 18, 1998, a wholly-owned subsidiary of ART was elected general partner of NRLP. Prior to December 31, 1998, ART accounted for its investment in NRLP under the equity method. As of December 31, 1998, upon the election of its wholly-owned subsidiary as general partner of NRLP, ART began consolidation of NRLP's accounts and has consolidated its operations subsequent to that date.

Liquidity and Capital Resources

General. Cash and cash equivalents at December 31, 2000 totaled \$4.2 million,

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compared with \$2.5 million at December 31, 1999. Although ARI anticipates that during 2001 it will generate excess cash from operations, as discussed below, such excess cash is not sufficient to discharge all of ARI's debt obligations as they mature. ARI will therefore again rely on externally generated funds, including aggressive land sales, selected sales of income producing properties, refinancing of properties and, to the extent necessary, borrowings to meet its debt service obligations, pay taxes, interest and other non-property related expenses.

Notes payable totaling \$193.4 million are scheduled to mature during 2001. During the first quarter of 2001, ARI either extended, refinanced, paid down, paid off or received commitments from lenders to extend or refinance \$30.4 million of the debt scheduled to mature in 2001. See NOTE 5. "REAL ESTATE," NOTE 8. "NOTES AND INTEREST PAYABLE" and NOTE 21. "SUBSEQUENT EVENTS."

ARI expects a further decline in cash from property operations in 2001. This expected decrease results from the reduced number of apartment properties in ARI's real estate portfolio.

Net cash from operating activities was a deficit of \$54.6 million in 2000 compared to a deficit of \$19.6 million in 1999. Fluctuations in the components of cash from operating activities are discussed in the paragraphs that follow.

Net cash from pizza operations (sales less cost of sales) increased to \$5.9 million in 2000 from \$4.3 million in 1999. The increase was due to a price increase in October 2000, reduced cheese costs and the closing of poor performing locations in 2000.

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

Liquidity and Capital Resources (Continued)

Net cash from property operations (rents collected less payments for expenses applicable to rental income) decreased to \$32.7 million in 2000 from \$55.2 million in 1999. This decrease was primarily attributable to apartment properties sold in 2000 and 1999.

Interest collected increased to \$4.4 million in 2000 from \$4.2 million in 1999. The increase was attributable to interest collected on several past due loans.

Interest paid decreased to \$67.0 million in 2000 from \$73.0 million in 1999. The decrease was due to the reduction in outstanding loan balances as properties were sold in 2000 and 1999.

Advisory fees paid decreased to \$5.1 million in 2000 from \$5.5 million in 1999. The decrease was due to a decrease in ARI's gross assets, the basis for such fee.

General and administrative expenses paid increased to \$18.1 million in 2000 from \$16.6 million in 1999. The increase was primarily attributable to an increase in taxes paid.

Other cash used in operating activities was \$4.3 million in 2000 compared to \$13.4 million provided by other operating activities in 1999. The change was primarily due to a \$2.5 million increase in escrow deposits in 2000, compared to a \$16.8 million decrease in 1999.

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Distributions from equity investees' decreased to \$1.8 million in 2000 from \$3.5 million in 1999. The decrease was due to the reduction in dividends paid by investees. Distributions from equity investees are expected to be minimal in 2001.

Distributions to minority interest holders decreased to \$4.9 million in 2000 from \$6.8 million in 1999. These distributions represent returns paid to limited partner unitholders of controlled consolidated partnerships. See NOTE 2. "NRLP MANAGEMENT CORP." and NOTE 5. "REAL ESTATE."

Net cash of \$64,000 was used in 2000 for marketable securities purchases, compared to \$1.7 million received in 1999 from marketable securities sales. See NOTE 7. "MARKETABLE EQUITY SECURITIES--TRADING PORTFOLIO."

In 2000, ARI sold a total of 3,008.5 acres of land in Austin, Houston, Irving, Plano, Collin County, Harris County, Tarrant County and Travis County, Texas; Riverside, California; Denver, Colorado, Salmon River, Idaho; Nashville, Tennessee; and Duchesne, Utah in 34 separate transactions for a total of \$119.4 million. ARI received net cash of \$38.9 million, after paying off or paying down \$67.9 million in mortgage debt secured by such land parcels. ARI also sold nine apartments, three

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

Liquidity and Capital Resources (Continued)

shopping centers and an office building for a total of \$110.2 million. ARI received net cash of \$31.8 million, after the payoff or assumption by the purchaser of mortgage debt totaling \$60.8 million and after providing purchase money financing of \$2.8 million.

In 2000, ARI purchased a total of 221.9 acres in Collin County and Travis County, Texas, for a total of \$4.0 million. ARI paid \$1.0 million in cash and obtained mortgage or seller financing of \$2.9 million. ARI exchanged 19.74 acres of land in Collin County, Texas, for 3.25 acres of land in Farmers Branch, Texas. ARI also obtained a hotel in Sofia, Bulgaria, by purchasing 100% of the outstanding stock of World Trade from an affiliate, for \$18.0 million in cash. See NOTE 5. "REAL ESTATE."

ARI expects that funds from existing cash resources, aggressive sales of land and selected income producing property sales, refinancing of real estate, and borrowings against its real estate will be sufficient to meet the cash requirements associated with ARI's current and anticipated level of operations, maturing debt obligations and existing commitments. To the extent that ARI's liquidity permits or financing sources are available, ARI will make investments in real estate, primarily investments in improved and unimproved land, continue making investments in real estate entities and marketable equity securities, and develop and construct income producing properties.

ARI expects that it will be necessary for it to sell \$102.0 million, \$34.1 million and \$1.2 million of its land holdings during each of the next three years to satisfy the debt on the land as it matures. If ARI is unable to sell at least the minimum amount of land to satisfy the land debt obligations as they mature, ARI, if it was not able to extend such debt, intends to either sell other of its assets, specifically income producing properties to pay the debt or transfer the property to the lender.

Loans Payable. ARI has margin arrangements with various brokerage firms which

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provide for borrowings of up to 50% of the market value of marketable equity securities. The borrowings under the margin arrangements are secured by the equity securities and bear interest rates ranging from 7.0% to 9.0%. Margin borrowings totaled \$13.5 million (approximately 46.1% of market value) at December 31, 2000, compared to \$33.3 million at December 31, 1999. See NOTE 9. "MARGIN BORROWINGS."

Equity Investments. During the fourth quarter of 1988, ARI began purchasing shares of IORI and TCI which have the same advisor as ARI. It is anticipated that additional equity securities of IORI and TCI will be acquired in the future through open-market and negotiated transactions to the extent ARI's liquidity permits.

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

Liquidity and Capital Resources (Continued)

Equity securities of IORI and TCI held by ARI may be deemed to be "restricted securities" under Rule 144 of the Securities Act of 1933 ("Securities Act"). Accordingly, ARI 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 ARI's ability to realize the full fair market value of such investments if ARI attempted to dispose of such securities in a short period of time.

ARI's cash flow from these investments is dependent on the ability of each of IORI and TCI to make distributions. In 2000, ARI received total distributions from IORI and TCI of \$1.8 million. In December 2000, the Boards of IORI and TCI suspended the payment of quarterly dividends. ARI anticipates receiving no distributions from IORI and TCI in 2001.

In 2000, ARI paid dividends to its Preferred stockholders totaling \$2.3 million. ARI paid no dividends on its Common Stock in 2000. In 1999, ARI paid dividends to its Common stockholders totaling \$532,000 or \$.05 per share and dividends to its Preferred stockholders totaling \$2.3 million. See NOTE 10. "DIVIDENDS."

Management reviews the carrying values of ARI'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. 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.

Commitments. In October 1999, an agreement was reached with the Valley Ranch, L.P. Class A unitholders to acquire their eight million Class A units for \$1.00 per unit. Through December 31, 2000, four million units had been purchased with an additional two million units to be purchased in each of May 2001 and May 2002.

