
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

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

**For the fiscal year ended December 31, 2021
OR**

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

Commission File Number 001-15663

American Realty Investors, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
Incorporation or organization)

75-2847135
(IRS Employer Identification Number)

1603 LBJ Freeway, Suite 800 Dallas TX
(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	ARL	NYSE

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately \$13.1 million as of the last business day of the registrant's most recently completed second fiscal quarter based upon the price at which the common stock was last sold on that day.

As of March 28, 2021, there were 16,152,043 shares of common stock outstanding.

Documents Incorporated By Reference:

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc.; Commission File No. 001-14784
Consolidated Financial Statements of Transcontinental Realty Investors, Inc.; Commission File No. 001-09240

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

General

American Realty Investors, Inc. (the “Company”) is a fully integrated externally managed real estate company. We operate high quality multifamily and properties throughout the southern United States. We also invest in mortgage notes receivable and in land that is either held for appreciation and or development. As used herein, the terms “ARL”, “the Company”, “We”, “Our”, or “Us” refer to the Company.

Corporate Structure

We own approximately 78.4% of Transcontinental Realty Investors, Inc. (“TCI”) and substantially all of our operations are conducted through TCI, whose common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “TCI”. Accordingly, we include TCI’s financial results in our consolidated financial statements. Substantially all of TCI’s assets are held by its wholly-owned subsidiary, Southern Properties Capital Ltd. (“SPC”), which was formed to allow us to raise funds by issuing non-convertible bonds that are listed and traded on the Tel-Aviv Stock Exchange (“TASE”).

On November 19, 2018, SPC formed the Victory Abode Apartments, LLC (“VAA”) joint venture with the Macquarie Group (“Macquarie”). In connection with the formation of VAA, we sold a 50% ownership interest in 51 multifamily properties, (collectively referred to herein as the “VAA Portfolio”). VAA assumed all liabilities of the VAA Portfolios. We account for our investment in VAA under the equity method. On November 17, 2021, we entered into a Major Decision with Macquarie to sell all the properties held by VAA (See “Recent Activity - Other Developments”).

Controlling Shareholder

Realty Advisors, Inc. (“RAI”) and its affiliates own approximately 90.8% of our common stock. As described in Part III, Item 13. “Certain Relationships and Related Transactions, and Director Independence”, our officers and directors also serve as officers and directors of TCI. TCI has business objectives similar to ours. Our officers and directors owe fiduciary duties to both TCI and us under applicable law. In determining whether a particular investment opportunity will be allocated to TCI or to us, management considers the respective investment objectives of each company and the appropriateness of a particular investment in light of each company’s existing real estate and mortgage notes receivable portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity may be allocated to the entity which has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

Management

Our business is managed by Pillar Income Asset Management, Inc. (“Pillar”) in accordance with an Advisory Agreement that is reviewed annually by our Board of Directors. Pillar is a wholly-owned affiliate of RAI.

Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges our debt and equity financing with third party lenders and investors. They also serve as the contractual Advisor and Cash Manager to TCI. As the contractual advisor, Pillar is compensated by us under an Advisory Agreement that is more fully described in Part III, Item 10. “Directors, Executive Officers and Corporate Governance

– The Advisor”. We have no employees. Employees of Pillar render services to us in accordance with the terms of the Advisory Agreement.

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

Portfolio Composition

At December 31, 2021, our property portfolio consisted of:

- Five commercial properties, consisting of four office buildings and one retail property, comprising in aggregate of approximately 1,063,515 square feet;
- Nine multifamily properties owned directly by us comprising in 1,492 units, excluding apartments being developed;
- Approximately 1,886 acres of developed and undeveloped land; and
- Fifty-two multifamily properties totaling 10,281 units owned by VAA.

Recent Activity

The following is a description of our significant real estate and financing transactions during the year ended December 31, 2021:

Acquisitions and Dispositions

- On March 30, 2021, we sold a 50% ownership interest in Overlook at Allensville Phase II, a 144 unit multifamily property in Sevierville, Tennessee to Macquarie for \$2.6 million, resulting in gain on sale of \$1.4 million. Concurrent with the sale, we each contributed our 50% ownership interests in Overlook at Allensville Phase II into VAA.
- On August 26, 2021, we sold 600 Las Colinas, a 512,173 square foot office building in Irving, Texas for \$74.8 million, resulting in gain on sale of \$27.3 million. We used the proceeds to pay down the mortgage note payable on the property (See "Financing Activities") and for general corporate purposes.
- During the year ended December 31, 2021, we sold a total of 134.7 acres of land from our holdings in Windmill Farms for \$20.2 million, in aggregate, resulting in gains on sale of \$10.3 million. In addition, we sold 14.09 acres of land from our holdings in Mercer Crossing for \$9.0 million, resulting in a gain on sale of \$6.4 million.
- On January 14, 2022, we sold Toulon, a 240 unit multifamily property property in Gautier, Mississippi, for \$26.8 million. The proceeds were used to pay off the mortgage note payable on the property and for general corporate purposes.

Financing Activities

- On March 2, 2021, we extended our \$1.2 million loan on Athens to August 28, 2022.
- On March 4, 2021, we extended the maturity of our \$8.4 million loan on Windmill Farms to February 28, 2023 at a reduced interest rate of 5%.
- On August 25, 2021, we replaced the existing loan on Villas at Bon Secour with a new \$20.0 million loan that bears interest at 3.08% and matures on September 1, 2031.
- On August 26, 2021, we paid off the \$35.9 million loan on 600 Las Colinas in connection with the sale of the underlying property (See "Acquisitions and Dispositions").
- On March 3, 2022, the loan on Stanford Center was extended to February 26, 2023.

Development Activities

During 2021, we spent \$15.7 million on our ongoing development of Windmill Farms. Our expenditure included \$2.8 million on the development of land lots for sale to single family home builders and \$13.0 million on reimbursable infrastructure investments.

We have investment in nine notes receivable that were issued to fund the development of multifamily properties (See Item 2 - Properties). As of December 31, 2021, one of the projects was in construction, two were in lease-up and six were stabilized. In 2021, we made advanced \$8.6 million on these development notes. Each of these notes are convertible, at our option, into a 100% ownership interest in the underlying property.

During 2021, we advanced \$2.3 million on the development of Tower Bay Lofts, which is owned by a third party. We have an agreement that allows us to acquire this project, at our option, for the price of our investment.

Other Developments:

During the year ended December 31, 2021, we recorded a loss of \$29.6 million on the remeasurements of certain assets ("Earn Out Obligation") that were sold in connection with our investment in VAA.

On November 17, 2021, we entered into a Major Decision with Macquarie to engage a broker and initiate a sale of all the properties held by VAA, which are listed in Item 2. Properties as Joint Venture properties. In connection with the sale, VAA will distribute seven of its existing properties to us (referred to herein as the "Holdback Properties") and we in turn, will contribute one of our properties ("Contributed Property") into the portfolio offered for sale to third-parties. The sales price for the Holdback Properties and Contributed Property will be the estimated value of these properties as stated in the agreement, multiplied by the ratio of the actual sales price of the portion of the VAA Portfolio sold to a third party to the estimated value of the those properties that were provided in the agreement.

Each of the properties in the VAA Portfolio is appraised on an annual basis as part of our filing requirement with the TASE. As of December 31, 2021, the fair value of the VAA Portfolio, based on these appraisals was approximately \$1.4 billion. The appraised value reflect an aggregate of individual property appraised value and does not reflect a premium that is sometimes offered in a portfolio sale. These values reflects a compression of cap rates for multifamily properties during the last year. However, there can be no assurances that these values will be realized. The Major Decision agreement will expire on August 1, 2022, if the VAA Portfolio has not been sold.

Our ownership interest in VAA is held by SPC, and is therefore subject to the bond covenants of the three series of bonds that have been issued by SPC. These provisions include restrictions on the distribution of cash from SPC. (See Note 12 - Bonds Payable in our consolidated financial statements).

Business Plan and Investment Policy

Our business strategy is to maximize long-term value for our stockholders by the acquisition, development and ownership of income-producing multifamily properties in the secondary markets of the Southern United States. We generally hold our investments in real estate for the long term. We seek to maximize the current income and the value of our real estate by maintaining high occupancy levels while charging competitive rents and controlling costs. In the past we have opportunistically acquired commercial properties for income and appreciation. In addition, we also opportunistically acquire land for future development. From time to time and when we believe it appropriate to do so, we sell land and income-producing properties. We also invest in mortgage receivables.

Our income producing real estate is managed by external management companies. Our multifamily properties and one of our commercial properties are managed by various third-party companies and four of our commercial properties are managed by Regis Realty Prime, LLC ("Regis"), collectively the "management companies". The management companies conduct all of the administrative functions associated with our property operations (including billing, collections, and response to resident inquiries). Regis receives property management fees, construction management fees and leasing commissions in accordance with the terms of its property-level management agreement and is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage".

We also invest in notes receivables that are collateralized by investments in land and/or multifamily properties. These investments have included notes receivables from Unified Housing Foundation, Inc. ("UHF") Due to our ongoing relationship

and our significant investment in the performance of the collateral secured under the notes receivable, we consider UHF to be a related party.

We finance our acquisitions through operating cash flow, proceeds from the sale of land and income-producing properties, and debt, which is financing primarily in the form of property-specific, first-lien mortgage loans from commercial banks and institutional lenders. Most of the mortgage notes payable on our multifamily properties are insured with Department of Housing and Urban Development ("HUD"). HUD back mortgage notes payable generally provides for lower interest rates and longer term than conventional debt. However, HUD insured mortgage notes payable are subject to extensive regulations over the origination and transfers of mortgage notes payable and restrictions on the amount and timing of distribution of cash flows from the underlying real estate. When we sell properties, we may carry a portion of the sales price, generally in the form of a short-term interest bearing seller-financed note receivable, secured by the property being sold. We may also from time to time enter into partnerships or joint ventures with various investors to acquire land or income-producing properties, or to sell interests in some of our properties.

We have increased our portfolio of multifamily properties through ground up development. Since we don't have a fully developed in-house development, we have traditionally partnered with third-party developers ("Developers") to construct multifamily properties on our behalf. We work with the Developer on the location, design, construction budget and initial lease plan for a potential development project ("Development Project"). The construction plan includes a development fee to be paid to the Developer. To ensure that the Development Project is constructed on plan, on time and on budget, we generally enter into a convertible loan arrangement with the Developer, whereby we advance the out-of-pocket capital to the developer at nominal rate of interest with an option to convert the loan into a 100% ownership interest in the entity that holds the Development Project for a price equal to development cost.

For our land development projects, including Windmill Farms, we have acted as our own general contractor and construction manager. We believe direct involvement in construction enables us to achieve higher construction quality, greater control over construction schedules and cost savings. We actively monitor construction progress to ensure quality workmanship to enable sale of developed lots to third-party home builders.

Competition

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

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

Government Regulations

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas, fire and safety requirements, various environmental laws, HUD, the Americans with Disabilities Act and rent control laws.

Segments

We operate two business segments: the acquisition, development, ownership and management of multifamily properties, and the acquisition, development, ownership and management of commercial properties; which are primarily office properties. The services for our commercial segment include primarily rental of office space and other tenant services, including parking and storage space rental. The services for our multifamily segment include primarily rental of apartments and other tenant

services, including parking and storage space rental. See Note 15 to our consolidated financial statements in Item 8 of this Report for more information regarding our segments.

Human Capital

We have no employees. Employees of Pillar render services to us in accordance with the terms of the Advisory Agreement.

Available Information

We maintain an internet site at www.transconrealty-invest.com. We make available through our website free of charge Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16, and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. In addition, we have posted the charters for our Audit Committee, Compensation Committee, and Governance and Nominating Committee, as well as our Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director Independence and other information on the website. These charters and principles are not incorporated in this Report by reference. We will also provide a copy of these documents free of charge to stockholders upon written request. We issue Annual Reports containing audited financial statements to its common shareholders.

ITEM 1A. RISK FACTORS

An investment in our securities involves various risks. All investors should carefully consider the following risk factors, applicable to TCI and its subsidiaries in conjunction with the other information in this report before trading our securities.

FACTORS AFFECTING OUR ASSETS

The current COVID – 19 pandemic or the future outbreak of other highly infectious or contagious diseases and the timing and effectiveness of vaccine use or other effective medicines could materially and adversely affect our business, financial condition and results of operations.

Our operating results depend, in large part, on revenues derived from leasing space in our residential multifamily communities to residential tenants and the ability of tenants to generate sufficient income to pay their rents in a timely manner. The market and economic challenges created by the COVID – 19 pandemic and measures implemented to prevent its spread have and may continue to adversely affect our returns and profitability. As a result, our ability to make distributions may be compromised, and we could experience volatility with respect to the market value of our properties and common stock. In some cases, we may be legally required or otherwise agree to restructure tenants' rent obligations and may not be able to do so in terms favorable to us as those currently in place. Further, various city, county and state laws restricting rent increases in times of emergency may come into effect in connection with the pandemic, and numerous state, local, federal and industry-initiated efforts have and may continue to affect our ability to collect rent or enforce remedies for the failure to pay rent, including, among others, limitations or prohibitions on evicting tenants unwilling or unable to pay rent and prohibitions on the ability to collect unpaid rent during certain time frames. Some residents' views about their obligations to pay rent, even when financially capable of meeting the rent obligation, have shifted away from viewing rent as a primary and necessary financial obligation, and this shift may continue or worsen as a result of the eviction moratoriums and the various laws affecting our abilities to collect rent. Additionally, market fluctuations as a result of the pandemic may affect our ability to obtain necessary funds for our operations from current lenders or new borrowings. We may be unable to obtain financing for the acquisition of investments or refinancing for existing assets on satisfactory terms, or at all. Market fluctuations and construction delays, along with increased prices, experienced by our vendors may also negatively impact their ability to provide services to us.

The global impact of the pandemic continues to evolve rapidly, and the extent of its effect on our operational and financial performance will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, the timing of distribution and effectiveness of vaccines and the willingness and ability of the public to get vaccinated in a timely manner, and the direct and indirect economic effects of the pandemic and related containment measures, among others. Also, to the extent any of these risks and uncertainties adversely impact us in the ways described above or otherwise, they may also have the effect of heightening many of the other risks set forth in this Report.

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

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

- lack of demand for space in areas where the properties are located;
- inability to retain existing tenants and attract new tenants;
- oversupply of or reduced demand for space and changes in market rental rates;
- defaults by tenants or failure to pay rent on a timely basis;
- the need to periodically renovate and repair marketable space;
- physical damage to properties;
- economic or physical decline of the areas where properties are located; and
- potential risk of functional obsolescence of properties over time.

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

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

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

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

In our effort to lease properties, we compete for tenants with a broad spectrum of other landlords in each of the markets. These competitors include, among others, publicly-held REITs, privately-held entities, individual property owners and tenants who wish to sublease their space. Some of these competitors may be able to offer prospective tenants more attractive financial terms than we are able to offer.

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

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

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

Our ability to achieve growth in operating income depends in part on its ability to develop additional properties or acquire and redevelop or renovate existing properties.