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On October 3, 2000, ARI and IORI entered into a stock option agreement which provided IORI and ARI with an option to purchase 1,858,900 shares of common stock of TCI from a third party. On October 19, 2000, IORI assigned all of its rights to purchase such shares to ARI. ARI may exercise the option at any time prior to April 15, 2001. The total cost to purchase the TCI shares is \$30.7 million. In October 2000, ARI paid \$5.6 million of the option price.

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

Liquidity and Capital Resources (Continued)

ARI will rely on externally generated funds, including aggressive land sales, selected sales of income producing properties, refinancing of properties and, to the extent necessary, borrowings to meet these commitments.

Results of Operations

2000 Compared to 1999. ARI reported net income of \$2.7 million in 2000 compared to \$10.3 million in 1999. ARI's net income in 2000 included gains on the sale of real estate of \$96.7 million compared to gains on the sale of real estate of \$129.3 million in 1999. The primary factors contributing to ARI's net income are discussed in the following paragraphs.

Rents decreased to \$138.2 million in 2000 from \$157.6 million in 1999. Rent from commercial properties increased to \$31.5 million in 2000 from \$30.2 million in 1999, rent from hotels increased to \$33.1 million in 2000 from \$31.6 million in 1999 and rent from apartments decreased to \$69.8 million in 2000 from \$93.9 million in 1999. The increase in rent from commercial properties was primarily attributable to completion of the Centura and Hickory Centre office buildings in 2000. The increase in rent from hotels is attributable to increased occupancy rates. Apartment rents decreased in 2000 as a result of 15 apartments being sold in 1999 and nine apartments in 2000. Rents are expected to decrease in 2001 as a result of the apartment sales in 2000 and expected apartment and commercial property sales in 2001.

Property operations expense decreased to \$94.1 million in 2000 from \$106.6 million in 1999. Property operations expense for commercial properties increased to \$19.8 million in 2000 from \$16.5 million in 1999, for hotels such expense of \$24.1 million in 2000 approximated the \$24.2 million expense in 1999, for land the expense of \$9.7 million in 2000 approximated the \$9.0 million expense in 1999 and apartments decreased to \$40.4 million in 2000 from \$56.4 million in 1999. The increase in commercial property operations expense was primarily due to the completion of the Centura and Hickory Centre office buildings in 2000. The decrease in apartment property operations expense was primarily due to 15 apartments being sold in 1999 and nine apartment sales in 2000. Property operations expense is expected to decrease in 2001 as a result of the apartment sales in 2000 and anticipated apartment and commercial property sales in 2001.

Pizza parlor sales and cost of sales were \$32.6 million and \$26.8 million in 2000 and \$30.8 million and \$26.3 million, in 1999. Pizza parlor operations experienced higher profit margins in 2000 due to lower pizza ingredient costs, (primarily cheese), a price increase in October 2000, and the closing of underperforming locations. Pizza parlor profit margins in 2001 are expected to approximate 2000, unless cheese prices increase.

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

Results of Operations (Continued)

Interest income decreased to \$3.0 million in 2000 from \$6.4 million in 1999. The decrease was attributable to the collection of \$39.9 million in notes in 2000, while originating and funding loans of \$14.7 million. Interest income is expected to decrease in 2001 as a result of the notes collected in 2000, and as no new loans are expected to be funded in 2001.

Equity in income of investees decreased to \$5.2 million in 2000 from \$11.8 million in 1999. The decrease in equity income was primarily due to reduced ownership by ARI in TCI in 2000, due to sales of ARI-owned securities by margin debt holders. Equity investees reported gains on the sale of real estate in 2000 totaling \$71.4 million of which ARI's equity share was \$18.6 million. These gains were offset by operating losses totaling \$23.8 million, of which ARI's equity share was \$5.3 million. Also, sales of stock of equity investees by margin debt holders of ARI resulted in losses of \$7.9 million. See NOTE 6. "INVESTMENTS IN EQUITY INVESTEES."

Other income was a loss of \$926,000 in 2000 approximating the loss of \$846,000 in 1999.

Interest expense decreased to \$76.7 million in 2000 from \$91.7 million in 1999. This decrease is due to 36 land and nine apartment sales in 2000. Interest expense is expected to decrease in 2001 due to land and apartment sales in 2000 and anticipated property sales in 2001.

Advisory fees decreased to \$5.0 million in 2000 from \$5.5 million in 1999. The decrease was attributable to the decrease in ARI's gross assets, the basis for such fee. Advisory fees are expected to decrease in 2001, as ARI's gross asset base is expected to continue to decrease through property sales.

Incentive fees in 2000 were \$1.6 million. This fee represents 10% of the excess of net capital gains over net capital losses from sales of operating properties. The amount of this fee, if any, in 2001 will be dependent on the number of operating properties sold and net capital gains realized.

General and administrative expenses increased to \$18.0 million in 2000 from \$17.1 million in 1999. The increase was primarily attributable to an increase of \$900,000 in taxes. General and administrative expenses in 2001 are expected to approximate 2000.

Depreciation and amortization decreased to \$16.9 million in 2000 from \$17.4 million in 1999. The reduction is due to the sale of nine apartments in 2000. Depreciation and amortization expense should continue to decrease in 2001 as a result of continued property sales.

In the fourth quarter of 2000, a provision for loss of \$2.2 million was recognized. Such loss relates to the reduction of the carrying value of

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

Results of Operations (Continued)

an 11.3 acre tract of land in Plano, Texas, sold in the first quarter of 2001,

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to its net realizable value and a litigation reserve related to a breach of contract dispute. In the third and fourth quarter of 1999, provisions for loss of \$2.1 million and \$1.0 million were recognized, respectively. Such loss relates to the relinquishment by ARI of its general and Class B limited partner interests in a controlled partnership that owned two apartments in Indianapolis, Indiana.

In December 1998, upon the election of NMC, a wholly-owned subsidiary of ARI, as general partner of NRLP, NMC assumed liability for certain legal settlement payments. Such obligation is included in litigation expense in the accompanying Consolidated Statement of Operations. See NOTE 2. "NRLP MANAGEMENT CORP."

Minority interest decreased to \$30.7 million in 2000 from \$56.7 million in 1999. Minority interest is the earnings attributable to limited partners, other than ARI, of certain controlled limited partnerships. Minority interest in 2000 and 1999 was attributable, in part, to the preferred return limited partner units of Ocean Beach Partners, L.P., Valley Ranch, L.P., Grapevine American, L.P., Edina Park Plaza Associates, L.P. and Hawthorne Lakes Associations, L.P., ART Florida Portfolio III and ART Palm, L.L.C. In 2000, minority interest includes, in addition to the preferred returns discussed above, \$29.8 million of earnings attributable to the limited partners in NRLP prior to the merger, compared to \$55.7 million in 1999. Minority interest in 2001 will decline due to the 2000 merger of NRLP into ARI. See NOTE 2. "NRLP MANAGEMENT CORP."

Gains on sale of real estate decreased to \$96.7 million in 2000 from \$129.3 million in 1999. In 2000, gains of \$45.9 million were recognized on the sale of nine apartments: Summerwind, Windtree, The Pines, Whispering Pines, Four Seasons, Sherwood Glen, Fair Oaks, Hidden Valley and Candlelight Square; \$21.9 million on the sale of commercial properties: Katella Plaza, Marina Playa, Harbor Plaza and Preston Center; and \$30.6 million on the sale of land: \$16,000 on the sale of 420 acres of Duchesne land, \$7.5 million on the sale of three tracts totaling 166.7 acres of Frisco Bridges land, \$3.4 million on the sale of 749.1 acres of Keller land, \$1,000 on the sale of 0.02 acres of Katy land, \$3.6 million on the sale of four tracts totaling 41.2 acres of Mason/Goodrich land, \$747,000 on the sale of 157.9 acres of Mastenbrook land, \$1.6 million on the sale of 82.0 acres of McKinney Corners I, II, III, IV and V land, \$2.5 million on the sale of 20.67 acres of Monterey land, \$868,000 on the sale of 4 tracts totaling 8.69 acres of Nashville land, \$959,000 on the sale of 182.5 acres of Pantex land, \$4.3 million on the sale of two tracts totaling 329.4 acres of Parkfield land, \$2.7 million on the sale of three tracts totaling 89.51 acres of Razor land, \$462,000 on the sale of 80.4 acres of Rowlett Creek land, \$38,000 on the sale of 3.0 acres of Salmon River land, \$1.3 million on the sale of 126.6 acres of Vann Cattle land, \$173,000 on the sale of 5.4 acres of Vista Business Park land, and \$478,000 on the sale of 70.3 acres of

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

Results of Operations (Continued)

Wakefield land. In 2000, losses of \$1.6 million were recognized: \$40,000 on the sale of 14.6 acres of McKinney Corners II land; \$768,000 on the sale of 377.15 acres of Pioneer Crossing land; \$174,000 on the sale of 4.79 acres of Plano Parkway land; \$585,000 on the sale of 22.4 acres of Valley Ranch land; and \$51,000 on the sale of 36.43 acres of Vista Business Park land.

In 1999, gains of \$100.3 million were recognized on the sale of 15 apartments: Olde Town, Sante Fe, Mesa Ridge, Horizon East, Lantern Ridge, Barcelona, Country Place, Lake Nora, Fox Club, Oak Hollow, Windridge, Tanglewood, Edgewater Garden,

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Bavarian Woods, and Manchester Commons, \$9.2 million on the sale of the Continental Hotel and Casino; \$5.0 million on the sale of seven tracts totaling 46.9 acres of Plano Parkway land; \$432,000 on the sale of 9.9 acres of Mason/Goodrich land; \$4.3 million on the sale of four tracts totaling 302.4 acres of McKinney Corners II, McKinney Corners IV and Dowdy land; \$979,000 on the sale of 13.0 acres of Razor land; \$2.0 million on the sale of three tracts totaling 23.0 acres of Vista Ridge land; \$4.6 million on the sale of four tracts totaling 103.6 acres of Frisco Bridges land; \$23,000 on the sale of .13 acres of JHL Connell land; \$128,000 on the sale of 1.4 acres of Valley Ranch land; \$180,000 on the sale of Sun City lots; \$186,000 on the sale of 121.2 acres of Katrina land; \$2.0 million on the sale of five tracts totaling 187.7 acres of Keller, Scout and Scoggins land; and \$561,000 on the sale of 205.4 acres of Yorktown land. In 1999, losses of \$545,000 were recognized, \$505,000 on the sale of Stone Meadows land and \$40,000 on the sale of 6.2 acres of Plano Parkway land.

1999 Compared to 1998. ARI reported net income of \$10.3 million in 1999 compared to a net loss of \$22.8 million in 1998. ARI's net income in 1999 included gains on the sale of real estate of \$129.3 million compared to gains on the sale of real estate of \$17.3 million in 1998. The primary factors contributing to ARI's net income are discussed in the following paragraphs.

Pizza parlor sales and cost of sales were \$30.8 million and \$26.3 million in 1999 and \$28.9 million and \$24.8 million, in 1998. Pizza parlor operations experienced higher profit margins in 1999 due to lower pizza ingredient costs, primarily cheese. Cheese prices reached historic highs in 1998.

Rents increased to \$157.6 million in 1999 from \$63.5 million in 1998. Rent from commercial properties increased to \$30.2 million in 1999 from \$16.5 million in 1998, rent from hotels of \$31.6 million in 1999 approximated the \$32.2 million in 1998 and rent from apartments increased to \$93.9 million in 1999 from \$14.2 million in 1998. The increase in rent from commercial properties was primarily attributable to the consolidation of NRLP's operations subsequent to December 31, 1998 and the acquisition of the Encino Office Building in May 1999. The increase in apartment rent was due to the 36 apartments acquired in 1998 and the consolidation of NRLP's operations subsequent to December 31, 1998.

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

Results of Operations (Continued)

Property operations expense increased to \$106.6 million in 1999 from \$49.2 million in 1998. Property operations expense for commercial properties increased to \$16.5 million in 1999 from \$9.7 million in 1998, for hotels such expense decreased to \$24.2 million in 1999 from \$24.4 million in 1998, for land it increased to \$9.0 million in 1999 from \$6.3 million in 1998 and for apartments it increased to \$56.4 million in 1999 from \$8.8 million in 1998. The increase in commercial property operations expense was primarily due to the consolidation of NRLP's operations subsequent to December 31, 1998 and the acquisition of the Encino Office Building in 1999. The increase in land expense was primarily due to the acquisitions of 16 land parcels in 1998 and eight land parcels in 1999. The increase in apartment property operations expense was primarily due to the acquisition of 36 apartments in 1998 and the consolidation of NRLP's operations subsequent to December 31, 1998.

Interest income increased to \$6.4 million in 1999 from \$188,000 in 1998. The increase was attributable to the consolidation of NRLP's operations subsequent

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to December 31, 1998. Loans of \$41.2 million in 1999 and \$47.7 million in 1998 were originated and funded.

Other income improved to a loss of \$846,000 in 1999 from a loss of \$5.5 million in 1998. This improvement was due to recognizing an unrealized loss on marketable equity securities of \$1.9 million in 1999, compared to an unrealized loss of \$6.1 million recognized in 1998. Also contributing to the improvement was a decrease in net losses on sales of marketable equity securities of \$67,000.

Equity in income of investees decreased to \$11.8 million in 1999 from \$38.0 million in 1998. A decrease in equity income of \$31.3 million was attributable to the consolidation of the operations of NRLP subsequent to December 31, 1998. Equity investees reported gains on sale of real estate in 1999 totaling \$41.8 million of which ARI's equity share of such gains was \$17.4 million. This decrease was offset by decreased operating losses totaling \$7.7 million in IORI, of which ARI's equity share of equity investees' net operating losses was \$5.5 million. See NOTE 6. "INVESTMENTS IN EQUITY INVESTEES."

Interest expense increased to \$91.7 million in 1999 from \$51.6 million in 1998. Of this increase, \$6.0 million was due to 16 land parcels purchased in 1998, \$5.1 million was due to eight land parcels purchased in 1999 and the remainder was due to the consolidation of NRLP's operations subsequent to December 31, 1998.

Advisory fees increased to \$5.5 million in 1999 from \$3.8 million in 1998. The increase was attributable to the increase in ARI's gross assets, the basis for such fee.

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

Results of Operations (Continued)

General and administrative expenses increased to \$17.1 million in 1999 from \$8.5 million in 1998. The increase was primarily attributable to the general and administrative expenses of NRLP. The operations of NRLP were consolidated subsequent to December 31, 1998.

Depreciation and amortization increased to \$17.4 million in 1999 from \$7.0 million in 1998. The increase was due to the consolidation of NRLP's operations subsequent to December 31, 1998 and the acquisition of the Encino Office Building in 1999.

In the third and fourth quarter of 1999, provisions for loss of \$2.1 million and \$1.0 million, respectively, were recognized. Such losses relate to the relinquishment by ARI of its general and Class B limited partner interests in a controlled partnership that owned two apartments in Indianapolis, Indiana. In the third and fourth quarters of 1998, provisions for loss of \$3.0 million and \$916,000 respectively, were recorded to write down the Valley Ranch land to its estimated realizable value less estimated costs of sale. Such write downs were necessitated by an increase in the acreage designated as flood plain.

In December 1998, upon the election of NMC, a wholly-owned subsidiary, as general partner of NRLP, NMC assumed liability for certain legal settlement payments. Such obligation is included in litigation expense in the accompanying Consolidated Statement of Operations. See NOTE 2. "NRLP MANAGEMENT CORP."