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

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

- construction and leasing of a property may not be completed on schedule, which could result in increased expenses and construction costs, and would result in reduced profitability for that property;
- construction costs may exceed original estimates due to increases in interest rates and increased cost of materials, labor or other costs, possibly making the property less profitable because of inability to increase rents to compensate for the increase in construction costs;
- some developments may fail to achieve expectations, possibly making them less profitable;
- we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;
- we may abandon development opportunities after the initial exploration, which may result in failure to recover costs already incurred. If we determine to alter or discontinue its development efforts, future costs of the investment may be expensed as incurred rather than capitalized and we may determine the investment is impaired resulting in a loss;
- we may expend funds on and devote management's time to projects which will not be completed; and
- occupancy rates and rents at newly-completed properties may fluctuate depending on various factors including market and economic conditions, and may result in lower than projected rental rates and reduced income from operations.

We face risks associated with property acquisitions.

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

- when we are able to locate a desired property, competition from other real estate investors may significantly increase the seller's offering price;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;
- acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

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

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

Our properties are located principally in specific geographic areas in the southwestern, southeastern, and mid-western United States. Our overall performance is largely dependent on economic conditions in those regions.

Our investments in joint ventures may decrease our ability to manage risk. We conduct some of our operations through a joint venture in which we share control over certain economic and business interests with our joint venture partner. Our joint venture partner may have economic, business or legal interests or goals that are inconsistent with our goals and interests or may be unable to meet their obligations. Failure by us, or an entity in which we have a joint-venture interest, to adequately manage the risks associated with any acquisitions or joint ventures could have a material adverse effect on the financial condition or results of operations of our joint ventures and adversely affect our business, financial condition, results of operations and cash flows.

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

We had total indebtedness, including bonds and notes payable, at December 31, 2021 of approximately \$372.8 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a

prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit our ability to pursue other business opportunities in the future.

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

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

- general economic conditions affecting these markets;
- our own financial structure and performance;
- the market's opinion of real estate companies in general; and
- the market's opinion of real estate companies that own similar properties.

We may suffer adverse effects as a result of terms and covenants relating to our indebtedness.

Required payments on our indebtedness generally are not reduced if the economic performance of the portfolio declines. If the economic performance declines, net income, cash flow from operations and cash available for distribution to stockholders may be reduced. If payments on debt cannot be made, we could sustain a loss or suffer judgments, or in the case of mortgages, suffer foreclosures by mortgagees. Further, some obligations contain cross-default and/or cross-acceleration provisions, which means that a default on one obligation may constitute a default on other obligations.

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

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

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

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

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

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

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

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

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

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

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

We intend to devote resources to the development of new projects.

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

- we may abandon a project after spending time and money determining its feasibility;
- construction costs may materially exceed original estimates;
- the revenue from a new project may not be enough to make it profitable or generate a positive cash flow;
- we may not be able to obtain financing on favorable terms for development of a property, if at all;
- we may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs; and
- we may not be able to obtain, or may be delayed in obtaining, necessary governmental permits.

FACTORS AFFECTING THE INDUSTRY

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

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

- our real estate assets are concentrated primarily in the southwest and any deterioration in the general economic conditions of this region could have an adverse effect;
- changes in interest rates may make the ability to satisfy overall debt service requirements more burdensome;
- lack of availability of financing may render the purchase, sale or refinancing of a property more difficult or unattractive;
- changes in real estate and zoning laws;
- increases in real estate taxes and insurance costs;
- federal or local regulations or rent controls;
- acts of terrorism, and
- hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

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

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

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);
- competition from other office, apartment and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office, apartments or other commercial space;
- changes in interest rates and availability of financing;

- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;
- declines in the financial condition of our tenants and our ability to collect rents from our tenants; and
- decreases in the underlying value of our real estate.

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

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

- the financial condition of our tenants may be adversely affected which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;
- significant job losses within our tenants may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;
- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;
- reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and
- one or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

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

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

General real estate investment risks may adversely affect property income and values.

Real estate investments are subject to a variety of risks. If the communities and other real estate investments do not generate sufficient income to meet operating expenses, including debt service and Expenditures, cash flow, and the ability to make distributions, the operating income will be adversely affected. Income from the communities may be further adversely affected by, among other things, the following factors:

- changes in the general or local economic climate, including layoffs, plant closings, industry slowdowns, relocations of significant local employers, and other events negatively impacting local employment rates and wages and the local economy;
- local economic conditions in which the communities are located, such as oversupply of housing or a reduction in demand for rental housing;
- adverse economic or market conditions due to COVID – 19 pandemic leading to a temporary or permanent move by tenants and/or prospective tenants from locations in which our communities are located;

- the attractiveness and desirability of our communities to tenants, including, without limitation, the size and amenity offerings of our units, our technology offerings and our ability to identify and cost effectively implement new, relevant technologies and to keep up with constantly changing consumer demand for the latest innovations, including any increased requirements due to the significant increase in the number of people who continue to “work from home”;
- inflationary environments in which the cost to operate and maintain communities increases at a rate greater than our ability to increase rents or deflationary environments where we may be exposed to declining rents more quickly under our short-term leases;
- competition from other available housing alternatives;
- changes in rent control or stabilization laws or other laws regulating housing and other increasing regulation on people and business in locations where our communities are located;
- our ability to provide for adequate maintenance and insurance;
- declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;
- any decline in or tenants’ perceptions of the safety, convenience and attractiveness of our communities and the neighborhoods where they are located; and
- changes in interest rates and availability of financing.

As leases at the communities expire, tenants may enter into new leases on terms that are less favorable to us. Income and real estate values may also be adversely affected by such factors as applicable laws, including, without limitation, the Americans with Disabilities Act of 1990, Fair Housing Amendment Act of 1988, permanent and temporary rent controls, rent stabilization laws, other laws regulating housing that may prevent us from raising rents to offset increased operating expenses, and tax laws.

National and regional economic environments can negatively impact our liquidity and operating results.

Our forecast for the national economy assumes growth of the gross domestic product of the national economy and the economies of the southeastern and southwestern states. In the event of a recession or other negative economic effects, including as a result of the COVID – 19 pandemic, we could incur reductions in rental rates, occupancy levels, property valuations and increases in operating costs, such as advertising and turnover expenses. Any such recession or similar event may affect consumer confidence and spending and negatively impact the volume and pricing of real estate transactions, which could negatively affect our liquidity and its ability to vary its portfolio promptly in responses to changes to the economy. Further, if residents do not experience increases in their income, they may be unable or unwilling to pay rent increases, and delinquency in rent payments and rent defaults may increase as well as vacancy rates.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Residential Properties

Count	Property	Location	Year Constructed	Units	Occupancy
Consolidated Properties					
1	Chelsea	Beaumont, TX	1999	144	96.5%
2	Forest Grove	Bryan, TX	2020	84	98.8 %
3	Landing Bayou	Houma, LA	2005	240	42.1%
4	Legacy at Pleasant Grove	Texarkana, TX	2006	208	96.6%
5	Parc at Denham Springs Phase II	Denham Springs, LA	2010	144	93.8%
6	Sugar Mill Phase III	Baton Rouge, LA	2015	72	86.1%
7	Toulon	Gautier, MS	2011	240	98.8%
8	Villas at Bon Secour	Gulf Shores, AL	2007	200	96.5%
9	Vista Ridge	Tupelo, MS	2009	160	96.9%
				1,492	
Joint Venture Properties					
1	Abode Red Rock	Las Vegas, NV	2018	308	97.1 %
2	Apalachee Point Villas	Tallahassee, FL	2018	200	98.5 %
3	Blue Lake Villas	Waxahachie, TX	2002	186	98.4 %
4	Blue Lake Villas Phase II	Waxahachie, TX	2004	70	97.1 %
5	Breakwater Bay	Beaumont, TX	2003	176	96.6 %
6	Bridgewood Ranch	Kaufman, TX	2007	106	99.1 %
7	Capitol Hill	Little Rock, AR	2003	156	97.4 %
8	Centennial Village	Oak Ridge, TN	2011	252	97.2 %
9	Crossing at Opelika	Opelika, AL	2011	168	97.0 %
10	Dakota Arms	Lubbock, TX	2005	208	97.6 %
11	Desoto Ranch	DeSoto, TX	2003	248	97.6 %
12	Eagle Crossing	Dallas, TX	2017	150	98.0 %
13	Falcon Lake	Arlington, TX	2002	248	98.8 %
14	Heather Creek	Mesquite, TX	2003	200	99.0 %
15	Lake Forest	Humble, TX	2004	240	97.9 %
16	Lakeside Lofts	Farmers Branch, TX	2020	494	96.4 %
17	Lodge at Pecan Creek	Denton, TX	2011	192	97.9 %
18	Lofts at Reynolds	Asheville, NC	2012	201	99.0 %
19	Mansions of Mansfield	Mansfield, TX	2008	208	98.6 %
20	McKinney Point	McKinney, TX	2017	198	98.5 %
21	Metropolitan	Little Rock, AR	2008	260	93.8 %
22	Mission Oaks	San Antonio, TX	2006	228	97.4 %
23	Northside on Travis	Sherman, TX	2008	200	99.0 %
24	Oak Hollow	Sequin, TX	2011	160	97.5 %
25	Oak Hollow Phase II	Sequin, TX	2018	96	95.8 %
26	Oceanaire	Biloxi, MS	2009	196	99.5 %
27	Overlook at Allensville Square	Sevierville, TN	2012	144	97.9 %
28	Overlook at Allensville Phase II	Sevierville, TN	2012	144	98.6%
29	Parc at Bentonville	Bentonville, AR	2017	216	96.3 %
30	Parc at Clarksville	Clarksville, TN	2018	168	99.4 %
31	Parc at Denham Springs	Denham Spring, LA	2007	224	96.0 %
32	Parc at Garland	Garland, TX	2010	198	99.0 %
33	Parc at Mansfield	Mansfield, TX	2017	99	100.0 %
34	Parc at Maumelle	Little Rock, AR	2015	240	97.5 %
35	Parc at Metro Center	Nashville, TN	2005	144	98.6 %
36	Parc at Rogers	Rogers, AR	2006	250	97.6 %

Count	Property	Location	Year		Occupancy
			Constructed	Units	
37	Parc at Wylie	Wylie, TX	2007	198	98.5 %
38	Preserve at Pecan Creek	Denton, TX	2008	192	97.4 %
39	Preserve at Prairie Pointe	Lubbock, TX	2005	184	96.7 %
40	Residences at Holland Lake	Weatherford, TX	2004	208	97.6 %
41	Sawgrass Creek	New Port Richey, FL	2018	188	99.5 %
42	Sonoma Court	Rockwall, TX	2011	124	99.2 %
43	Sugar Mill Phase I	Baton Rouge, LA	2009	160	83.1 %
44	Sugar Mill Phase II	Baton Rouge, LA	2016	80	77.5 %
45	Tattersall Village	Hinesville, GA	2010	222	96.8 %
46	Terra Lago	Rowlett, TX	2018	451	97.6 %
47	Tradewinds	Midland, TX	2015	214	84.6 %
48	Villas of Park West I	Pueblo, CO	2005	148	97.3 %
49	Villas of Park West II	Pueblo, CO	2010	112	99.1 %
50	Vistas of Vance Jackson	San Antonio, TX	2005	240	97.5 %
51	Waterford At Summer Park	Rosenberg, TX	2013	196	99.0 %
52	Windsong	Fort Worth, TX	2003	188	97.3 %
				10,281	
61	Total Multifamily Properties			11,773	

Residential Portfolio Composition

The following table sets forth the location of and number of units as of December 31, 2021:

Location	Company owned		VAA owned		Total	
	No.	Units	No.	Units	No.	Units
Alabama	1	200	1	168	2	368
Arkansas	—	—	5	1,122	5	1,122
Colorado	—	—	2	260	2	260
Florida	—	—	2	388	2	388
Georgia	—	—	1	222	1	222
Louisiana	3	456	3	464	6	920
Mississippi	2	400	1	196	3	596
North Carolina	—	—	1	201	1	201
Nevada	—	—	1	308	1	308
Tennessee	—	—	5	852	5	852
Texas	3	436	30	6,100	33	6,536
	9	1,492	52	10,281	61	11,773

Commercial Properties

Count	Property	Location	Year Constructed	Square Feet	Occupancy
Office Buildings					
1	770 South Post Oak	Houston, TX	1980	95,450	53.3%
2	Browning Place	Farmers Branch, TX	1982	625,297	73.0%
3	Senlac	Farmers Branch, TX	1971	2,812	100.0%
4	Stanford Center	Dallas, TX	1982	333,234	67.9%
				<u>1,056,793</u>	
Retail Centers					
5	Fruitland Park	Fruitland Park, FL	1986	6,722	—%
5				<u>1,063,515</u>	

Commercial Lease Expirations

The following table summarizes our commercial lease expirations as of December 31, 2021:

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized Contractual Rent Under Expiring Leases (1,000s)(1)	Current Annualized Contractual Rent Under Expiring Leases (P.S.F.)	Percentage of Total Square Feet	Percentage of Gross Rentals
2022	225,945	\$ 13,368	\$ 59.15	21.3 %	23.0 %
2023	209,346	9,128	43.67	19.7 %	15.7 %
2024	51,645	5,613	107.94	4.9 %	9.6 %
2025	25,614	5,200	200.00	2.5 %	8.9 %
2026	7,157	4,912	701.71	0.7 %	8.4 %
Thereafter	205,353	20,008	97.60	19.3 %	34.4 %
	<u>725,060</u>	<u>\$ 58,229</u>			<u>100.0 %</u>

- (1) This amount reflects total rent before any rent abatement and includes expense reimbursements, which may be estimates as of such date.

Land Investments

Project	Location	Acres
<i>Held for development</i>		
Athens	Athens, AL	33
EQK Portage	Kent, OH	49
McKinney 36	Collin County, TX	18
McKinney Heritage	McKinney, TX	10
Ocean Estates	Gulfport, MS	12
Willowick	Pensacola, FL	40
Mercer Crossing Commercial	Farmers Branch, TX	19
Windmills Farm	Kaufman County, TX	1,223
Other	Various	41
		<u>1,445</u>
<i>Held subject to sales contract</i>		
Mercer Crossing	Farmers Branch, TX	1
Windmill Farms	Kaufman County, TX	440
		<u>441</u>
		<u>1,886</u>

ITEM 3. LEGAL PROCEEDINGS

We were a defendant in litigation with David Clapper and related entities (collectively, "Clapper") regarding a multifamily property transaction that occurred in 1988. The litigation led to a substantial judgment against our affiliate and Clapper subsequently sued numerous other entities including us in Federal Court to collect that judgment. The case was tried to a jury in May 2021. The jury found the defendants owed Clapper nothing and the Court issued a take nothing judgment. Clapper subsequently filed an appeal to the US Fifth Circuit Court of Appeals.

In February 2019, Paul Berger ("Berger") filed a lawsuit against us, our directors, our officers and others that alleges that we completed improper sales and/or transfers of property with IOR. Berger requests that we pay off various related party loans to IOR and that IOR then distribute the funds to IOR's stockholders. We intend to vigorously defend against the allegations. The trial for this matter is scheduled for November 2022.