Minority interest increased to \$56.7 million in 1999 from \$3.2 million in 1998.

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Minority interest is the earnings attributable to limited partners, other than ARI, of certain controlled limited partnerships. Minority interest in 1998 and 1999 was attributable, in part, to the preferred return on limited partner units of Ocean Beach Partners, L.P., Valley Ranch, L.P., Grapevine American, L.P., Edina Park Plaza Associates, L.P. and Hawthorne Lakes Associations, L.P., ART Florida Portfolio III and ART Palm, L.L.C. In 1999, minority interest includes, in addition to the preferred returns discussed above, \$55.7 million of earnings attributable to the limited partners in NRLP. The operations of NRLP were consolidated subsequent to December 31, 1998. Prior to December 31, 1998, the investment in NRLP was accounted for using the equity method. See NOTE 2. "NRLP MANAGEMENT CORP."

Gains on sale of real estate increased to \$129.3 million in 1999 from \$17.3 million in 1998. In 1999, gains of \$100.3 million were recognized on the sale of 15 apartments: Olde Town, Sante Fe, Mesa Ridge, Horizon East, Lantern Ridge, Barcelona, Country Place, Lake Nora, Fox Club, Oak Hollow, Windridge, Tanglewood, Edgewater Garden, Bavarian Woods, and Manchester Commons; \$9.2 million on the sale of the Continental Hotel and Casino; \$5.0 million on the sale of seven tracts totaling 46.9 acres of Plano Parkway land; \$432,000 on the sale of 9.9 acres of Mason/Goodrich land; \$4.3 million on the sale of four tracts totaling

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

Results of Operations (Continued)

302.4 acres of McKinney Corners II, McKinney Corners IV and Dowdy land; \$979,000 on the sale of 13.0 acres of Razor land; \$2.0 million on the sale of three tracts totaling 23.0 acres of Vista Ridge land; \$4.6 million on the sale of four tracts totaling 103.6 acres of Frisco Bridges land; \$23,000 on the sale of .13 acres of JHL Connell land; \$128,000 on the sale of 1.4 acres of Valley Ranch land; \$180,000 on the sale of Sun City lots; \$186,000 on the sale of 121.2 acres of Katrina land; \$2.0 million on the sale of five tracts totaling 187.7 acres of Keller, Scout and Scoggins land; and \$561,000 on the sale of 205.4 acres of Yorktown land. In 1999, losses of \$545,000 were recognized, \$505,000 on the sale of Stone Meadows land and \$40,000 on the sale of 6.2 acres of Plano Parkway land.

In 1998, ARI recognized gains of \$663,000 on the sale of three tracts totaling 78.5 acres of its Valley Ranch land; \$1.9 million on its Lewisville land; \$714,000 on a 21.3 acre tract of its Parkfield land; \$848,000 on a 21.6 acre tract of its Chase Oaks land; \$789,000 on a 150.0 acre tract of its Razor land; \$3.9 million on its Palm Desert land; \$869,000 on a 2.5 acre tract of its Las Colinas I land; \$898,000 on its Kamperman land; \$3.4 million on its final 10.5 acre tract of BP Las Colinas land; \$409,000 on a 1.1 acre tract of its Santa Clarita land; \$2.6 million on a 20.8 acre tract of its Mason Goodrich land; and ARI recognized a \$179,000 previously deferred gain on a sale of its Valley Ranch land in 1997.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, ARI 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

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parties may seek recovery for personal injury associated with such materials.

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

Inflation

The effects of inflation on ARI'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

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

Inflation (Continued)

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 REGARDING MARKET RISK

ARI's future operations, cash flow and fair values of financial instruments are partially dependent upon the then existing market interest rates and market equity prices. Market risk is the changes in the market rates and prices and the affect of the changes on the future operations. Market risk is managed by matching a property's anticipated net operating income to an appropriate financing.

The following table contains only those exposures that existed at December 31, 2000. Anticipation of exposures of risk on positions that could possibly arise was not considered. ARI's ultimate interest rate

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK (Continued)

risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level. Dollars in thousands.

Assets	
Trading Instruments--Equity	
Price Risk	
Marketable securities at market	
value.....	
Notes receivable	
Fixed interest rate-fair value.....	

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	2001	2002	2003	2004	2005
Instrument's maturities.....	\$ 14,009	\$ --	1,018	--	--
Instrument's amortization.....	--	--	--	--	--
Interest.....	1,016	--	--	--	--
Average rate.....	7.0%	--	--	--	--

Liabilities

Notes payable

Variable interest rate-fair value...

	2001	2002	2003	2004	2005
Instrument's maturities.....	\$ 91,576	\$34,484	\$ --	\$ --	\$ --
Instrument's amortization.....	2,130	1,952	1,232	1,233	1,242
Interest.....	10,099	3,518	680	526	371
Average rate.....	11.3%	14.4%	12.2%	12.1%	11.9%

Fixed interest rate-fair value.....

	2001	2002	2003	2004	2005
Instrument's maturities.....	\$ 91,699	44,672	41,308	299	5
Instrument's amortization.....	8,024	9,362	5,934	5,825	2
Interest.....	39,587	29,812	25,733	23,489	2
Average rate.....	9.2%	8.5%	8.6%	8.6%	

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors of
American Realty Investors, Inc.

We have audited the accompanying consolidated balance sheets of American Realty Investors, Inc. and Subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. We have also audited the schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe our audits provide a reasonable basis for our opinion.

As described in Note 20, American Realty Investors, Inc.'s management has indicated its intent to sell both land and operating properties and refinance or extend debt coming due, to meet its liquidity needs.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Realty Investors, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles.

Also, in our opinion, the schedules referred to above present fairly, in all material respects, the information set forth therein.

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BDO SEIDMAN, LLP

Dallas, Texas
March 26, 2001

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AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
	(dollars in thousands, except per share)	
Assets		
Real estate held for investment.....	\$ 559,461	\$ 616,577
Less - accumulated depreciation.....	(148,690)	(164,583)
	-----	-----
	410,771	451,994
 Real estate held for sale.....	 242,973	 319,636
 Notes and interest receivable		
Performing (\$9,684 in 2000 and \$11,992 in 1999 from affiliates).....	13,346	38,272
Nonperforming (\$1,540 in 2000 and \$1,353 in 1999 from affiliates).....	3,062	2,909
	-----	-----
	16,408	41,181
 Less--allowance for estimated losses.....	 (2,577)	 (2,577)
	-----	-----
	13,831	38,604
 Pizza parlor equipment.....	 10,191	 9,241
Less - accumulated depreciation.....	(3,164)	(2,369)
	-----	-----
	7,027	6,872
 Marketable equity securities, at market value.....	 153	 394
Cash and cash equivalents.....	4,177	2,479
Investments in equity investees.....	44,777	47,686
Intangibles, net of accumulated amortization (\$2,233 in 2000 and \$1,770 in 1999).....	16,075	14,305
Other assets.....	47,231	37,576
	-----	-----
	\$ 787,015	\$ 919,546
	=====	=====

The accompanying notes are an integral part of these Consolidated Financial Statements.

AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS - Continued

	December 31,	
	2000	1999
	(dollars in thousands, except per share)	
Liabilities and Stockholders' Equity		
Liabilities		
Notes and interest payable (\$13,900 in 1999 to affiliates)	\$ 616,331	\$ 706,196
Margin borrowings.....	13,485	33,264
Accounts payable and other liabilities (\$3,030 in 2000 and \$18,917 in 1999 to affiliate).....	41,221	45,983
	-----	-----
	671,037	785,443
Minority interest.....	42,576	87,837
Commitments and contingencies		
Stockholders' equity		
Preferred Stock, \$2.00 par value, authorized 50,000,000 shares, issued and outstanding		
Series A, 2,721,332 shares in 2000 and 2,600,000 shares in 1999 (liquidation preference \$26,000).....	4,843	4,600
Series E, 50,000 shares in 2000 (liquidation preference \$500).....	100	--
Common Stock, \$.01 par value, authorized 100,000,000 shares; issued 1,829,217 shares in 2000 and 13,496,688 shares in 1999.....	118	135
Paid-in capital.....	112,301	85,854
Accumulated (deficit).....	(43,943)	(44,295)
Treasury stock at cost, 1,718,749 shares in 2000 and 2,737,216 shares in 1999.....	(17)	(28)
	-----	-----
	73,402	46,266
	-----	-----
	\$ 787,015	\$ 919,546
	=====	=====

The accompanying notes are an integral part of these Consolidated Financial Statements.