In connection with the formation of VAA, ten of the properties that we contributed to the joint venture were subject to an earn-out provision that provided for a remeasurement of the value of those properties after a two-year period following the completion of construction (the "Earn Out Obligation"). We were unable to reach agreement with our joint venture partner on the remeasured value, and as a result, the parties filed for arbitration in accordance with the joint venture agreement. On July 13, 2021, we received the arbitration verdict in connection with our dispute on the measurement of the Earn Out Obligation, which determined that our position and claims were declined, and the position of Macquarie was fully accepted. As a result, we were ordered to pay approximately \$39.6 million to Macquarie to satisfy the Earn Out Obligation.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

ARL's common stock is listed and traded on the NYSE under the symbol "ARL". The following table sets forth the high and low sales prices as reported in the consolidated reporting system of the NYSE for the quarters ended:

	2021		2020	
	High	Low	High	Low
First Quarter	\$ 11.50	\$ 8.50	\$ 13.51	\$ 11.22
Second Quarter	\$ 13.31	\$ 7.71	\$ 14.36	\$ 11.19
Third Quarter	\$ 20.38	\$ 9.20	\$ 17.89	\$ 10.53
Fourth Quarter	\$ 13.67	\$ 11.04	\$ 17.39	\$ 12.25

On March 28, 2022, the closing market price of our common stock on the NYSE \$14.44 per share, and was held by approximately 1,373 stockholders of record.

Our Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, the board determined not to pay any dividends on common stock in December 31, 2021, 2020 or 2019. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including our financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

We have a share repurchase program that allows for the repurchase of up to 1,250,000 shares of our common stock. This repurchase program has no termination date. There were no shares repurchased in 2021 and the program has 19,465 share remaining that can be repurchased as of December 31, 2021.

ITEM 6. SELECTED FINANCIAL DATA

Optional and not included.

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes in Part II, Item 8 of this Report. Our results of operations for the year ended December 31, 2021 were affected by a acquisitions and disposition, refinancing activity, development activity as discussed below.

Management's Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development throughout the Southern United States. Our portfolio of income-producing properties includes multifamily residential properties, office buildings and other commercial properties. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project.

Our operations are managed by Pillar Income Asset Management, Inc. ("Pillar") in accordance with an Advisory Agreement. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges our debt and equity financing with third party lenders and investors. We rely upon the employees of Pillar render services to us in accordance with the terms of the Advisory Agreement. Pillar is considered to be a related party due to its common ownership with RAI.

The following is a summary of our recent acquisition, disposition, financing and development activities:

Acquisitions and Dispositions

- On May 31, 2019, we sold Westwood, a 120 unit multifamily property in Mary Ester, Florida for \$3.1 million, resulting in a loss on sale of \$0.1 million.
- During the year ended December 31, 2019, we sold 105.1 acres of land for an aggregate sales price of \$30.0 million and purchased 41.9 acres for an aggregate purchase price of approximately \$4.6 million.
- On March 5, 2020, we acquired a 49.2 acres land parcel in Kent, Ohio for \$5.4 million that was funded by a \$2.0 million cash payment and a \$3.4 million note payable that bears interest at 10% and matures on November 13, 2024.
- On May 1, 2020, we sold Villager, a 33 unit multifamily property in Fort Walton, Florida for \$2.4 million, resulting in a gain on sale of \$1.0 million.
- On July 16, 2020, we sold Farnham Park, a 144 unit multifamily property in Port Arthur, Texas for \$13.3 million, resulting in a gain on sale of \$2.7 million.
- On September 14, 2020, we sold Bridge View Plaza, a retail property in La Crosse, Wisconsin for \$5.3 million, resulting in a gain on sale of \$4.6 million.
- During the year ended December 31, 2020, we sold a total of 58.8 acres of land from our holdings in Windmill Farms for \$12.9 million, in aggregate, resulting in gains on sale of \$11.1 million. In addition, we sold 26.79 acres of land from our holdings in Mercer Crossing during the year ended December 31, 2020 for \$16.3 million, resulting in a gain on sale of \$5.7 million.
- On March 30, 2021, we sold a 50% ownership interest in Overlook at Allensville Phase II, a 144 unit multifamily property in Sevierville, Tennessee, to Macquarie for \$2.6 million resulting in a gain on sale of \$1.4 million. Concurrent with the sale, we each contributed our 50% ownership interests in Overlook at Allensville Phase II into VAA.
- On August 26, 2021, we sold 600 Las Colinas, a 512,173 square foot office building in Irving, Texas for \$74.8 million, resulting in a gain on sale of \$27.3 million. We used the proceeds to pay down the mortgage note payable on the property (See "Financing Activities") and for general corporate purposes.
- During the year ended December 31, 2021, we sold a total of 134.7 acres of land from our holdings in Windmill Farms for \$20.2 million, in aggregate, resulting in gains on sale of \$10.3 million. In addition, we sold 14.1 acres of land from our holdings in Mercer Crossing during the year ended December 31, 2021 for \$9.0 million, resulting in a gain on sale of \$6.4 million.

Financing Activities

- On July 28, 2019, we paid off the \$41.5 million mortgage note payable on Browning Place, which resulted in a loss on early extinguishment of debt of \$5.2 million. Concurrent with the repayment of the mortgage note payable, we issued \$78.1 million of Series C bonds (See Note 12 in our consolidated financial statements), which are collateralized by Browning Place, bear interest at 4.65% and mature on January 31, 2023.
- On November 30, 2020, we issued \$19.7 million in additional Series A bonds (See Note 12 in our consolidated financial statements) for \$18.8 million in net proceeds. We used the proceeds to fund in part our bond payments that were due on January 30, 2021.
- On December 3, 2020, we extended our \$14.7 million loan from HSW Partners to June 17, 2021.
- On March 2, 2021, we extended our \$1.2 million loan on Athens to August 28, 2022.
- On March 4, 2021, we extended the maturity of our \$8.4 million loan on Windmill Farms until February 28, 2023 at a reduced interest rate of 5%.
- On August 25, 2021, we replaced the existing loan on Villas at Bon Secour with a new \$20.0 million loan that bears interest at 3.08% and matures on September 1, 2031.

- On August 26, 2021, we paid off the \$35.9 million loan on 600 Las Colinas in connection with the sale of the underlying property (See "Acquisitions and Dispositions").
- On March 3, 2022, the loan on Stanford Center was extended to February 26, 2023.

Development Activities

In 2020, we completed the construction of Parc at Denham Springs Phase II and Sugar Mill Phase III for a total cost of \$17.2 million and \$14.2 million, respectively.

During 2021, we spent \$15.7 million on our ongoing development of Windmill Farms. Our expenditure includes \$2.8 million on the development of land lots for sale to single family home developers and \$13.0 million on reimbursable infrastructure investments.

We have investment in nine notes receivable that were issued to fund the development of multifamily properties (See Item 2 - Properties). As of December 31, 2021, one of the projects was in construction, two were in lease-up and six were stabilized. In 2021, we advanced \$8.6 million on these development notes. Each of these notes are convertible, at our option, into a 100% ownership interest in the underlying property.

During 2021, we advanced \$2.3 million on the development of Tower Bay Lofts, which is owned by a third party. We have an agreement that allows us to purchase this project, at our option, for the price of investment.

Other Developments:

During the year ended December 31, 2020, we completed the construction of Parc at Denham Springs Phase II and Sugar Mill Phase III for a total cost of \$17.2 million and \$14.2 million, respectively.

During 2021, we recorded a loss of \$29.6 million on the remeasurements of certain assets ("Earn Out Obligation") that were sold in connection with our investment in VAA..

On November 17, 2021, we entered into a Major Decision with Macquarie to engage a broker and initiate a sale of all the properties held by VAA, which are listed in Item 2. Properties as Joint Venture properties. In connection with the sale, VAA will distribute seven of its existing properties to us (referred to herein as the "Holdback Properties") and we in turn, will contribute one of our properties ("Contributed Property") into the portfolio offered for sale to third-parties. The sales price for the Holdback Properties and Contributed Property will be the estimated value of these properties as stated in the agreement, multiplied by the ratio of the actual sales price of the portion of the VAA Portfolio sold to a third party to the estimated value of the those properties that were provided in the agreement.

Each of the properties in the VAA Portfolio is appraised on an annual basis as part of our filing requirement with the TASE. As of December 31, 2021, the fair value of the VAA Portfolio, based on these appraisals was approximately \$1.4 billion. The appraised value reflect an aggregate of individual property appraised value and does not reflect a premium that is sometimes offered in a portfolio sale. These values reflects a compression of cap rates for multifamily properties during the last year. However, there can be no assurances that these values will be realized. The Major Decision agreement will expire on August 1, 2022, if the VAA Portfolio has not been sold.

Our ownership interest in VAA is held by SPC, and is therefore subject to the bond covenants of the three series of bonds that have been issued by SPC. These provisions include restrictions on the distribution of cash from SPC (See Note 12 - Bonds Payable in our consolidated financial statements).

Critical Accounting Policies

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

Some of these estimates and assumptions include judgments on revenue recognition, estimates for common area maintenance and real estate tax accruals, provisions for uncollectible accounts, impairment of long-lived assets, the allocation of purchase price between tangible and intangible assets, capitalization of costs and fair value measurements. Our significant

accounting policies are described in more detail in Note 2—Summary of Significant Accounting Policies in our notes to the consolidated financial statements. However, the following policies are deemed to be critical.

Fair Value of Financial Instruments

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

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

Level 1—Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2—Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—Unobservable inputs that are significant to the fair value measurement.

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

Related Parties

We apply ASC Topic 805, “Business Combinations”, to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing our own separate interests, or affiliates of the entity.

Environmental Matters

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

We are not aware of any environmental liability relating to the above matters that would have a material adverse effect on our business, assets or results of operations.

Inflation

The effects of inflation on our 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 sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, our earnings from short-term investments, the cost of new financings and the cost of variable interest rate debt will be affected.

Results of Operations

Many of the variations in the results of operations, discussed below, occurred because of the transactions affecting our properties described above, including those related to the Lease-Up Properties and the Disposition Properties (each as defined below).

For purposes of the discussion below, we define "Same Properties" as those properties that are substantially leased-up and in operation for the entirety of both periods of the comparison. Non-Same Properties for comparison purposes include those properties that have been recently constructed or leased-up ("Lease-up Properties") and properties that have been disposed of ("Disposition Properties"). A developed property is considered leased-up, when it achieves occupancy of 80% or more. We move a property in and out of Same Properties based on whether the property is substantially leased-up and in operation for the entirety of both periods of the comparison. Accordingly, the Same Properties consist of all properties, excluding the Lease-up Properties and the Disposition Properties for the periods of comparison.

For the comparison of the year ended December 31, 2021 to the year ended December 31, 2020, the Lease-up Properties are Forest Grove, Parc at Denham Springs Phase II and Sugar Mill Phase III; and the Disposition Properties are 600 Las Colinas, Overlook at Allensville Phase II, Bridge View Plaza, Farnham Park and Villager.

The following table provides a summary of the results of operations of 2021 and 2020:

	For the Years Ended December 31,		Variance
	2021	2020	
Multifamily Segment			
Revenue	\$ 14,495	\$ 14,686	\$ (191)
Operating expenses	(8,167)	(8,482)	315
	<u>6,328</u>	<u>6,204</u>	<u>124</u>
Commercial Segment			
Revenue	23,313	37,223	(13,910)
Operating expenses	(12,693)	(15,878)	3,185
	<u>10,620</u>	<u>21,345</u>	<u>(10,725)</u>
Segment operating income	16,948	27,549	(10,601)
Other non-segment items of income (expense)			
Depreciation and amortization	(11,870)	(14,755)	2,885
General, administrative and advisory	(29,927)	(20,023)	(9,904)
Interest, net	(5,659)	(11,906)	6,247
Loss on extinguishment of debt	(1,451)	—	(1,451)
(Loss) gain on foreign currency transactions	(6,175)	(13,378)	7,203
Gain sale or write down of assets	24,647	36,895	(12,248)
Income (loss) from joint ventures	14,634	(379)	15,013
Other income	5,298	7,264	(1,966)
Net income (loss)	<u>\$ 6,445</u>	<u>\$ 11,267</u>	<u>\$ (4,822)</u>

Comparison of the year ended December 31, 2021 to the year ended December 31, 2020:

Our \$4.8 million decrease in net income in 2021 is primarily attributed to the following:

- The \$10.7 million decrease in operating profits in our commercial segment is attributed a decrease of \$8.1 million from the Same Properties and \$1.9 million from the Disposition Properties. The decrease at the Same Properties is primarily due to a \$5.9 million lease termination payment at Browning Place in 2020 and a decline in occupancy. The lease termination payment relates to a former tenant that has been replaced by a new tenant at increased rents.
- The \$9.9 million increase in general, administrative and advisory expenses is primarily due to an increase in advisory fees related to the sale of 600 Las Colinas, the refinance of Villas at Bon Secour (See "Acquisitions and Dispositions" and "Financing Activities" in Management's Overview), and legal costs associated with the Clapper litigation and the VAA Earn Out arbitration.

- The decrease in interest expense, net is primarily due to the repayment of the loan on 600 Las Colinas (See "Acquisitions and Dispositions" and "Financing Activities" in Management's Overview) and the repayment of other notes payable in 2021.
- The decrease in loss on foreign currency transactions is due to the decrease in the amount of bonds payable outstanding during 2020 in comparison to 2021, offset in part by the continued decrease in the value of the dollar in comparison to the New Israel Shekel in 2021.
- The \$1.5 million loss on extinguishment of debt in 2021 is due to the early extinguishment of our mortgage note payable on 600 Las Colinas and Villas at Bon Secour (See "Financing Activities" in Management's Overview).
- The \$12.2 million decrease on gain on sale or remeasurement of assets is primarily due to the \$29.6 million charge from the remeasurement of the Earn Out Obligation (See "Acquisitions and Dispositions" in Management's Overview) and a \$6.7 million decrease in gain on sale of land in 2021, offset in part by a \$28.0 million increase gain on sale of various commercial and multifamily properties in 2021 (See "Acquisitions and Dispositions" in Management's Overview).
- The \$15.0 million increase of income (loss) from joint ventures is due to the increased in occupancy of the various lease-up properties at VAA.

Comparison of the year ended December 31, 2020 to the year ended December 31, 2019:

See Item 7 of Part II in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 26, 2021 for a discussion of our results of operations for the year ended December 31, 2020.

Liquidity and Capital Resources

Our principal sources of cash have been, and will continue to be, property operations; proceeds from land and income-producing property sales; collection of mortgage notes receivable; collections of receivables from related companies; refinancing of existing mortgage notes payable; and additional borrowings, including mortgage notes and bonds payable, and lines of credit.

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

We anticipate that our cash, cash equivalents and short-term investments as of December 31, 2021, along with cash that will be generated in 2022 from notes and interest receivables, will be sufficient to meet all of our cash requirements. We intend to selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet our liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of our current maturity obligations.

Cash Flow Summary

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

	Year Ended December 31,		
	2021	2020	Incr / (Decr)
Net cash (used in) provided by operating activities	\$ (11,523)	\$ 3,498	\$ (15,021)
Net cash provided by investing activities	\$ 100,822	\$ 4,196	\$ 96,626
Net cash used in financing activities	\$ (103,585)	\$ (3,985)	\$ (99,600)

The decrease in cash from operating activities is primarily due to the \$18.6 million decrease in receivable from related parties in 2019.

The increase in cash provided by investing activities is primarily due to a \$64.6 million increase in proceeds from sale of assets, a \$28.0 million decrease in originations and advances on notes receivable, a \$9.9 million increase in collection of notes

receivable and a \$9.4 million decrease in development and renovation of real estate. The increase in proceeds from sale of assets is primarily due to the sale of 600 Las Colinas in 2021 (See "Acquisitions and Dispositions" in Management's Overview).

The increase in cash used in financing activities is primarily due to a \$85.5 million increase in payments of mortgages, notes and bonds payable and \$10.7 million decrease in proceeds from mortgages, notes and bonds payable. The increase in payments of mortgages, notes and bonds payable is due to the pay off of the loan on 600 Las Colinas in 2021, the refinancing of Villas at Bon Secour in 2021 (See "Financing Activities" in Management's Overview), and a \$34.1 million increase in payments on the bonds payable.

Funds From Operations ("FFO")

We use FFO in addition to net income to report our operating and financial results and considers FFO and FFO-diluted as supplemental measures for the real estate industry and a supplement to GAAP measures. The National Association of Real Estate Investment Trusts ("Nareit") defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of properties, plus real estate related depreciation and amortization, impairment write-downs of real estate and write-downs of investments in an affiliate where the write-downs have been driven by a decrease in the value of real estate held by the affiliate and after adjustments for unconsolidated joint ventures. Adjustments for unconsolidated joint ventures are calculated to reflect FFO on the same basis. We also presents FFO excluding the impact of the effects of foreign currency translation.

FFO and FFO on a diluted basis are useful to investors in comparing operating and financial results between periods. This is especially true since FFO excludes real estate depreciation and amortization, as we believe real estate values fluctuate based on market conditions rather than depreciating in value ratably on a straight-line basis over time. We believe that such a presentation also provides investors with a meaningful measure of our operating results in comparison to the operating results of other real estate companies. In addition, we believe that FFO excluding gain (loss) from foreign currency transactions provide useful supplemental information regarding our performance as they show a more meaningful and consistent comparison of our operating performance and allows investors to more easily compare our results.

We believe that FFO does not represent cash flow from operations as defined by GAAP, should not be considered as an alternative to net income as defined by GAAP, and is not indicative of cash available to fund all cash flow needs. We also caution that FFO, as presented, may not be comparable to similarly titled measures reported by other real estate companies.

We compensate for the limitations of FFO by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of FFO and a reconciliation of net income to FFO and FFO-diluted. We believe that to further understand our performance, FFO should be compared with our reported net income and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following reconciles our net income attributable to FFO and FFO-basic and diluted, excluding loss from foreign currency transactions and loss on extinguishment of debt for the years ended December 31, 2021, 2020 and 2019 (dollars and shares in thousands):

	For the Year Ended December 31,		
	2021	2020	2019
Net income (loss) attributable to the Company	\$ 3,347	\$ 9,030	\$ (15,958)
Depreciation and amortization on consolidated assets	11,870	14,755	13,379
Gain (loss) on sale or write down of assets	(24,647)	(36,895)	(15,192)
Gain on sale of land	16,645	25,171	15,272
Depreciation and amortization on unconsolidated joint ventures at pro rata share	11,604	11,295	20,440
FFO-Basic and Diluted	18,819	23,356	17,941
Loss on extinguishment of debt	1,451	—	5,219
Loss on foreign currency transactions	6,175	13,378	15,108
FFO-adjusted	<u>\$ 26,445</u>	<u>\$ 36,734</u>	<u>\$ 38,268</u>

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

Optional and not included.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of and
Stockholders of American Realty Investors, Inc.
Dallas, Texas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of American Realty Investors, Inc. and Subsidiaries as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes and schedules (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of American Realty Investors, Inc. as of December 31, 2021 and 2020 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

Basis of Opinion

These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment of investment in real estate

Description of the Matter

The Company's net investment in real estate totaled \$296.4 million as of December 31, 2021. As discussed in Note 2 to the consolidated financial statements, the Company periodically assesses whether there has been any impairment in the carrying value of its properties and whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. Impairment is recognized on real estate assets held for investment when indicators of impairment are present and the future undiscounted cash flows for a real estate asset are less than its carrying amount, at which time the real estate asset is written down to its estimated fair value.

Auditing the Company's impairment assessment for real estate assets was complex because of the subjective auditor judgment necessary in evaluating management's identification of indicators of potential impairment. Our evaluation of management's identification of indicators of impairment included our related assessment of such indicators, either individually or in combination, in determining whether a triggering event has occurred that requires the Company to evaluate the recoverability of the real estate asset.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Company's controls over the Company's real estate asset impairment assessment process. Our testing of the Company's impairment assessment included, among other procedures, evaluating significant judgments applied in determining whether indicators of impairment existed for the Company's real estate assets. Our procedures included obtaining evidence to corroborate such judgments and searching for evidence contrary to such judgments, including searching for significant tenant write-offs or upcoming lease expirations with little prospects for replacement tenants. We also searched for any significant declines in operating results of a real estate asset due that could be a triggering event or an indicator of potential impairment.

Collectability of Notes Receivable

Description of the Matter

At December 31, 2021, the Company had notes receivable in the amount of \$136.6 million. The Company performs an assessment as to whether or not substantially all of the amounts due under these notes receivable is deemed probable of collection. Subsequently, for notes where the Company concludes that it is not probable that it will collect substantially all payments due under the note, the Company creates an allowance for any amounts not probable of collection.

Auditing the Company's collectability assessment is complex due to the judgment involved in the Company's determination of the collectability of these notes. The determination involves consideration of the terms of the note, whether or not the note is currently performing, and any security for the note.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Company's controls over notes receivable and their collectability assessment. Our testing included among other things, confirming selected notes receivable, determining if the notes were performing according to their terms and testing the Company's evaluation of the underlying security interest if necessary.

Revenue Recognition (straight-line) for commercial tenants

Description of the Matter

During 2021, the Company recognized office rental revenues and tenant recoveries of \$23.3 million and deferred rent receivables of \$2.0 million at December 31, 2021. As described in Note 2 to the consolidated financial statements, the Company recognizes revenue from commercial properties on a straight-line basis over the terms of the related leases.

Auditing the Company's straight-line calculations is complex due to the free rent periods, lease amendments and escalation clauses contained in many of the leases.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Company's controls over office rental revenues and tenant recoveries, including controls over management's calculation of the straight-line calculation and deferred rent receivable. To test the straight-line rent revenue and deferred rent receivable, we performed audit procedures that included, among others, evaluating the data and assumptions used in determining the calculation and agreeing amounts in the calculation to copies of lease agreements. In addition, we tested the completeness and accuracy of the data that was used in management's straight-line rent and deferred rent receivable calculation.

Emphasis of Liquidity

As described in the Note 18, management intends to sell income-producing assets, refinance real estate and obtain additional borrowings primarily secured by real estate to meet the Company's liquidity requirements.

Supplemental Information

The supplemental information contained in Schedules III and IV has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Security and Exchange Commission's rules. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

FARMER, FUQUA & HUFF, PC

Richardson, Texas

March 28, 2021

We have served as the Company's auditor since 2004.

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except par value amounts)

	December 31,	
	2021	2020
Assets		
Real estate	\$ 296,363	\$ 377,383
Cash and cash equivalents	50,748	36,814
Restricted cash	21,986	50,206
Short-term investments	16,001	—
Notes receivable (including \$75,872 and \$69,518 at December 31, 2021 and 2020, respectively, from related parties)	136,607	130,626
Investment in unconsolidated joint ventures	61,621	60,425
Receivable from related parties	100,599	129,335
Other assets (including \$4,535 and 4,480 at December 31, 2021 and 2020, respectively, from related parties)	86,644	80,975
Total assets	<u>\$ 770,569</u>	<u>\$ 865,764</u>
Liabilities and Equity		
Liabilities:		
Mortgages and other notes payable	\$ 183,392	\$ 242,711
Bonds payable	189,452	237,888
Accounts payable and other liabilities (including \$616 and \$930 at December 31, 2021 and 2020, respectively, to related parties)	44,518	27,299
Interest payable	6,565	7,639
Deferred revenue	9,791	19,821
Total liabilities	<u>433,718</u>	<u>535,358</u>
Equity:		
Shareholders' equity		
Preferred stock, Series A, \$2.00 par value, 15,000,000 shares authorized, 1,800,614 shares issued and outstanding	1,801	1,801
Common stock, \$0.01 par value, 100,000,000 shares authorized; 16,152,043 shares issued and 16,152,043 outstanding	162	162
Treasury stock at cost, — shares	—	(2)
Additional paid-in capital	62,090	62,092
Retained earnings	176,085	172,738
Total shareholders' equity	<u>240,138</u>	<u>236,791</u>
Noncontrolling interest	96,713	93,615
Total equity	<u>336,851</u>	<u>330,406</u>
Total liabilities and equity	<u>\$ 770,569</u>	<u>\$ 865,764</u>

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)

	For the Years Ended December 31,		
	2021	2020	2019
Revenues:			
Rental revenues (including \$944, \$1,083 and \$841 for 2021, 2020 and 2019, respectively, from related parties)	\$ 37,808	\$ 51,909	\$ 46,231
Other income	4,231	7,117	12,757
Total revenue	42,039	59,026	58,988
Expenses:			
Property operating expenses (including \$889, \$990 and \$991 for 2021, 2020 and 2019, respectively, from related parties)	20,860	24,360	25,694
Depreciation and amortization	11,870	14,755	13,379
General and administrative (including \$4,399, \$3,869 and \$4,429 for 2021, 2020 and 2019, respectively, from related parties)	15,942	10,614	11,089
Advisory fee to related party	13,985	9,409	9,216
Total operating expenses	62,657	59,138	59,378
Net operating loss	(20,618)	(112)	(390)
Interest income (including \$19,799, \$19,515 and \$23,670 for 2021, 2020 and 2019, respectively, from related parties)	23,421	23,098	25,955
Interest expense (including \$5,661, \$6,632 and \$9,282 for 2021, 12/31/2020 and 2019, respectively, from related parties)	(29,080)	(35,004)	(39,860)
Loss on foreign currency transactions	(6,175)	(13,378)	(15,108)
Loss on extinguishment of debt	(1,451)	—	(5,219)
Equity in income (loss) from unconsolidated joint ventures	14,634	(379)	(2,313)
Gain on sale or write-down of assets	24,647	36,895	15,192
Income tax provision	1,067	147	—
Net income (loss)	6,445	11,267	(21,743)
Net (income) loss attributable to noncontrolling interest	(3,098)	(2,237)	5,785
Net income (loss) attributable to the Company	3,347	9,030	(15,958)
Preferred dividend	—	—	(1)
Net income (loss) applicable to common shares	<u>\$ 3,347</u>	<u>\$ 9,030</u>	<u>\$ (15,959)</u>
Earnings per share - basic			
Basic	<u>\$ 0.21</u>	<u>\$ 0.56</u>	<u>\$ (1.00)</u>
Diluted	<u>\$ 0.21</u>	<u>\$ 0.56</u>	<u>\$ (1.00)</u>
Weighted average common shares used in computing earnings per share			
Basic	<u>16,152,043</u>	<u>16,045,796</u>	<u>15,997,076</u>
Diluted	<u>16,152,043</u>	<u>16,045,796</u>	<u>15,997,076</u>

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENT OF EQUITY
(Dollars in thousands, except share amounts)

	Preferred Stock	Common Stock	Treasury Stock	Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, January 1, 2019	\$ 3,601	\$ 164	\$ (6,395)	\$ 81,289	\$ 179,666	\$ 258,325	\$ 62,802	\$ 321,127
Net income		—	—	—	(15,958)	(15,958)	(5,785)	(21,743)
Series A preferred stock cash dividend (\$1.00 per share)	—	—	—	(1)	—	(1)	—	(1)
Distribution to equity partner	—	—	—	(2,867)	—	(2,867)	—	(2,867)
Balance, December 31, 2019	3,601	164	(6,395)	78,421	163,708	239,499	57,017	296,516
Net loss	—	—	—	—	9,030	9,030	2,237	11,267
Issuance of common shares	—	—	—	3,747	—	3,747	—	3,747
Issuance of Series A preferred shares	—	—	—	18,876	—	18,876	—	18,876
Cancellation of treasury shares	(1,800)	(2)	6,393	(4,591)	—	—	—	—
Adjustment of noncontrolling interest	—	—	—	(34,361)	—	(34,361)	34,361	—
Balance, December 31, 2020	1,801	162	(2)	62,092	172,738	236,791	93,615	330,406
Net income	—	—	—	—	3,347	3,347	3,098	6,445
Cancellation of treasury shares	—	—	2	(2)	—	—	—	—
Balance, December 31, 2021	<u>\$ 1,801</u>	<u>\$ 162</u>	<u>\$ —</u>	<u>\$ 62,090</u>	<u>\$ 176,085</u>	<u>\$ 240,138</u>	<u>\$ 96,713</u>	<u>\$ 336,851</u>

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,		
	2021	2020	2019
Cash Flow From Operating Activities:			
Net income (loss)	\$ 6,445	\$ 11,267	\$ (21,743)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Gain on sale or write down of assets	(24,647)	(36,895)	(15,192)
Loss on foreign currency transactions	6,175	13,378	15,108
Loss on debt extinguishment	1,451	—	5,219
Depreciation and amortization	15,029	18,579	15,588
(Recovery) provision for doubtful accounts	(1,326)	984	—
Equity in earnings from unconsolidated joint ventures	(14,634)	379	2,313
Distribution of income from unconsolidated joint ventures	3,157	1,782	—
Changes in assets and liabilities, net of dispositions:			
Other assets	(14,205)	(3,450)	10,814
Related party receivables	18,246	(327)	(46,191)
Accrued interest payable	(4,650)	(531)	2,338
Accounts payable and other liabilities	(2,564)	(1,668)	(8,895)
Net cash (used in) provided by operating activities	<u>(11,523)</u>	<u>3,498</u>	<u>(40,641)</u>
Cash Flow From Investing Activities:			
Collection of notes receivable	18,171	8,251	19,755
Originations and advances on notes receivable	(4,968)	(33,015)	(21,434)
Purchase of short-term investments	(16,000)	—	—
Acquisition of real estate	—	—	(3,422)
Development and renovation of real estate	(8,070)	(17,505)	(33,730)
Deferred leasing costs	(877)	(2,603)	—
Proceeds from sale of assets	105,547	40,982	28,622
Contribution to unconsolidated joint venture	(411)	—	—
Distribution from unconsolidated joint ventures	7,430	8,086	6,504
Net cash provided by (used in) by investing activities	<u>100,822</u>	<u>4,196</u>	<u>(3,705)</u>
Cash Flow From Financing Activities:			
Proceeds from mortgages, other notes and bonds payable	20,015	30,727	103,800
Payments on mortgages, other notes and bonds payable	(118,900)	(33,415)	(74,718)
Debt extinguishment costs	(4,086)	—	(3,799)
Deferred financing costs	(614)	(1,297)	(4,241)
Repurchase of preferred stock	—	—	—
Preferred stock dividends	—	—	—
Net cash (used in) provided by financing activities	<u>(103,585)</u>	<u>(3,985)</u>	<u>21,042</u>
Net (decrease) increase in cash and cash equivalents	(14,286)	3,709	(23,304)
Cash and cash equivalents, beginning of year	87,020	83,311	106,615
Cash and cash equivalents, end of year	<u>\$ 72,734</u>	<u>\$ 87,020</u>	<u>\$ 83,311</u>

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

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

1. Organization

As used herein, the terms “the Company”, “We”, “Our”, or “Us” refer to American Realty Investors, Inc., a Nevada corporation, which was formed in 1999. Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “ARL”. Over 80% of our stock is owned by related party entities.