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	Years Ended	

	2000	---

	(dollars in thousands)	
Property revenue		
Rents.....	\$ 138,160	\$
Property operations expenses (\$5,356 in 2000, \$6,822 in 1999 and \$1,752 in 1998 to affiliates).....	94,081	
	-----	-----
Operating income.....	44,079	
Land operations		
Sales.....	119,384	
Cost of sales.....	90,383	
	-----	-----
Gain on land sales.....	29,001	
Pizza parlor operations		
Sales.....	32,551	
Cost of sales.....	26,767	
	-----	-----
Gross margin.....	5,784	
Income from operations.....	78,864	
Other income		
Interest income (\$1,843 in 2000, \$187 in 1999 and \$39 in 1998 from affiliates).....	2,965	
Equity in income of investees.....	5,246	
Gain on sale of real estate.....	67,727	
Other.....	(926)	
	-----	-----
	75,012	
Other expenses		
Interest (\$358 in 2000, \$2,393 in 1999 and \$1,082 in 1998 to affiliates).....	76,702	
Depreciation and amortization.....	16,879	
General and administrative (\$5,335 in 2000, \$5,824 in 1999 and \$1,832 in 1998 to affiliate).....	17,973	
Advisory fee to affiliate.....	5,049	
Incentive fee to affiliate.....	1,646	
Litigation settlement.....	--	
Provision for loss.....	2,248	
Minority interest.....	30,700	
	-----	-----
	151,197	
Net income (loss).....	2,679	
Preferred dividend requirement.....	(2,327)	
	-----	-----
Net income (loss) applicable to Common shares.....	\$ 352	\$
	=====	=====
Earnings per share		
Net income (loss).....	\$.03	\$
	=====	=====

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Weighted average Common shares used in computing earnings
per share..... 10,399,890
=====

The accompanying notes are an integral part of these Consolidated Financial Statements.

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AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Series A Preferred Stock -----	Series E Preferred Stock -----	Other Preferred Stock -----	Common Stock -----	Treasury Stock -----	P C -----
	(dollars in thousands, except per share)					
Balance, January 1, 1998.....	\$ 4,000	\$ --	\$ 41	\$ 135	\$ (28)	\$
Repurchase of Common Stock.....	--	--	--	(2)	--	--
Other Preferred Stock issued.....	--	--	2	--	--	--
Series A Preferred Stock issued.....	2,100	--	--	--	--	--
Common Stock cash dividend (\$.20 per share).....	--	--	--	--	--	--
Series A Preferred Stock cash dividend (\$.625 per share).....	--	--	--	--	--	--
Other Preferred Stock cash dividends.....	--	--	--	--	--	--
Sale of Common Stock under dividend reinvestment plan.....	--	--	--	--	--	--
Conversion of Preferred Stock to Common Stock.....	--	--	(8)	--	--	--
Redemption of Preferred Stock.....	--	--	(33)	--	--	--
Net (loss).....	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	6,100	--	2	133	(28)	--
Sale of Series A Preferred Stock.....	100	--	--	--	--	--
Common Stock cash dividend (\$.05 per share).....	--	--	--	--	--	--
Series A Preferred Stock cash dividend (\$1.00 per share).....	--	--	--	--	--	--
Other Preferred Stock cash dividend.....	--	--	--	--	--	--
Series A Preferred Stock retired.....	(1,600)	--	--	--	--	--
Redemption of Other Preferred Stock.....	--	--	(2)	--	--	--
Sale of Common Stock under dividend reinvestment plan.....	--	--	--	2	--	--
Net income.....	-----	-----	-----	-----	-----	-----
Balance, December 31, 1999.....	4,600	--	--	135	(28)	--

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Sale of Series E Preferred Stock.....	--	100	--	--	--
Series A Preferred Stock cash dividend (\$1.00 per share).....	--	--	--	--	--
Series A Preferred Stock issued.....	243	--	--	--	--
Series E Preferred Stock cash dividend (\$0.60 per share).....	--	--	--	--	--
Retirement of Treasury Stock.....	--	--	--	(26)	46
Repurchase of Common Stock.....	--	--	--	--	--
Common Stock issued in exchange for partnership units.....	--	--	--	9	(35)
Net income.....	--	--	--	--	--
	-----	-----	-----	-----	-----
Balance, December 31, 2000.....	\$ 4,843	\$ 100	\$ --	\$ 118	\$ (17)
	=====	=====	=====	=====	=====

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 Years
	2000

	(dollars)
Cash Flows From Operating Activities	
Rents collected.....	\$ 138,212
Pizza parlor sales collected.....	32,526
Interest collected (\$1,490 in 2000 and \$261 in 1999 from affiliates).....	4,393
Distributions from equity investees' operating activities.....	1,823
Interest paid.....	(66,955)
Payments for property operations (\$1,792 in 2000, \$6,822 in 1999 and \$1,752 in 1998 to affiliates).....	(105,523)
Payments for pizza parlor operations.....	(26,646)
Advisory fee paid to affiliate.....	(5,050)
Distributions to minority interest holders.....	(4,941)
Purchase of marketable equity securities.....	(5,316)
Proceeds from sale of marketable equity securities.....	5,252
General and administrative expenses paid (\$5,335 in 2000, \$5,824 in 1999 and \$1,832 in 1998 to affiliate).....	(18,139)
Other.....	(4,278)

Net cash (used in) operating activities.....	(54,642)
Cash Flows From Investing Activities	

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Collections on notes receivable (\$17,324 in 2000 and \$918 in 1999 from affiliates).....	36,039
Proceeds from sale of notes receivable.....	3,893
Notes receivable funded.....	(14,674)
Proceeds from sale of real estate.....	148,141
Distributions from equity investees investing activities.....	--
Acquisitions of real estate.....	(24,547)
Real estate improvements.....	(15,882)
Acquisition of EQK Realty Investors, I.....	(1,125)
Pizza parlor equipment purchased.....	(1,087)
Earnest money deposits.....	(7,703)
Investment in real estate entities.....	4,602

Net cash provided by (used in) investing activities.....	127,657

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--(Continued)

	For Year
	----- 2000 -----
(do	
Cash Flows From Financing Activities	
Proceeds from notes payable.....	\$ 177,144
Margin borrowings payments, net.....	(21,624)
Payments on notes payable.....	(197,849)
Deferred borrowing costs.....	(10,528)
Net advances (payments) to/from affiliates.....	(15,887)
Redemption of Preferred Stock.....	--
Sale of Preferred Stock.....	500
Sale of Common Stock under dividend reinvestment plan.....	--
Dividends.....	(2,327)
Repurchase of Common Stock.....	(746)

Net cash provided by (used in) financing activities.....	(71,317)

Net increase (decrease) in cash and cash equivalents.....	1,698
Cash and cash equivalents, beginning of year.....	2,479

Cash and cash equivalents, end of year.....	\$ 4,177
	=====
Reconciliation of net income (loss) to net cash (used in) operating activities	
Net income (loss).....	\$ 2,679