Our primary business is the acquisition, development and ownership of income-producing multifamily apartment communities and commercial real estate properties. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents, and leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies. We also generate revenues from gains on sales of income-producing properties and land.

We own approximately 78.4% of Transcontinental Realty Investors, Inc. (“TCI”) and substantially all of our operations are conducted through TCI, whose common stock is listed on the NYSE under the symbol “TCI”. Accordingly, we include TCI’s financial results in our consolidated financial statements. Substantially all of TCI’s assets are held by its wholly-owned subsidiary, Southern Properties Capital Ltd. (“SPC”), which was formed for the purpose of raising funds by issuing non-convertible bonds that are listed and traded on the Tel-Aviv Stock Exchange (“TASE”).

At December 31, 2021, our property portfolio consisted of:

- Five commercial properties, consisting of four office buildings and 1 retail property, comprising in aggregate of approximately 1,063,515 square feet;
- Nine multifamily apartment communities owned directly by us, comprising in 1,492 units, excluding apartments being developed;
- Approximately 1,875 acres of developed and undeveloped land; and
- Fifty-two multifamily apartment communities, totaling 10,281 units, owned by our joint venture.

Our day to day operations are managed by Pillar Income Asset Management, Inc. (“Pillar”). Their duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing with third party lenders and investors. All of our employees are Pillar employees. Four of our commercial properties are managed by Regis Realty Prime, LLC (“Regis”). Regis provides leasing, construction management and brokerage services. Our multifamily properties are managed by outside management companies. Pillar and Regis are considered to be related parties (See Note 13 – Related Party Transactions).

2. Summary of Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America.

We consolidate entities in which we are considered to be the primary beneficiary of a variable interest entity (“VIE”) or have a majority of the voting interest of the entity. We have determined that we are a primary beneficiary of the VIE when we have (i) the power to direct the activities of a VIE that most significantly impacts its economic performance, and (ii) the obligations to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether we are the primary beneficiary, we consider qualitative and quantitative factors, including ownership interest, management representation, ability to control decision and other contractual rights. We account for entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary under the equity method of accounting. Accordingly, we include our share of the net earnings or losses of these entities in our results of operations.

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

Real estate, depreciation, and impairment

Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated remaining useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements—10 to 40 years; furniture, fixtures and equipment—5 to 10 years).

We assess whether an indicator of impairment in the value of our real estate exists by considering expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. Such factors include projected rental revenue, operating costs and capital expenditures as well as estimated holding periods and capitalization rates. If an impairment indicator exists, the determination of recoverability is made based upon the estimated undiscounted future net cash flows, excluding interest expense. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flows analysis, with the carrying value of the related assets. We generally hold and operate our income producing real estate long-term, which decreases the likelihood of their carrying values not being recoverable. Real estate classified as held for sale are measured at the lower of the carrying amount or fair value less cost to sell.

Real estate held for sale

We classify properties as held for sale when certain criteria are met in accordance with GAAP. At that time, we present the assets and obligations of the property held for sale separately in our consolidated balance sheet and we cease recording depreciation and amortization expense related to that property. Properties held for sale are reported at the lower of their carrying amount or their estimated fair value, less estimated costs to sell. We did not have any real estate assets classified as held for sale at December 31, 2021 or 2020.

Cost capitalization

The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. We also capitalize development costs including costs directly related to planning, developing, initial leasing and constructing a property as well as interest, property taxes, insurance, and other direct project costs incurred during the period of development. Capitalized costs also include direct and certain indirect costs clearly associated with the project. Indirect costs include real estate taxes, insurance and certain shared administrative costs. In assessing the amounts of direct and indirect costs to be capitalized, allocations are made to projects based on estimates of the actual amount of time spent on each activity. Indirect costs not clearly associated with specific projects are expensed as period costs.

We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Deferred leasing costs

We capitalize leasing costs on our commercial properties, which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual tenant leases and amortize them over the related lease term.

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date that is other than in a forced or liquidation sale. In determining fair value we apply the following hierarchy:

Level 1 —Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2 —Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 —Unobservable inputs that are significant to the fair value measurement.

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

Related parties

Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Recognition of revenue

Rental revenue includes fixed minimum rents, reimbursement of operating costs and other leasing income. Rental revenue for residential property, which is generally leased for twelve months or less, is recorded when due from residents, whereas rental revenue for commercial properties, which is generally leased for more than twelve months, is recognized on a straight-line basis over the terms of the related leases.

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

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

Cash and Cash Equivalents and Restricted Cash

We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents, for which cost approximates fair value. Restricted cash includes cash balances held in escrow by financial institutions under the terms of certain secured notes payable and certain unsecured bonds payable.

Concentration of credit risk

We maintain our cash balances at commercial banks and through investment companies, the deposits that are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2021 and 2020, the Company maintained balances in excess of the insured amount.

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
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Income taxes

We are a “C” corporation” for U.S. federal income tax purposes. However, we are included in the May Realty Holdings, Inc. (the “MRHI”), consolidated group for tax purposes. We have a tax sharing agreement that specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

Comprehensive income (loss)

Net income (loss) and comprehensive income (loss) are the same for the year ended December 31, 2021, 2020 and 2019.

Use of estimates

In the preparation of consolidated financial statements in conformity with GAAP, it is necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expense for the year ended. Actual results could differ from those estimates.

Recent accounting pronouncements.

In October 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This standard is intended to improve the accounting when considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. The adoption of the standard on January 1, 2020, did not have a material impact on our financial position and results of operations.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The standard provides guidance, optional expedients and exceptions that reference London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued due to reference rate reform. The standard was effective upon issuance and can be applied through December 31, 2022. We have mortgage notes payable with interest rates that reference LIBOR, and therefore, we will adopt this standard when LIBOR is discontinued.

On April 10, 2020, the FASB issued a Staff Q&A (“Q&A”) related to the application of the lease guidance in ASC 842 for the accounting impact of lease concessions related to the COVID-19 pandemic. The Q&A, allows an entity to make an election to account for lease concessions related to the effects of the COVID-19 as though enforceable rights and obligations for those concessions existed. As a result of this election, an entity will not have to analyze each lease to determine whether enforceable rights and obligations for concessions exist in the lease and can elect to apply or not apply the lease modification guidance in ASC 842, as long as the concessions do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. Our adoption of the guidance of the Q&A did not have a significant impact on our consolidated financial statements during the year ended December 31, 2021.

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

3. Earnings Per Share

Earnings per share (“EPS”) has been computed by dividing net income available to common shares, adjusted for preferred dividends, by the weighted-average number of common shares outstanding during the period.

The following table provides our basic and diluted EPS calculation:

	For the Year Ended December 31,		
	2021	2020	2019
Net income (loss)	\$ 6,445	\$ 11,267	\$ (21,743)
Net (income) loss attributable to noncontrolling interest	(3,098)	(2,237)	5,785
Net income (loss) attributable to the Company	3,347	9,030	(15,958)
Preferred dividend	—	—	(1)
Net income (loss) applicable to common shares	<u>\$ 3,347</u>	<u>\$ 9,030</u>	<u>\$ (15,959)</u>
Weighted-average common shares outstanding-basic and diluted	<u>16,152</u>	<u>16,046</u>	<u>15,997</u>
EPS - attributable to common shares basic and diluted	<u>\$ 0.21</u>	<u>\$ 0.56</u>	<u>\$ (1.00)</u>

4. Supplemental Cash Flows Information

The following presents the schedule of interest paid and other supplemental cash flow information:

	For the Years Ended December 31,		
	2021	2020	2019
Cash paid for interest	<u>\$ 28,891</u>	<u>\$ 31,453</u>	<u>\$ 38,904</u>
Cash - beginning of year			
Cash and cash equivalents	\$ 36,814	\$ 51,228	\$ 36,428
Restricted cash	50,206	32,083	70,187
	<u>\$ 87,020</u>	<u>\$ 83,311</u>	<u>\$ 106,615</u>
Cash - end of year			
Cash and cash equivalents	\$ 50,748	\$ 36,814	\$ 51,228
Restricted cash	21,986	50,206	32,083
	<u>\$ 72,734</u>	<u>\$ 87,020</u>	<u>\$ 83,311</u>
Proceeds from mortgages, notes and bonds payable			
Mortgages and notes payable	\$ 20,015	\$ 10,942	\$ 25,675
Bonds payable	—	19,785	78,125
	<u>\$ 20,015</u>	<u>\$ 30,727</u>	<u>\$ 103,800</u>
Payment of mortgages, notes and bonds payable			
Mortgages and notes payable	\$ 65,242	\$ 13,823	\$ 52,976
Bonds payable	53,658	19,592	21,742
	<u>\$ 118,900</u>	<u>\$ 33,415</u>	<u>\$ 74,718</u>

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

The following is a schedule of noncash investing and financing activities:

	For the Years Ended December 31,		
	2021	2020	2019
Assets contributed to joint venture	\$ 18,608	\$ —	\$ —
Liabilities assumed by joint venture	\$ 15,606	\$ —	\$ —
Notes receivable received in exchange for related party receivable	\$ 9,259	\$ —	\$ —
Distribution from joint venture applied to Earn Out Obligation	\$ 5,441	\$ —	\$ —
Property acquired in exchange for note payable	\$ —	\$ 3,350	\$ 1,155
Note receivable issued in exchange for property	\$ —	\$ 1,761	\$ —
Debt assumed in sale of properties	\$ —	\$ 8,238	\$ —
Property acquired in exchange for note receivable	\$ —	\$ —	\$ 1,800

5. Operating Segments

Our segments are based on the internal reporting that we review for operational decision-making purposes. We operate in two reportable segments: (i) the acquisition, development, ownership and management of multifamily properties ("Residential Segment") and (ii) the acquisition, ownership and management of commercial real estate properties ("Commercial Segment"). The services for our segments include property rentals and other tenant services, including parking and storage space rental. Asset information by segment is not reported because we do not use this measure to assess performance or make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses, advisory fees, interest income and interest expense are not included in segment profit as our internal reporting addresses these items on a corporate level.

The following table presents our profit by reportable segment:

	For the Years Ended December 31,		
	2021	2020	2019
Residential Segment			
Revenue	\$ 14,495	\$ 14,686	\$ 13,517
Operating expenses	(8,167)	(8,482)	(9,305)
Profit from segment	6,328	6,204	4,212
Commercial Segment			
Revenue	23,313	37,223	32,714
Operating expenses	(12,693)	(15,878)	(16,389)
Profit from segment	10,620	21,345	16,325
Total profit from segments	\$ 16,948	\$ 27,549	\$ 20,537

The following table reconciles our profit by reportable segment to net income (loss):

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

	For the Years Ended December 31,		
	2021	2020	2019
Segment operating income	\$ 16,948	\$ 27,549	\$ 20,537
Other non-segment items of income (expense)			
Depreciation and amortization	(11,870)	(14,755)	(13,379)
General and administrative	(15,942)	(10,614)	(11,089)
Advisory Fee	(13,985)	(9,409)	(9,216)
Other income	4,231	7,117	12,757
Interest Income	23,421	23,098	25,955
Interest Expense	(29,080)	(35,004)	(39,860)
Loss on foreign currency transactions	(6,175)	(13,378)	(15,108)
Loss on extinguishment of debt	(1,451)	—	(5,219)
Equity in income (loss) from unconsolidated joint ventures	14,634	(379)	(2,313)
Gain on sale or write-down of assets	24,647	36,895	15,192
Income tax provision	1,067	147	—
Net income (loss)	<u>\$ 6,445</u>	<u>\$ 11,267</u>	<u>\$ (21,743)</u>

The table below reconciles the segment information to the corresponding amounts in the consolidated balance sheets:

	December 31,	
	2021	2020
Segment assets	\$ 263,937	\$ 342,965
Real estate	63,945	65,149
Investments in unconsolidated joint ventures	61,621	60,425
Notes receivable	136,607	130,626
Receivable from related parties	100,599	129,335
Other assets and receivables	143,860	137,264
Total assets	<u>\$ 770,569</u>	<u>\$ 865,764</u>

6. Lease Revenue

We lease our multifamily properties and commercial properties under agreements that are classified as operating leases. Our multifamily leases generally include minimum rents and charges for ancillary services. Our commercial property leases generally included minimum rents and recoveries for property taxes and common area maintenance. Minimum rental revenues are recognized on a straight-line basis over the terms of the related leases.

The following table summarizes the components of rental revenue for the years ended December 31, 2021, 2020 and 2019:

	For the Year Ended		
	December 31,		
	2021	2020	2019
Fixed component	\$ 35,555	\$ 49,974	\$ 43,749
Variable component	2,253	1,935	2,482
Total rental revenue	<u>\$ 37,808</u>	<u>\$ 51,909</u>	<u>\$ 46,231</u>

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
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The following table summarizes the future rental payments to us from under non-cancelable leases, which excludes multifamily leases, which typically have a term of one-year or less:

Year	Amount
2022	\$ 13,368
2023	9,128
2024	5,613
2025	5,200
2026	4,912
Thereafter	20,008
Total	<u>\$ 58,229</u>

7. Real Estate Activity

At December 31, 2021 and 2020, our real estate investment is comprised of the following:

	December 31,	
	2021	2020
Land	\$ 67,348	\$ 78,755
Building and improvements	219,327	297,644
Tenant improvements	21,364	30,935
Construction in progress	51,091	49,895
Total cost	<u>359,130</u>	<u>457,229</u>
Less accumulated depreciation	(62,933)	(82,418)
Total real estate, net	<u>296,197</u>	<u>374,811</u>
Property held for sale	166	2,572
Total real estate	<u>\$ 296,363</u>	<u>\$ 377,383</u>

Our property held for sale consists of land parcels at Mercer Crossing that are currently under contract for sale and our construction in progress consists of development of Windmill Farms.

Gain on sale or write-down of assets, net consists of the following:

	For the Year Ended December 31,		
	2021	2020	2019
Land(1)	\$ 16,645	\$ 25,171	\$ 14,889
Residential properties(2)	10,405	3,702	(80)
Commercial properties(3)	27,196	4,610	—
Other(4)	(29,599)	3,412	383
	<u>\$ 24,647</u>	<u>\$ 36,895</u>	<u>\$ 15,192</u>

(1) Includes the gain sale of lots related to our investment in Windmill Farms, Mercer Crossing and other land holdings.

(2) Includes the gain from the sale of a 50% ownership interest in Overlook at Allensville Phase II (See Note 9 – Investment in Unconsolidated Joint Ventures) and the gains on the sale of various multifamily properties that had previously been deferred (See Note 16 – Deferred Income).

AMERICAN REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS

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- (3) On August 26, 2021, we sold 600 Las Colinas, a 512,173 square foot office building in Irving, Texas for \$74,750, resulting in gain on sale of \$27,270. We used the proceeds to pay down the mortgage note payable on the property (See Note 10 - Mortgages and Other Notes Payable) and for general corporate purposes.

On May 1, 2020, we sold Villager, a 33 unit multifamily property in Fort Walton, Florida for \$2,426, resulting in a gain on sale of \$898. The sales price was funded by the issuance of a \$1,761 note receivable and the assumption of a \$665 mortgage note payable on the property. On July 16, 2020, we sold Farnham Park, a 144 unit multifamily property in Port Arthur, Texas for \$13,300, resulting in a gain on sale of \$2,684. The sales price was funded by cash payment of \$4,215 and the assumption of the \$9,085 mortgage note payable on the property.

- (4) Includes a \$29,600 loss on the remeasurement of the Earn Out Obligation in connection with our investment in VAA (See Note 9 - Investment in Unconsolidated Joint Ventures).

8. Short-term Investments

The Company has an investment in variable denominated floating rate notes with a financial institution. The notes are have no stated maturity and are subject to immediate repayment at the Company's option. At December 31, 2021, the interest rate on the notes was 1.15%.

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
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9. Notes Receivable

The following table summarizes our notes receivables at December 31, 2021 and 2020:

Borrower / Project	Carrying Value		Interest Rate	Maturity Date
	2021	2020		
ABC Land and Development, Inc.	\$ 4,408	\$ 4,408	9.50 %	6/30/2026
ABC Paradise, LLC	1,210	1,210	9.50 %	6/30/2026
Autumn Breeze(1)	2,486	1,867	5.00 %	7/1/2022
Bellwether Ridge(1)	3,967	3,858	5.00 %	11/1/2026
Forest Pines(1)	6,472	2,869	5.00 %	11/1/2022
Lake Wales	3,000	3,000	9.50 %	6/30/2026
Legacy Pleasant Grove	496	496	12.00 %	10/23/2022
McKinney Ranch	4,554	4,554	6.00 %	9/15/2022
One Realco Land Holding, Inc.	1,728	1,728	9.50 %	6/30/2026
Parc at Ingleside(1)	3,700	2,523	5.00 %	11/1/2026
Parc at Opelika(1)	2,305	—	10.00 %	1/13/2023
Parc at Windmill Farms(1)	7,830	7,803	5.00 %	11/1/2022
Phillips Foundation for Better Living, Inc.(2)	—	61	12.00 %	3/31/2023
Phillips Foundation for Better Living, Inc.(2)	813	—	12.00 %	3/31/2024
Plum Tree(1)	1,537	857	5.00 %	4/26/2026
Riverview on the Park Land, LLC	1,045	1,045	9.50 %	6/30/2026
RNC Portfolio, Inc.	—	8,853	5.00 %	9/1/2024
Spartan Land	5,907	5,907	12.00 %	1/16/2023
Spyglass of Ennis(1)	5,319	5,360	5.00 %	11/1/2022
Steeple Crest(1)	6,498	6,498	5.00 %	8/1/2026
Unified Housing Foundation(2)(3)	2,881	2,880	12.00 %	6/30/2023
Unified Housing Foundation(2)(3)	212	212	12.00 %	6/30/2023
Unified Housing Foundation(2)(3)	6,831	6,831	12.00 %	6/30/2023
Unified Housing Foundation(2)(3)	10,401	10,896	12.00 %	6/30/2023
Unified Housing Foundation(2)(3)	10,096	10,096	12.00 %	3/31/2022
Unified Housing Foundation(2)(3)	6,990	6,990	12.00 %	3/31/2023
Unified Housing Foundation(2)(3)	3,615	3,615	12.00 %	5/31/2023
Unified Housing Foundation(2)(3)	24,053	26,209	12.00 %	12/31/2032
Unified Housing Foundation(2)(3)	6,521	—	12.00 %	3/31/2024
Unified Housing Foundation(2)(3)	1,549	—	12.00 %	4/30/2024
Unified Housing Foundation(2)(3)	183	—	12.00 %	6/30/2024
	<u>\$ 136,607</u>	<u>\$ 130,626</u>		

- (1) The note is convertible, at our option, into a 100% ownership interest in the underlying development property, and are collateralized by the underlying development property.
- (2) The borrower is determined to be a related party due to our significant investment in the performance of the collateral secured by the notes receivable.
- (3) Principal and interest payments on the notes from Unified Housing Foundation, Inc. (“UHF”) are funded from surplus cash flow from operations, sale or refinancing of the underlying properties and are cross collateralized to the extent that any surplus cash available from any of the properties underlying the notes.

AMERICAN REALTY INVESTORS, INC.
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10. Investment in Unconsolidated Joint Ventures

On November 16, 2018, we formed Victory Abode Apartments, LLC ("VAA"), a joint venture with the Macquarie Group ("Macquarie"). VAA was formed as a result of a sale of the 50% ownership interest in 51 multifamily properties owned by us in exchange for a 50% voting interest / 49% profit participation interest ("Class A interest") in VAA and a note payable ("Mezzanine Loan"). Concurrent with the Contribution, VAA issued Class B interests with a 2% profits participation interest and no voting rights to Daniel J. Moos, our former President and Chief Executive Officer ("Class B Member"). The Class B Member serves as the Manager of VAA.

Interest on the Mezzanine loan is limited to cash generated from the properties and matures concurrently with the termination of VAA. Accordingly, we account for our interest in the Mezzanine Loan as additional equity interest and includes any interest payments accrued as income from unconsolidated joint ventures. In connection with the formation of VAA, ten out of the initial properties were subject to an earn-out provision ("Earn Out") that provides for a remeasurement of value after a two-year period following the completion of construction. Upon the formation of VAA, we recorded a liability ("Earn Out Obligation") for the \$10,000 advance on the Earn Out that we received from Macquarie.

On March 30, 2021, we sold a 50% ownership interest in Overlook at Allensville Phase II, a 144 unit multifamily property in Sevierville, Tennessee to Macquarie for \$2,551 resulting in gain on sale of \$1,417. Concurrent with the sale, we each contributed our 50% ownership interests in Overlook at Allensville Phase II into VAA.

On July 13, 2021, we received the arbitration result of a dispute regarding the measurement of the Earn Out Obligation. Our position and claims were declined, and the position of Macquarie was fully accepted. As a result, we are required to pay approximately \$39,600 to Macquarie to satisfy the Earn Out Obligation, and therefore, recorded a charge of \$29,600 during the year ended December 31, 2021 (See Note 7 – Real Estate Activity). In accordance with the joint venture operating agreement, the Earn Out Obligation will be paid from our share of future distributions from VAA, which generally occur each six months. In July 2021, our \$5,441 distribution from VAA was paid directly to Macquarie as a reduction of the Earn Out Obligation.

On November 17, 2021, we entered into a Major Decision with Macquarie to engage a broker and initiate a sale of all the properties held by the VAA. In connection with the sale, VAA will distribute seven of its existing properties to us (referred to herein as the "Holdback Properties") and we in turn, will contribute one of our properties ("Contributed Property") into the portfolio offered for sale to third-parties. The remaining forty-five properties as referred to herein as the VAA Portfolio. The sales price for the Holdback Properties and Contributed Property will be the estimated value of these properties as stated in the agreement, multiplied by the ratio of the actual sales price of the VAA Portfolio over the estimated value of the portfolio as stated in the agreement. The Major Decision agreement will terminate on August 1, 2022, if the VAA Portfolio has not been sold.

We also own a 20% ownership interest in a 20% interest in Grappa Fiorentina, LLC ("Milano"), which operates several pizza parlors in Central and Northern California. Milano also has 23 franchised locations, including two operating, under the trade name Angelo & Vito's Pizzerias.

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The following is a summary of our investment in unconsolidated joint ventures:

	As of December 31,	
	2021	2020
Assets (1)		
Real estate	1,220,391	1,230,197
Other assets	127,464	113,537
Total assets	<u>\$ 1,347,855</u>	<u>\$ 1,343,734</u>
Liabilities and Partners Capital (1)		
Mortgage notes payable	867,430	843,522
Mezzanine notes payable	242,942	239,878
Other liabilities	49,877	45,619
Our share of partners' capital	80,602	93,334
Outside partner's capital	107,004	121,381
Total liabilities and partners' capital	<u>\$ 1,347,855</u>	<u>\$ 1,343,734</u>
<i>Investment in unconsolidated joint ventures</i>		
Our share of partners' capital	\$ 80,602	\$ 93,334
Our share of Mezzanine note payable and accrued interest	125,306	123,752
Basis adjustment (2)	(144,287)	(156,661)
Total investment in unconsolidated joint ventures	<u>\$ 61,621</u>	<u>\$ 60,425</u>

(1) These amounts include the assets of \$1,280,867 and \$1,279,197 of VAA at December 31, 2021 and 2020, respectively, and liabilities of \$1,137,273 and \$1,106,231 of VAA at December 31, 2021 and 2020, respectively.

(2) We amortize the difference between the cost of our investments in unconsolidated joint ventures and the book value of our underlying equity into income on a straight-line basis consistent with the lives of the underlying assets.

The following is a summary of our income (loss) from investments in unconsolidated joint ventures:

	For the Years Ended December 31,		
	2021	2020	2019
Revenue (1)			
Rental revenue	\$ 131,455	\$ 117,336	\$ 109,746
Other revenue	67,516	45,725	59,069
Total revenue	<u>198,971</u>	<u>163,061</u>	<u>168,815</u>
Expenses (1)			
Operating expenses	125,513	99,305	109,588
Depreciation and amortization	32,566	31,515	45,453
Interest	55,790	57,342	61,867
Total expenses	<u>213,869</u>	<u>188,162</u>	<u>216,908</u>
Net loss	<u>\$ (14,898)</u>	<u>\$ (25,101)</u>	<u>\$ (48,093)</u>
Our share of net (loss) income in unconsolidated joint ventures	<u>\$ 14,634</u>	<u>\$ (379)</u>	<u>\$ (2,313)</u>

(1) These amounts include revenue of \$139,161, \$123,576 and \$115,377 of VAA during the years ended December 31, 2021, 2020 and 2019, respectively, and expenses of \$155,847, \$150,278 and \$165,773 of VAA during the years ended December 31, 2021, 2020 and 2019, respectively.

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11. Mortgages and Other Notes Payable

Below is a summary of our notes and interest payable as of December 31, 2021 and 2020:

Property/ Entity	Carrying Value		Interest Rate	Maturity Date
	2021	2020		
600 Las Colinas(1)	\$ —	\$ 35,589	5.30 %	11/1/2023
770 South Post Oak	11,635	11,871	4.40 %	6/1/2025
Athens(2)	1,155	1,155	4.00 %	8/28/2022
Chelsea	8,037	8,194	3.40 %	12/1/2050
EQK Portage - Land	3,350	3,350	10.00 %	11/13/2024
HSW Partners(3)	—	17,790	9.50 %	6/17/2021
Forest Grove(4)	7,263	7,333	3.75 %	5/5/2024
Landing Bayou	14,407	14,643	3.50 %	9/1/2053
Legacy at Pleasant Grove	13,352	13,653	3.60 %	4/1/2048
McKinney 36 Land	—	820	8.00 %	6/30/2022
New Concept Energy	3,542	3,542	6.00 %	9/30/2022
Overlook at Allensville Phase II(5)	—	15,621	3.80 %	5/1/2059
Parc at Denham Springs Phase II	15,962	16,128	4.10 %	2/1/2060
RCM HC Enterprises(3)	5,086	—	9.50 %	12/17/2026
Stanford Center(6)	38,979	39,093	6.00 %	2/26/2022
Sugar Mill Phase III	9,216	9,298	4.50 %	2/1/2060
Toulon(7)	13,697	13,975	3.20 %	12/1/2051
Villas at Bon Secour(8)	19,492	10,280	3.08 %	9/1/2031
Vista Ridge	9,830	9,979	4.00 %	8/1/2053
Windmill Farms(9)	8,389	10,397	5.00 %	2/28/2023
	<u>\$ 183,392</u>	<u>\$ 242,711</u>		

- (1) On August 26, 2021, we paid off the loan in connection with the sale of the underlying property (See Note 7 - Real Estate Activity).
- (2) On March 2, 2021, the loan was extended to August 28, 2022.
- (3) On June 4, 2021, the lender assumed the remaining \$1,986 balance of our loan from HSW Partners and extended the maturity to December 17, 2026.
- (4) The loan bears interest at prime rate plus 0.5%.
- (5) On March 30, 2021, the loan was assumed by VAA in connection with our contribution of the underlying property to the joint venture (See Note 9 – Investment in Unconsolidated Joint Ventures).
- (6) On March 4, 2021, the loan was extended to February 28, 2023 at an interest rate of 5%.
- (7) On January 14, 2022, we paid off the loan in connection with the sale of the underlying property (See Note 20 - Subsequent Events).
- (8) On August 25, 2021, we replaced the existing loan on the property with a new \$20,015 loan that bears interest at 3.08% and matures on September 1, 2031.
- (9) On March 4, 2021, the loan was extended to February 28, 2023 at an interest rate of 5%.

Interest payable at December 31, 2021 and 2020, was \$1,147 and \$1,123, respectively. We capitalized interest of \$3,733 and \$2,305 during the years ended December 31, 2021 and 2020, respectively.

There are various land mortgages, secured by the property, that are in the process of a modification or extension to the original note due to expiration of the loan. We are working with our existing lenders and new lenders to modify, extend the loans before they become due or refinancing the loans with terms that are similar to the existing agreement.

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Future principal payments due on our notes payable at December 31, 2021 are as follows:

Year	Amount
2022	\$ 50,763
2023	4,355
2024	9,444
2025	13,021
2026	2,172
Thereafter	107,307
	<u>187,062</u>
Deferred finance cost	(3,670)
	<u><u>\$ 183,392</u></u>

12. Bonds Payable

We have issued three series of nonconvertible bonds ("Bonds") through SPC, which are traded on the TASE. The Bonds are denominated in New Israeli Shekels ("NIS") and provide for semiannual principal and interest payments through maturity.

In connection with the Bonds, we incurred a loss on foreign currency transactions of \$6,175, \$13,378, and \$15,108, for the years ended December 31, 2021, 2020 and 2019, respectively. We have a hedging agreement that effectively prevents the exchange rate for the NIS to the U.S. Dollar from falling below 2.7.

The outstanding balance of our Bonds at December 31, 2021 and 2020 is as follows:

Bond Issuance	December 31,		Interest Rate	Maturity
	2021	2020		
Series A Bonds(1)(2)	65,563	95,133	7.30 %	7/31/23
Series B Bonds(3)	54,019	65,318	6.80 %	7/31/25
Series C Bonds(2)	75,298	85,537	4.65 %	1/31/23
	<u>194,880</u>	<u>245,988</u>		
Less unamortized deferred issuance costs	(5,428)	(8,100)		
	<u><u>189,452</u></u>	<u><u>237,888</u></u>		

(1) The bonds are collateralized by the assets of SPC.

(2) The bonds are collateralized by a trust deed in Browning Place, a 625,297 square foot office building in Farmers Branch, Texas.

The aggregate maturities of our Bonds are as follows:

Year	Amount
2022	\$ 46,286
2023	121,584
2024	13,505
2025	13,505
	<u><u>\$ 194,880</u></u>

The Bonds include a number of covenants, including restrictions on the amount of cash that can be distributed from SPC. As of December 31, 2021, we were in compliance with our bond covenants.

AMERICAN REALTY INVESTORS, INC.
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13. Related Party Transactions

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

Pillar and Regis are wholly owned by an affiliates of the MRHI, which owns approximately 90.8% of our common shares. Pillar is compensated for advisory services in accordance with an agreement. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. In addition, Regis is entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement.

Rental income includes \$944, \$1,083 and \$841 for the years ended December 31, 2021, 2020 and 2019, respectively, for office space leased to Pillar and Regis.

Property operating expense includes \$889, \$990 and \$991 for the years ended December 31, 2021, 2020 and 2019, respectively, for management fees on commercial properties payable to Regis.