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Adjustments to reconcile net income (loss) to net cash (used in) operating activities	
Gain on sale of real estate.....	(96,728)
Depreciation and amortization.....	16,879
Amortization of deferred borrowing costs.....	10,382
Provision for loss.....	2,248
Litigation settlement.....	--
Equity in (income) of investees.....	(5,246)
Distributions from equity investees' operating activities.....	1,823
(Increase) decrease in marketable equity securities.....	862
(Increase) decrease in accrued interest receivable.....	1,428
(Increase) decrease in other assets.....	(4,251)
Increase (decrease) in accrued interest payable.....	(2,441)
Increase (decrease) in accounts payable and other liabilities.....	(8,036)
Increase in minority interest.....	25,759
Other.....	--

Net cash (used in) operating activities.....	\$ (54,642)
	=====

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--(Continued)

	For Years
	----- 2000 -----
	(dollar -----)
Schedule of noncash investing and financing activities	
Notes payable from acquisition of real estate	\$ 6,262
Notes payable assumed by buyer upon sale of real estate	40,460
Conversion of notes receivable to property interest	--
Issuance of Other Preferred Stock	--
Series A Preferred Stock issued in conjunction with the acquisition of EQK Realty Investors, I	1,213
Dividend obligation on conversion of Series A Preferred Stock	--
Current value of property obtained through foreclosure of note receivable	--
Note receivable canceled on acquisition of property	--
Issuance of partnership units	--
Carrying value of real estate exchanged for other real estate	2,971
Conversion of Preferred Stock into Common Stock	--
Retirement of Series A Preferred Stock	--
Common Stock issued for minority interest in National Realty, L.P.	25,817
Purchase accounting write down	(35,846)
Notes receivable from sale of real estate	2,790

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Consolidation of National Realty, L.P.	
Carrying value of notes receivable	\$ --
Carrying value of real estate	--
Carrying value of investment in equity investee eliminated	--
Carrying value of other assets	--
Carrying value of minority interest	--
Carrying value of the Company Common Stock eliminated	--
Carrying value of notes and interest payable	--
Carrying value of accounts payable and other liabilities	--
Acquisition of IGI properties	
Carrying value of real estate	--
Issuance of partnership units	--
Carrying value of other assets	--
Carrying value of notes payable and other liabilities	--
Investment in partnerships	--

The accompanying notes are an integral part of these Consolidated Financial Statements.

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of American Realty Investors, Inc. and consolidated subsidiaries have been prepared in conformity with generally accepted accounting principles, the most significant of which are described in NOTE 1. "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES." These, along with the remainder of the Notes to Consolidated Financial Statements, are an integral part of the Consolidated Financial Statements. The data presented in the Notes to Consolidated Financial Statements are as of December 31 of each year and for the year then ended, unless otherwise indicated. Dollar amounts in tables are in thousands, except per share amounts.

Certain balances for 1998 and 1999 have been reclassified to conform to the 2000 presentation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and company business. American Realty Investors, Inc. ("ARI"), a Nevada corporation, is the successor through merger to American Realty Trust, Inc. ("ART"), a Georgia corporation and National Realty, L.P. ("NRLP"), a Delaware partnership, that primarily invests in real estate and real estate-related entities and purchases and originates mortgage loans.

The merger of ART and NRLP into ARI was completed on August 2, 2000. NRLP unitholders, except for ART, received one share of ARI common stock for each unit of NRLP held. ART stockholders received .91 shares of ARI Common Stock for each share of ART Common Stock held. Each share of ART Preferred Stock was converted into one share of Preferred Stock of ARI, having substantially the same rights as ART's Preferred Stock. The ART shares of Common Stock ceased trading on the New York Stock Exchange on August 2, 2000. ARI Common Stock commenced trading on the New York Stock Exchange on August 3, 2000. Prior to December 31, 1998, ART accounted for its investment in NRLP under the equity method, as of December 31, 1998, upon the election of a wholly-owned subsidiary of ART as general partner of NRLP, ART began consolidation of NRLP's accounts on

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December 31, 1998 and consolidation of its operations subsequent to that date. For reporting purposes, the merger is treated as the purchase of NRLP by ART; accordingly, the historical information presented for ARI is that of ART.

Basis of consolidation. The Consolidated Financial Statements include the accounts of ARI, and all controlled subsidiaries and partnerships. The equity method was used to account for ART's investment in NRLP prior to December 31, 1998. See NOTE 2. "NRLP MANAGEMENT CORP." All significant intercompany transactions and balances have been eliminated.

Accounting estimates. In the preparation of these Consolidated Financial Statements, in conformity with generally accepted accounting principles it was necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expense for the year then ended. Actual results could differ from these estimates.

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

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

Real estate held for investment and depreciation. Real estate held for investment is carried at cost. Statement of Financial Accounting Standards No. 121 ("SFAS No. 121") requires that a property be considered impaired, if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the property. If impairment exists, an impairment loss is recognized by a charge against earnings, equal to the amount by which the carrying amount of the property exceeds the fair value of the property. If impairment of a property is recognized, the carrying amount of the property is reduced by the amount of the impairment, and a new cost for the property is established. Such new cost is depreciated over the property's remaining useful life. Depreciation is provided by the straight-line method over estimated useful lives, which range from 5 to 40 years.

Real estate held for sale. Foreclosed real estate is initially recorded at new cost, defined as the lower of original cost or fair value minus estimated costs of sale. SFAS No. 121 also requires that properties held for sale be reported at the lower of carrying amount or fair value less costs of sale. If a reduction in a held for sale property's carrying amount to fair value less costs of sale is required, a provision for loss shall be recognized by a charge against earnings. Subsequent revisions, either upward or downward, to a held for sale property's

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estimated fair value less costs of sale is recorded as an adjustment to the property's carrying amount, but not in excess of the property's carrying amount when originally classified as held for sale. A corresponding charge against or credit to earnings is recognized. Properties held for sale are not depreciated.

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in equity investees. ARI may be considered to have the ability to exercise significant influence over the operating and investment policies of certain of its investees. Those investees are accounted for using the equity method. Under the equity method, an initial investment, recorded at cost, is increased by a proportionate share of the investee's operating income and any additional investment and decreased by a proportionate share of the investee's operating losses and distributions received.

Present value premiums/discounts. Present value premiums and discounts are provided on notes receivable or payable that have interest rates that differ substantially from prevailing market rates and such premiums and discounts are amortized by the interest method over the lives of the related notes. The factors considered in determining a market rate for notes receivable include the borrower's credit standing, nature of the collateral and payment terms of the note.

Revenue recognition on the sale of real estate. Sales of real estate are recognized when and to the extent permitted by Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" ("SFAS No. 66"). Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using either the deposit, the installment, the cost recovery, or the financing method, whichever is appropriate.

Operating segments. Management has determined reportable operating segments to be those that are used for internal reporting purposes, which disaggregates operations by type of real estate.

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

Cash equivalents. For purposes of the Consolidated Statements of Cash Flows, all highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

Earnings per share. Income (loss) per share is presented in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Income (loss) per share is computed based upon the weighted average number of shares of Common Stock outstanding during each year.

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee stock option plans. Employee stock options are presented in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." Compensation cost is limited to the excess of the quoted market price. No compensation cost is recorded if the quoted market price is below the exercise price.

NOTE 2. NRLP MANAGEMENT CORP.

Effective December 18, 1998, NRLP Management Corp. ("NMC"), a wholly-owned subsidiary, was elected general partner of NRLP. NMC, as general partner, has sole discretion in determining methods of obtaining funds for NRLP's operations, and the acquisition and disposition of its assets. Upon the election of NMC as general partner of NRLP, consolidation of NRLP's accounts and operations was begun.

NOTE 3. NOTES AND INTEREST RECEIVABLE

	2000		
	Estimated Fair Value	Book Value	Est F V
Notes receivable			
Performing (including \$9,684 in 2000 and \$11,992 in 1999 from affiliates)	\$ 11,543	\$ 11,965	
Nonperforming (including \$1,540 in 2000 and \$1,353 in 1999 from affiliates)	3,017	3,062	
	\$ 14,560	15,027	
Interest receivable		1,381	
Unamortized (discounts)		--	
Deferred gains		--	
		\$ 16,408	

Interest income is recognized on nonperforming notes receivable on a cash basis. For the years 2000, 1999 and 1998 unrecognized interest income on such nonperforming notes receivable totaled \$316,000, \$1.0 million and \$716,000, respectively.