General and administrative expense includes \$4,399, \$3,869 and \$4,429 for the years ended December 31, 2021, 2020 and 2019, respectively, for employee compensation and other reimbursable costs payable to Pillar.

Advisory fees paid to Pillar were \$13,985, \$9,409 and \$9,216 for the years ended December 31, 2021, 2020 and 2019, respectively.

Notes receivable are includes amounts held by UHF and Pillar (See Note 9 – Notes Receivable). UHF is determined to be a related party due to our significant investment in the performance of the collateral secured by the notes receivable. Interest income on these notes was \$19,799, \$19,515 and \$23,670 for the years ended December 31, 2021, 2020 and 2019, respectively.

Interest expense on notes payable to Pillar was \$5,661, \$6,632 and \$9,282 for the years ended December 31, 2021, 2020 and 2019, respectively.

Related party receivables represents amounts outstanding from Pillar for loans and advances, net of unreimbursed fees, expenses and costs as provided above.

14. Noncontrolling Interests

The noncontrolling interest represents the third party ownership interest in TCI and Income Opportunity Realty Investors, Inc. ("IOR"). We owned 78.4% of TCI, which in turn owned 81.1% in in IOR, during the years ended December 31, 2021, 2020 and 2019.

15. Stockholders Equity

Dividends:

Our decision to declare dividends on common stock is determined on an annual basis following the end of each year. In accordance with that policy, no dividends on our common stock were declared for 2021, 2020, or 2019. Future distributions to common stockholders will be determined in light of conditions then existing, including our financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by our board of directors.

Preferred Stock:

We are authorized to issue up to 15,000,000 shares of Series A 10.0% Cumulative Convertible Preferred Stock with a par value of \$2.00 per share with a liquidation preference of \$10.00 per share plus accrued and unpaid dividends. Dividends are

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payable quarterly at the annual rate of \$1.00 per share, or \$.25 per share when declared. The Series A Preferred Stock may be converted into common stock at 90.0% of the average daily closing price of our common stock for the prior 20 trading days.

16. Deferred Income

In previous years, we sold properties to related parties where we have had continuing involvement in the form of management or financial assistance associated with the sale of the properties. Because of the continuing involvement associated with the sale, the sales criteria for the full accrual method was not met, and as such we deferred the gain recognition and accounted for the transaction by applying the finance, deposit, installment or cost recovery methods, as appropriate. The gains on these transactions have been deferred until the properties are sold to a non-related third party. As of December 31, 2021, we had deferred gain of \$9,791.

17. Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The (benefit) expense for income taxes consists of:

	Years Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ (1,408)	\$ —	\$ —
State	341	(147)	—
Deferred and Other:			
Federal	—	—	—
State	—	—	—
Total tax (benefit) expense	\$ (1,067)	\$ (147)	\$ —

AMERICAN REALTY INVESTORS, INC.
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The reconciliation between our effective tax rate on income from operations and the statutory rate is as follows:

	Years Ended December 31,		
	2021	2020	2019
Income tax (benefit) expense at federal statutory rate	\$ 285	\$ 2,335	\$ (4,566)
State and local income taxes net of federal tax (benefit) expense	341	(147)	—
AMT refund	(1,434)	—	—
Permanent tax differences	(1,837)	(1,846)	(2,499)
Temporary tax differences			
Installment note on land sale	—	—	—
Allowance for losses on note receivables	(485)	(77)	(246)
Deferred gains	(4,893)	(878)	(1,920)
Basis differences on fixed assets	(721)	1,307	—
Other basis/timing differences	(2,729)	2,296	3,172
Generation (use) on net operating loss carryforwards	10,406	(3,137)	6,059
Reported tax (benefit) expense	<u>\$ (1,067)</u>	<u>\$ (147)</u>	<u>\$ —</u>
Effective tax rate	4.7 %	— %	0.7 %

We are subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 2021, our tax years for 2021, 2020, and 2019 are subject to examination by the tax authorities. With few exceptions, as of December 31, 2021, we are no longer subject to U.S federal, state, local, or foreign examinations by tax authorities for the years before 2016.

Components of the Net Deferred Tax Asset or Liability

	December 31, 2021	
	2021	2020
Deferred tax assets:		
Allowance for losses on notes	\$ 2,189	\$ 2,674
Basis difference in fixed assets	705	1,426
Deferred gain	275	5,168
Foreign currency translations	1,088	3,818
Net operating loss carryforward	25,993	15,234
Total deferred tax assets	<u>30,250</u>	<u>28,320</u>
Less: valuation allowance	(30,250)	(28,320)
Total net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

We have state net operating losses in many of the various states in which we operate.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. At December 31, 2021, we had a net deferred tax asset due to tax deductions available to us in future years. However, as we could not determine that it was more likely than not that we would realize the benefit of the deferred tax asset, we established a 100% valuation allowance.

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18. Commitments and Contingencies

We believe that we will generate excess cash from property operations in the next twelve months; such excess, however, might not be sufficient to discharge all of our obligations as they become due. We intend to sell income-producing assets, refinance real estate and obtain additional borrowings primarily secured by real estate to meet our liquidity requirements.

We were the primary guarantor, on a \$24,300 mezzanine loan between UHF and a lender. The guarantee was removed on January 29, 2021, concurrent with the repayment of the loan by UHF. We are also a guarantor on the mortgage notes payable on two properties in that are owned by VAA (See Note 10 - Investment in Unconsolidated Joint Ventures) and four that are owned directly by us (See Note 11 - Mortgages and Other Notes Payable).

We were a defendant in litigation with David Clapper and related entities (collectively, "Clapper") regarding a multifamily property transaction that occurred in 1988. The litigation led to a substantial judgment against our affiliate and Clapper subsequently sued numerous other entities including us in Federal Court to collect that judgment. The case was tried to a jury in May 2021. The jury found the defendants owed Clapper nothing and the Court issued a take nothing judgment. Clapper subsequently filed and appeal to the US Fifth Circuit Court of Appeals.

In February 2019, we were charged in a lawsuit brought by Paul Berger ("Berger") that alleges that we a completed improper sales and/or transfers of property with IOR. Berger requests that we pay off various related party loans to IOR and that IOR then distribute the funds to its shareholders. We intend to vigorously defend against the allegations. The trial for this matter is scheduled for November 2022.

19. Quarterly Results of Operations

The following is a tabulation of our quarterly results of operations for the years 2021, 2020 and 2019. Quarterly results presented may differ from those previously reported in our Form 10-Q due to the reclassification of the operations

	2021 Quarter Ended			
	March 31,	June 30,	September 30,	December 31
Revenues	\$ 11,828	\$ 11,103	\$ 10,494	\$ 8,614
Net operating (loss) income	(3,002)	(8,771)	(5,168)	(3,677)
Net income (loss) attributable to the Company	18,068	(27,328)	19,411	(6,804)
EPS - basic and diluted	\$ 1.12	\$ (1.69)	\$ 1.20	\$ (0.42)

	2020 Quarter Ended			
	March 31,	June 30,	September 30,	December 31
Revenues	\$ 13,130	\$ 14,741	\$ 11,937	\$ 19,218
Net operating income (loss)	(3,238)	1,491	(2,303)	3,938
Net (loss) income attributable to the Company	2,946	(2,306)	7,987	403
EPS - basic and diluted	\$ 0.18	\$ (0.14)	\$ 0.50	\$ 0.02

20. Subsequent Events

On January 14, 2022, we sold Toulon, a 240 unit multifamily property property in Gautier, Mississippi for \$26,750. The proceeds were used to pay off the mortgage note payable on the property and for general corporate purposes.

The date to which events occurring after December 31, 2021, the date of the most recent balance sheet, have been evaluated for possible adjustments to the financial statements or disclosure is March 28, 2021, which is the date of which the financial statements were available to be issued. There are no subsequent events that would require an adjustment to the financial statements.

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SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2021

Property/Location	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition	Gross Amount Carried at End of Year			Accumulated Depreciation	Date of Construction	Date Acquired
		Land	Buildings		Land	Building & Improvements	Total			
<i>Multifamily</i>										
Chelsea	\$ 8,037	\$ 1,225	\$ 11,230	\$ 17	\$ 1,231	\$ 11,241	\$ 12,472	\$ 893	1999	2018
Forest Grove	7,263	1,440	10,234	32	1,440	10,266	11,706	410	2020	2020
Landing Bayou	14,407	2,011	18,255	(5,962)	2,011	12,293	14,304	1,425	2005	2018
Legacy at Pleasant Grove	13,352	2,005	18,109	57	2,033	18,138	20,171	3,237	2006	2018
Parc at Denham Springs Phase II	15,962	1,505	16,975	—	1,505	16,975	18,480	873	2010	2009
Sugar Mill Phase III	9,216	576	9,755	(15)	576	9,740	10,316	382	2015	2015
Toulon	13,697	1,621	20,107	411	1,993	20,146	22,139	5,279	2011	2014
Villas at Bon Secour	19,492	2,715	15,385	52	2,715	15,437	18,152	1,318	2007	2018
Vista Ridge	9,830	1,339	13,398	6	1,339	13,404	14,743	2,590	2009	2018
	<u>111,256</u>	<u>14,437</u>	<u>133,448</u>	<u>(5,402)</u>	<u>14,843</u>	<u>127,640</u>	<u>142,483</u>	<u>16,407</u>		
<i>Commercial</i>										
770 South Post Oak	11,635	1,763	16,312	672	1,763	16,984	18,747	3,037	1970	2015
Browning Place	75,298	5,096	49,441	14,453	5,096	63,894	68,990	28,140	1984	2005
Stanford Center	38,979	20,278	25,876	6,224	20,278	32,100	52,378	15,275	2007	2008
Other	—	646	74	—	646	74	720	74		
	<u>125,912</u>	<u>27,783</u>	<u>91,703</u>	<u>21,349</u>	<u>27,783</u>	<u>113,052</u>	<u>140,835</u>	<u>46,526</u>		
<i>Land</i>										
Mercer Crossing	—	2,999	—	—	2,999	—	2,999	—		2018
Windmill Farms	8,389	43,608	—	2,159	45,767	—	45,767	—		2006
Other	6,491	19,608	—	7,604	27,212	—	27,212	—		
	<u>14,880</u>	<u>66,215</u>	<u>—</u>	<u>9,763</u>	<u>75,978</u>	<u>—</u>	<u>75,978</u>	<u>—</u>		
	<u>\$ 252,048</u>	<u>\$ 108,435</u>	<u>\$ 225,151</u>	<u>\$ 25,710</u>	<u>\$ 118,604</u>	<u>\$ 240,692</u>	<u>\$359,296</u>	<u>\$ 62,933</u>		

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SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
As of December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Reconciliation of Real Estate			
Balance at January 1,	\$ 459,801	\$ 477,963	\$ 463,732
Additions	5,814	21,223	92,964
Deductions	(106,319)	(39,385)	(78,733)
Balance at December 31,	<u>\$ 359,296</u>	<u>\$ 459,801</u>	<u>\$ 477,963</u>
Reconciliation of Accumulated Depreciation			
Balance at January 1,	82,418	90,173	79,228
Additions	10,820	12,188	13,379
Deductions	(30,305)	(19,943)	(2,434)
Balance at December 31,	<u>\$ 62,933</u>	<u>\$ 82,418</u>	<u>\$ 90,173</u>

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SCHEDULE IV - MORTGAGE LOANS
December 31, 2021

Description	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount	Carrying Value
Convertible loans						
Autumn Breeze	5.00%	7/1/2022	No payments until maturity or conversion	\$ 24,756	\$ 2,486	\$ 2,486
Bellwether Ridge	5.00%	11/1/2026	No payments until maturity or conversion	18,070	3,967	3,967
Forest Pines	5.00%	11/1/2022	No payments until maturity or conversion	26,407	6,472	6,472
Parc at Ingleside	5.00%	11/1/2026	No payments until maturity or conversion	25,201	3,700	3,700
Parc at Opelika	10.00%	1/13/2023	No payments until maturity or conversion	23,661	2,305	2,305
Parc at Windmill Farms	5.00%	11/1/2022	No payments until maturity or conversion	35,524	7,830	7,830
Plum Tree	5.00%	4/26/2026	No payments until maturity or conversion	17,105	1,537	1,537
Spyglass of Ennis	5.00%	11/1/2022	No payments until maturity or conversion	22,793	5,319	5,319
Steeple Crest	5.00%	8/1/2026	No payments until maturity or conversion	11,529	6,498	6,498
				205,046	40,114	40,114
Land loans						
ABC Land and Development, Inc.	9.50%	6/30/2026	No payments until maturity	—	4,408	4,408
ABC Paradise, LLC	9.50%	6/30/2026	No payments until maturity	—	1,210	1,210
Lake Wales	9.50%	6/30/2026	No payments until maturity	—	3,000	3,000
Legacy Pleasant Grove	12.00%	10/23/2022	No payments until maturity	—	496	496
McKinney Ranch	6.00%	9/15/2022	No payments until maturity	—	4,554	4,554
One Realco Land Holding, Inc.	9.50%	6/30/2026	No payments until maturity	—	1,728	1,728
Riverview on the Park Land, LLC	9.50%	6/30/2026	No payments until maturity	—	1,045	1,045
Spartan Land	12.00%	1/16/2023	No payments until maturity	—	5,907	5,907
				—	22,348	22,348
Subsidized housing						
Phillips Foundation for Better Living, Inc.	12.00%	3/31/2024	Payments from excess property cash flows	—	813	813
Unified Housing Foundation	12.00%	6/30/2023	Payments from excess property cash flows	—	2,881	2,881
Unified Housing Foundation	12.00%	6/30/2023	Payments from excess property cash flows	—	212	212
Unified Housing Foundation	12.00%	6/30/2023	Payments from excess property cash flows	—	6,831	6,831
Unified Housing Foundation	12.00%	6/30/2023	Payments from excess property cash flows	—	10,401	10,401
Unified Housing Foundation	12.00%	3/31/2022	Payments from excess property cash flows	—	10,096	10,096

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

Description	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount	Carrying Value
Unified Housing Foundation	12.00%	3/31/2023	Payments from excess property cash flows	—	6,990	6,990
Unified Housing Foundation	12.00%	5/31/2023	Payments from excess property cash flows	—	3,615	3,615
Unified Housing Foundation	12.00%	12/31/2032	Payments from excess property cash flows	96,929	24,053	24,053
Unified Housing Foundation	12.00%	3/31/2024	Payments from excess property cash flows	—	6,521	6,521
Unified Housing Foundation	12.00%	4/30/2024	Payments from excess property cash flows	—	1,549	1,549
Unified Housing Foundation	12.00%	6/30/2024	Payments from excess property cash flows	—	183	183
				<u>96,929</u>	<u>74,145</u>	<u>74,145</u>
				<u>\$ 301,975</u>	<u>\$ 136,607</u>	<u>\$ 136,607</u>

AMERICAN REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
SCHEDULE IV - MORTGAGE LOANS
As of December 31,

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance at January 1,	\$ 130,626	\$ 143,087	\$ 114,893
Additions	19,149	15,312	60,154
Deductions	<u>(13,168)</u>	<u>(27,773)</u>	<u>(31,960)</u>
Balance at December 31,	<u>\$ 136,607</u>	<u>\$ 130,626</u>	<u>\$ 143,087</u>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive and Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive and Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Principal Executive and Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention of overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on management’s assessments and those criteria, management has concluded that Company’s internal control over financial reporting was effective as of December 31, 2021.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial report. Management’s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management’s report in this annual report.