Notes receivable at December 31, 2000, mature from 2001 to 2003 with interest rates ranging from 10.25% to 15.0% per annum and a weighted average rate of 12.0% per annum. Notes receivable are generally collateralized by real estate or interests in real estate and personal guarantees of the borrower. A majority of the notes receivable provide for interest to be paid at maturity. Scheduled

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principal maturities of \$14.0 million are due in 2001.

In July 2000, ARI sold a 749.1 acre tract of its Keller land parcel for \$10.0 million, receiving \$8.7 million in cash and providing purchase

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 3. NOTES AND INTEREST RECEIVABLE (Continued)

money financing of the remaining \$1.3 million of the sales price. The loan bears interest at 12.0% per annum. A payment of \$500,000 principal and interest was collected in September 2000 and all remaining principal and interest is due July 31, 2001. The loan is secured by 100% of the shares of DM Development, Inc. and an assignment of proceeds. The loan had a principal balance of \$817,000 at December 31, 2000. In March 2001, \$850,000 in principal and interest was collected.

In August 2000, ARI sold 20.5 acres of its Mason Goodrich land parcel for \$3.6 million, receiving \$2.1 million in cash and providing purchase money financing of the remaining \$1.5 million of the sales price. The loan bore interest at 13.5% per annum, and matured in December 2000. All principal and interest were due at maturity. In February 2001, the loan was collected in full, including accrued but unpaid interest.

In June 2000, the 124,322 sq.ft. Marina Playa Office Building in Santa Clara, California, was sold for \$25.8 million, ARI received \$7.0 million in cash and provided financing of \$18.8 million in the form of a wraparound mortgage note. Subsequently, ARI sold the note receivable, net of the underlying debt, for \$6.2 million, retaining a \$3.9 million participation. In August 2000, the participation was collected in full, including accrued but unpaid interest.

In August 1999, a \$2.6 million loan was funded to JNC Enterprises, Inc. ("JNC"). The loan was subsequently split into two pieces. The loans were secured by second liens on a 3.5 acre and a 1.2561 acre parcel of land in Dallas, Texas, the guarantee of the borrower and the personal guarantees of its shareholders. The loans bore interest at 16.0% per annum and matured in February 2000. All principal and interest were due at maturity. In March and April 2000, the loans were collected in full, including accrued but unpaid interest.

In September 1999, in conjunction with the sale of two apartments in Austin, Texas, \$2.1 million in purchase money financing was provided, secured by limited partnership interests in two limited partnerships owned by the buyer. The financing bore interest at 16.0% per annum, required monthly payments of interest only at 6.0% per annum, beginning in February 2000 and required a \$200,000 principal paydown in December 1999, which was not received, and matured in August 2000. ARI had the option of obtaining the buyer's general and limited partnership interests in the collateral partnerships in full satisfaction of the financing. In March 2000, ARI agreed to forbear foreclosing on the collateral securing the note and released one of the partnership interests, in exchange for a payment of \$250,000 and executed deeds of trusts on certain properties owned by the buyer. In March 2000, the borrower made a \$1.1 million payment, upon receipt of which ARI returned the deeds of trust. The borrower executed a replacement promissory note for the remaining note balance of \$1.0 million, which is unsecured, non-interest bearing and matures in April 2003. In April 2000, ARI funded

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 3. NOTES AND INTEREST RECEIVABLE (Continued)

a \$100,000 loan to the borrower. The loan is secured by five second lien deeds of trust, is non-interest bearing and matures in September 2001.

In December 1999, a note with a principal balance of \$1.2 million and secured by a pledge of a partnership interest in a partnership which owns real estate in Addison, Texas, matured. The maturity date was extended to April 2000 in exchange for an increase in the interest rate to 14.0% per annum. All other terms remained the same. In February 2001, the loan amount was increased to \$1.6 million and the maturity date was extended to June 2001.

During 1998 and 1999, \$2.1 million of a \$2.2 million loan commitment was funded to Varner Road Partners, L.L.C. The loan was secured by a 129.77 acre parcel of unimproved land in Riverside County, California and a pledge of the membership interests of the borrower. The loan matured in November 1999. Principal and accrued interest were not paid at maturity and a deed to the property was accepted in lieu of foreclosure. No loss was incurred, as the fair market value of the property, less estimated costs of sale, exceeded the carrying value of the note.

During 1998, a \$942,000 loan was funded to Ellis Development Company, Inc. The loan was secured by 4.5 acres of land in Abilene, Texas, bore interest at 14.0% per annum and had an extended maturity date of August 2000. In March 2000, the loan was collected in full including accrued but unpaid interest.

In June 1998, a \$365,000 loan was funded to RB Land & Cattle, L.L.C. The loan was secured by 7,200 acres of unimproved land near Crowell, Texas, and the personal guarantee of the owner and manager of the borrower. The loan matured in December 1998. All principal and interest were due at maturity. In January 2000, the loan was collected in full, including accrued but unpaid interest.

In June and July 1998, a \$4.2 million loan was funded to Cuchara Partners, Ltd. and Ski Rio Partners, Ltd., affiliates of JNC. The loan was secured by (1) a first lien on approximately 450 acres of land in Huerfano County, Colorado, known as Cuchara Valley Mountain Ski Resort; (2) an assignment of a \$2.0 million promissory note secured by approximately 2,623 acres of land in Taos County, New Mexico, known as Ski Rio Resort; and (3) a pledge of all related partnership interests. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In the fourth quarter of 1998, \$109,000 was received on the sale of 11 parcels of the collateral property in Taos, New Mexico. In August and September 1999, paydowns totaling \$2.6 million were received. In April 2000, the loan with a then principal balance of \$1.6 million was collected in full, including accrued but unpaid interest.

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 3. NOTES AND INTEREST RECEIVABLE (Continued)

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In August 1998, a \$635,000 loan was funded to La Quinta Partners, LLC. The loan was secured by interest bearing accounts prior to their being used as escrow deposits toward the purchase of 956 acres of land in La Quinta, California, and the personal guarantee of the manager of the borrower. The loan had an extended maturity date of November 1999. All principal and interest were due at maturity. In November and December 1998, \$250,000 in principal paydowns were received. In the second quarter of 1999, the loan was modified, increasing the interest rate to 15.0% per annum and extending the maturity to November 1999. Accrued but unpaid interest was added to the principal balance, increasing it by \$42,000 to \$402,000. In the fourth quarter of 1999, an additional \$2,000 was funded, increasing the loan balance to \$404,000. In March 2000, \$25,000 in interest was collected and the loan's maturity date was further extended to April 2000. The borrower did not repay the loan at maturity. In March 2001, a settlement was reached, whereby ARI collected \$410,000 in full satisfaction of the note.

In 1997 and 1998, a \$3.8 million loan was funded to Stratford & Graham Developers, L.L.C. In 1999, an additional \$305,000 was funded, increasing the loan balance to \$4.1 million. The loan was secured by 1,485 acres of unimproved land in Riverside County, California, and matured in June 1999. The loan was not paid at maturity. The deed to the collateral property was accepted in December 1999, in lieu of foreclosure. No loss was incurred, as the fair market value of the collateral property, less estimated costs of sale, exceeded the carrying value of the note.

In October 1998, a \$2.1 million loan was funded to Frisco Panther Partners, Ltd., a JNC affiliate. The loan was secured by a second lien on 408.23 acres of land in Frisco, Texas, the guarantee of the borrower and the personal guarantees of its partners. In January 1999, a paydown of \$820,000 was received on this loan. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In April 2000, the loan with a then principal balance of \$663,000 was collected in full including accrued but unpaid interest.

In December 1998, \$3.3 million of a \$5.0 million loan commitment was funded to JNC. In January 1999, a \$1.3 million paydown was received, and subsequently an additional \$3.0 million was funded, increasing the loan balance to \$5.0 million. The loan was secured by a second lien on 1,791 acres of land in Denton County, Texas, a second lien on 91 acres of land in Collin County, Texas. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In April 2000, the loan was collected in full, including accrued but unpaid interest.

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 3. NOTES AND INTEREST RECEIVABLE (Continued)

Related Party. In February 1999, a \$5.0 million unsecured line of credit was funded to One Realco Corporation ("One Realco"), which owns approximately 12.8% of the outstanding shares of ARI's Common Stock. All principal and interest are due at maturity in February 2002 and the line of credit is guaranteed by Basic Capital Management, Inc, ("BCM"), ARI's advisor. In March 2000, the line was modified and extended, increasing the loan commitment to \$11.0 million, and an additional \$1.2 million was funded. In exchange for the modification, the borrower paid all accrued interest and pledged collateral consisting of a \$10.0 million promissory note secured by the stock of World Trade Company, Ltd. ("World Trade"), which owns 80% of an entity which owns a hotel in Sofia,

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Bulgaria. In July 2000, the line was again modified, increasing the loan commitment to \$15.0 million. In September 2000, the line of credit with a then principal balance of \$14.6 million was paid in full, including accrued but unpaid interest. Subsequently, ARI acquired 100% of the stock of World Trade for \$18.0 million in cash. The unsecured line of credit remains available to be drawn upon by One Realco.

In April 1999, ARI funded a \$2.0 million loan commitment to Lordstown, L.P. The loan is secured by a second lien on land in Ohio and Florida, by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of Lordstown, L.P., and a profits interest in subsequent land sales. The loan bears interest at 14.0% per annum and matured in March 2000. At December 2000, the loan remains unpaid. A corporation controlled by Richard D. Morgan, is the general partner of Lordstown, L.P. Mr. Morgan serves as a director of ARI.

Also in April 1999, ARI funded a \$2.4 million loan commitment to 261, L.P. The loan is secured by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of 261, L.P., and a profits interest in subsequent land sales. The loan bore interest at 14.0% per annum and matured in March 2000. In August 2000, the loan was collected in full, including accrued but unpaid interest. A corporation controlled by Richard D. Morgan, is the general partner of 261, L.P. Mr. Morgan serves as a director of ARI.

In 1998, a \$1.8 million loan commitment was funded to Warwick of Summit, Inc. ("Warwick"). The loan was secured by a second lien on a shopping center in Rhode Island, by 100% of the stock of the borrower and by the personal guarantee of the principal shareholder of the borrower. The loan bears interest at 14.0% per annum and had an extended maturity date of December 2000. All principal and interest were due at maturity. In December 1999, the borrower sold the collateral property, and \$810,000 of the net proceeds were paid to ARI, of which \$386,000 was applied to interest and the remaining \$424,000 was applied to principal, reducing the principal balance to \$1.7 million. Escrowed monies of \$377,000 were to be received in 2000. However, through December 31, 2000, only \$50,000 had been received. The loan is currently unsecured. Richard D. Morgan, a Warwick shareholder, serves as a director ARI.

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AMERICAN REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 3. NOTES AND INTEREST RECEIVABLE (Continued)

Beginning in 1997 through January 1999, a \$1.6 million loan commitment was funded to Bordeaux Investments Two, L.L.C. ("Bordeaux"). The loan is secured by (1) a 100% interest in Bordeaux, which owns a shopping center in Oklahoma City, Oklahoma; (2) 100% of the stock of Bordeaux Investments One, Inc., which owns 6.5 acres of undeveloped land in Oklahoma City, Oklahoma; and (3) the personal guarantees of the Bordeaux members. The loan bears interest at 14.0% per annum. In November 1998, the loan was modified to allow payments based on monthly cash flow of the collateral property and the maturity date was extended to December 1999. In the second quarter of 1999, the loan was again modified, increasing the loan commitment to \$2.1 million and an additional \$33,000 was funded. In the third quarter of 1999, an additional \$213,000 was funded. The property has had no cash flow, therefore, interest ceased being accrued on the loan in the second quarter of 1999. In October 1999, a \$724,000 paydown was received, which was applied first to accrued but unpaid interest due of \$261,000 then to principal, reducing the loan balance to \$1.4 million. In June 2000, the note was further modified increasing the loan commitment to \$1.5 million, extending the maturity

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date to December 2000, and payments to net revenues of the shopping center. The loan was not repaid at maturity. Richard D. Morgan, a Bordeaux member, serves as a director ARI.

NOTE 4. ALLOWANCE FOR ESTIMATED LOSSES

Activity in the allowance for estimated losses was as follows:

	2000 -----	1999 -----	1998 -----
Balance January 1,.....	\$2,577	\$2,398	\$3,926
NRLP allowance.....	--	1,910	--
Amounts charged off.....	--	--	(1,528)
Write down of property.....	--	(1,731)	--
	-----	-----	-----
Balance December 31,.....	\$2,577 =====	\$2,577 =====	\$2,398 =====

NOTE 5. REAL ESTATE

In 2000, ARI purchased the following properties:

Property	Location	Acres/Rooms	Purchase Price	Net Cash Paid	Debt Incurred
-----	-----	-----	-----	-----	-----
Land					
Clark	Farmers Branch, TX	3.25 Acres	\$ 2,971	\$ --	\$ -- /
Kelly	Collin County, TX	.75 Acres	130	20	100/
Mastenbrook	Collin County, TX	157.86 Acres	3,200	704	2,400/
Sladek	Travis County, TX	63.3 Acres	712	316	427/
Hotel					
Grand Hotel Sofia/(3)/	Sofia, Bulgaria	145 Rooms	17,975	17,975	--

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AMERICAN REALTY INVESTORS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 5. REAL ESTATE (Continued)

- (1) Exchanged for 19.74 acres of Frisco Bridges land.
- (2) Seller financing.
- (3) ARI purchased 100% of the outstanding stock of World Trade Corporation, owner of an 80% interest in the hotel, from One Realco Corporation, an affiliate, for \$18.0 million in cash. See NOTE 3. "NOTES AND INTEREST RECEIVABLE."
- (4) Property sold in September 2000.

In 2000, ARI sold the following properties:

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Property	Location	Units/ Sq.Ft./Acres	Sales Price	Net Cash Received
Apartments				
Candlelight Square	Lenexa, KS	119 Units	\$ 4,800	\$ 1,289
Fair Oaks	Eules, TX	208 Units	6,850	609
Four Seasons	Denver, CO	384 Units	16,600	6,543
Hidden Valley	Grand Rapids, MI	176 Units	10,900	2,271
Pines	Little Rock, AR	257 Units	4,650	1,281
Sherwood Glen	Urbandale, IA	180 Units	6,250	1,244
Summerwind	Reseda, CA	172 Units	9,000	3,082
Windtree	Reseda, CA	159 Units	8,350	2,911
Whispering Pines	Canoga Park, CA	102 Units	5,300	1,597
Shopping Centers				
Harbor Plaza	Aurora, CO	45,863 Sq.Ft.	4,132	1,868
Katella Plaza	Orange, CA	62,290 Sq.Ft.	1,814	283
Preston Square	Dallas, TX	35,508 Sq.Ft.	5,820	2,761
Office Building				
Marina Playa	Santa Clara, CA	124,205 Sq.Ft.	25,750	6,082
Land				
Duchesne	Duchesne, UT	420 Acres	43	42
Frisco Bridges	Collin County, TX	15.00 Acres	2,675	706
Frisco Bridges	Collin County, TX	19.74 Acres	2,971	--
Frisco Bridges	Collin County, TX	24.3 Acres	4,194	