Changes in Internal Control over Financial Reporting

In preparation for management’s report on internal control over financial reporting, we documented and tested the design and operating effectiveness of our internal control over financial reporting. There were no changes in our internal controls over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The affairs of the Company are managed by our Board of Directors. The Directors are elected at the annual meeting of stockholders or appointed by the incumbent Board and serve until the next annual meeting of stockholders or until a successor has been elected or approved.

An objective is for a majority of our Board to be independent directors. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with the Company. The Board has established guidelines to assist it in determining director independence which conform to, or are more exacting than, the independence requirements in the New York Stock Exchange ("NYSE") listing rules. The independence guidelines are set forth in our "Corporate Governance Guidelines". The text of this document has been posted on our internet website at www.americanrealty-invest.com ("Investor Relations Website") and is available in print to any shareholder who requests it. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination.

We have adopted a code of conduct that applies to all Directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. Stockholders may find our code of conduct on our website by going to our Investor Relations Website. We will post any amendments to the code of conduct, as well as any waivers that are required to be disclosed by the rules of the Security Exchange Commission (the "SEC") or the NYSE on our website.

Our Board of Directors has adopted charters for our Audit, Compensation and Governance and Nominating Committees of the Board of Directors. Stockholders may find these documents on our website by going to our Investor Relations Website. You may also obtain a printed copy of the materials referred to by contacting us at the following address:

American Realty Investors, Inc.
Attn: Investor Relations
1603 LBJ Freeway, Suite 800
Dallas, Texas 75234
Telephone: 469-522-4200

All members of the Audit Committee and Nominating and Corporate Governance Committees must be independent directors. Members of the Audit Committee must also satisfy additional independence requirements, which provide (i) that they may not accept, directly or indirectly, any consulting, advisory, or compensatory fee from the Company or any of its subsidiaries other than their director's compensation (other than in their capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board), and (ii) no member of the Audit Committee may be an "affiliated person" of the Company or any of its subsidiaries, as defined by the SEC.

Our current directors are listed below, together with their ages, terms of service, all positions and offices with us and our current advisor, Pillar, their principal occupations, business experience and directorships with other companies during the last five years or more. The designation "affiliated", when used below with respect to a director, means that the director is an officer, director or employee of Pillar, an officer of the Company, or an officer or director of a related party of the Company. The designation "independent", when used below with respect to a Director, means that the Director is neither an officer of the Company nor a director, officer or employee of Pillar (but may be a director of the Company, although the Company may have certain business or professional relationships with such Director as discussed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

HENRY A. BUTLER, age 71, Director, Independent, since November 2005 and Chairman of the Board since May 2009

Retired (since April 30, 2019); Mr. Butler served as Vice President for Pillar from April 2011 to April 30, 2019. Mr. Butler has been a Director of the Company since November 2005 and Chairman of the Board since May 2009. He also served as Chairman of the Board since May 2009 and as a Director since July 2003 of TCI and Chairman of the Board since May 2011 and a Director since February 2011 of IOR.

WILLIAM J. HOGAN, age 64, Director, Independent, since February 2020

Retired (since December 31, 2020); Registered Representative and Investment Advisor Representative from January 2013 to December 2020 by Cetera Advisor Networks LLC, a general securities and investment advisory firm, with an office in San Antonio, Texas. From November 2009 through December 2012, Mr. Hogan was a registered representative, employed by Financial Network Investment Corp. in San Antonio, Texas. He holds Series 7 (General Securities Representative), Series 63 (Uniform Securities Agent State Law) and Series 65 (Investment Advisor) licenses issued by Financial Industry Regulatory Authority ("FINRA"). Mr. Hogan was elected as a director of the Company and TCI on January 28, 2020 effective February 1, 2020.

ROBERT A. JAKUSZEWSKI, age 59, Director, Independent, since November 2005

Mr. Jakuszewski is currently has served as a Territory Manager for Artesa Labs since April 2015. He was a Medical Specialist from January 2014 to April 2015 for VAYA Pharma, Inc., Senior Medical Liaison from January 2013 to July 2013 for Vein Clinics of America, and the Vice President of Sales and Marketing from September 1998 to December 2012 for New Horizons Communications, Inc. Mr. Jakuszewski has been a Director of the Company since November 2005. He has also been a Director of TCI since November 2005 and a Director of IOR since March 2004.

TED R. MUNSELLE, age 66, Director, Independent, since February 2004

Mr. Munselle has been Vice President and Chief Financial Officer of Landmark Nurseries, Inc. since October 1998. On February 17, 2012, he was appointed as a member of the Board of Directors for Spindletop Oil & Gas Company and as Chairman of their Audit Committee. Spindletop's stock is traded on the Over-the-Counter (OTC) market. Mr. Munselle has been a Director of the Company since February 2004. He has also served as Director of TCI since February 2004 and Director of IOR since March 2009. Mr. Munselle is qualified as an Audit Committee financial expert within the meaning of SEC regulations and the Board of Directors has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE. Mr. Munselle is a Certified Public Accountant.

BRADFORD A. PHILLIPS, age 56, Director, since March 2021

Mr. Phillips has been the Chief Executive Officer and Chairman of LBL Group of Insurance Companies since 1999. He has served as President of Midland Securities, LLC, a Dallas, TX based broker/dealer since 2002. Prior to joining LBL Group, he served as President of InterFirst Capital Corporation of Los Angeles, California. Mr. Phillips holds a number of securities licenses, including the Series 4 (Options Principal), Series 7 (General Securities License), Series 24 (General Securities Principal), Series 27 (Financial and Operations Principal), Series 53 (Municipal Securities Principal), Series 55 (Equity Trading Principal), and Series 63 (Blue Sky Securities License). He has also been a Director of TCI since March 2021.

RAYMOND D. ROBERTS, SR., age 90, Director, Independent, since June 2016

Mr. Roberts is currently retired. Mr. Roberts has served as Director of the Company since June 2, 2016. He has also served as Director of TCI and IOR since June 2, 2016. For more than five years prior to December 31, 2014, he was Director of Aviation of Steller Aviation, Inc., a privately held corporation engaged in the business of aircraft (Boeing 737) and logistical management.

Board Meetings and Committees

The Board of Directors held five meetings during 2021. For such year, no incumbent director attended fewer than 75% of the aggregate of (1) the total number of meetings held by the Board during the period for which he or she had been a director and (2) the total number of meetings held by all committees of the Board on which he or she served during the period that he served. Under our Corporate Governance Guidelines, each Director is expected to dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties, including by attending meetings of the stockholders of the Company, the Board and Committees of which he is a member. The Board of Directors has standing Audit, Compensation and Governance and Nominating Committees.

The members of the Board of Directors on the date of this Report and the Committees of the Board on which they serve are identified below:

Director	Audit Committee	Governance and Nominating Committee	Compensation Committee
Henry A. Butler			
William J. Hogan	X	X	X
Robert A. Jakuszewski	X	Chair	X
Ted R. Munselle	Chair	X	X
Bradford A. Phillips			
Raymond D. Roberts, Sr.	X	X	Chair

Audit Committee

The Audit Committee is responsible for review and oversight of our operating and accounting procedures. Our Audit Committee charter is available on our Investor Relations website (www.transconrealty-invest.com). The Audit Committee is an “audit committee” for purposes of Section 3(a)(58) of the Exchange Act. All of the current members of the Audit Committee are independent within the meaning of the SEC Regulations, the listing standards of the NYSE and our Corporate Governance Guidelines. Mr. Ted R. Munselle, the chairman of our Audit Committee, is qualified as an Audit Committee financial expert within the meaning of SEC Regulations, and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE. All of the members of the Audit Committee meet the experience requirements of the listing standards of the NYSE. The Audit Committee met five times during 2021.

Governance and Nominating Committee

The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of our Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board’s annual review of director independence and the Board’s performance self-evaluation. The Charter of the Governance and Nominating Committee was adopted on March 17, 2004 and is available on our Investor Relations Website. The Governance and Nominating Committee met three times during 2021.

Compensation Committee

The Compensation Committee is responsible for overseeing the policies of the Company relating to compensation to be paid by the Company to our principal executive officer and any other officers designated by the Board and make recommendations to the Board with respect to such policies, produce necessary reports and executive compensation for inclusion in our Proxy Statement in accordance with applicable rules and regulations and to monitor the development and implementation of succession plans for the principal executive officers and other key executives and make recommendations to the Board with respect to such plans. The charter of our Compensation Committee is available on our Investor Relations Website. All of the members of the Compensation Committee are independent within the meaning of the listing standards of the NYSE and our Corporate Governance Guidelines. The Compensation Committee is to be comprised of at least two directors who are independent of Management and the Company. The Compensation Committee met two during 2021.

Presiding Director

The primary responsibility of our presiding director is to preside over periodic executive sessions of the Board in which Management directors and other members of Management do not participate. The presiding director also advises the Chairman of the Board and, as appropriate, Committee Chairs with respect to agendas and information needs relating to Board and Committee meetings, provides advice with respect to the selection of Committee Chairs and performs other duties that the Board may from time to time delegate to assist the Board in fulfillment of its responsibilities.

The day following the annual meeting of stockholders held December 16, 2021 representing all stockholders of record dated November 4, 2021, the full Board met and re-appointed Ted R. Munselle as Presiding Director, to serve in such position until the Company’s next annual meeting of stockholders to be held subsequently in 12/31/2022.

Determination of Directors' Independence

Our Corporate Governance Guidelines ("Guidelines") meet or exceed the new listing standards adopted during that year by the NYSE. The full text of our Guidelines can be found on our Investor Relations Website.

Pursuant to the Guidelines, the Board undertook its annual review of director independence in May 2021 and during this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and related parties, including those reported under Certain Relationships and Related Transactions below. The Board also examined transactions and relationship between directors or their related parties and members of our senior management or their related parties. As provided in the Guidelines, the purpose of such review was to determine whether such relationships or transactions were inconsistent with the determination that the director is independent.

As a result of these reviews, the Board affirmatively determined of the then directors, Messrs. Butler, Munselle, Hogan, Jakuszewski and Roberts are each independent of the Company and its Management under the standards set forth in the Corporate Governance Guidelines.

Executive Officers

Executive officers of the Company are listed below, all of whom are employed by Pillar. None of the executive officers receive any direct remuneration from the Company nor do any hold any options granted by the Company. Their positions with the Company are not subject to a vote of stockholders. In addition to the following executive officers, the Company has several vice presidents and assistant secretaries who are not listed herein. The ages, terms of service and all positions and offices with the Company, Pillar, other related entities, other principal occupations, business experience and directorships with other publicly-held companies during the last five years or more are set forth below. No family relationships exist among any of the executive officers or directors of the Company.

BRADLEY J. MUTH, 65

Mr. Muth has served as the President and Chief Executive Officer of the Company, ARL and IOR since December 16, 2021. He has also been President and Chief Executive Officer of Pillar since October 18, 2021. Prior to joining the Company, he served as Senior Managing Director, Capital Markets and Development of ValueRock Realty Partners, a national real estate investment services firm, focusing on value-ad commercial real estate throughout California, Hawaii and Arizona. Prior thereto, from December 2014 to June 2019, he was Senior Managing Director, Portfolio and Asset Management of Madison Marquette, a leading commercial real estate investment manager, service provider, developer and operator of real property. From 2012 to 2014, he was Chief Investment Officer of Buckingham Companies, a real estate investment firm engaged in the multifamily sector. Mr. Muth, from 1994 to 2012, was Managing Principal or Senior Managing Partner of ING/Concert Realty Partners, a real estate investment and operations firm. He is also a CPA.

ERIK L. JOHNSON, 54

Mr. Johnson has served as the Executive Vice President and Chief Financial Officer of the Company and ARL since December 16, 2021. He has also been Chief Financial Officer of Pillar since June 29, 2020. Prior to joining the Company, he served as Vice President of Financial Reporting at Macerich (NYSE: MAC) and has served as the Chief Accounting Officer of North American Scientific, Inc. He began his career as an auditor with PricewaterhouseCoopers and is a CPA.

LOUIS J. CORNA, 74

Mr. Corna has served as Executive Vice President, General Counsel/Tax Counsel and Secretary of the Company, ARL and IOR since February 2004. He has also been Executive Vice President since March 2011 and Secretary since December 2010 of Pillar. Mr. Corna was also a Director and Vice President from June 2004 to December 2010 and Secretary from January 2005 to December 2010 of First Equity Properties, Inc. He is also a CPA.

Code of Ethics

We have adopted a code of ethics entitled “Code of Business Conduct and Ethics” that applies to all directors, officers, and employees (including those of our Advisor). In addition, we have adopted a code of ethics entitled “Code of Ethics for Senior Financial Officers” that applies to the principal executive officer, president, principal financial officer, chief financial officer, chief accounting officer, and controller. The text of these documents has been posted on our Investor Relations Website and are available in print to any stockholder who requests them.

Compliance with Section 16(a) of the Exchange Act

Under the securities laws of the United States, the directors, executive officers, and any persons holding more than 10% of our shares of Common stock are required to report their share ownership and any changes in that ownership to the SEC. Specific due dates for these reports have been established and we are required to report any failure to file by these dates. All of these filing requirements were satisfied by our directors, executive officers, and 10% holders during the fiscal year ending December 31, 2021. In making these statements, we have relied on the written representations of our incumbent directors and executive officers, 10% holders and copies of the reports that they have filed with the SEC.

The Advisor

Pillar has been our Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing the affairs of the Company, and for setting the policies which guide it, our day-to-day operations are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with our business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and IOR. As the contractual advisor, Pillar is compensated under an Advisory Agreement that is more fully described in Part III, Item 10. “Directors, Executive Officers and Corporate Governance – The Advisor”. We have no employees and as such, employees of Pillar render services to us in accordance with the terms of the Advisory Agreement.

Pillar is a Nevada corporation, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the MRHI. The beneficiaries of the MRHI are the children of the late Gene E. Phillips.

Under the Advisory Agreement, Pillar is required to annually formulate and submit, for Board approval, a budget and business plan containing a twelve-month forecast of operations and cash flow, a general plan for asset sales and purchases, lending, foreclosure and borrowing activity, and other investments. Pillar is required to report quarterly to the Board on TCI’s performance against the business plan. In addition, all transactions require prior Board approval, unless they are explicitly provided for in the approved business plan or are made pursuant to authority expressly delegated to Pillar by the Board.

The Advisory Agreement also requires prior Board approval for the retention of all consultants and third party professionals, other than legal counsel. The Advisory Agreement provides that Pillar shall be deemed to be in a fiduciary relationship to our stockholders; contains a broad standard governing Pillar’s liability for losses incurred by us; and contains guidelines for Pillar’s allocation of investment opportunities as among itself, the Company and other entities it advises. Pillar is a company of which Messrs. Muth, Johnson and Corna serve as executive officers.

The Advisory Agreement provides for Pillar to be responsible for our day-to-day operations and to receive, as compensation for basic management and advisory services, a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves).

In addition to base compensation, Pillar receives the following forms of additional compensation:

- (1) an annual net income fee equal to 7.5% of our net income as an incentive for successful investment and management of our assets;
- (2) an annual incentive sales fee to encourage periodic sales of appreciated real property at optimum value equal to 10.0% of the amount, if any, by which the aggregate sales consideration for all real estate sold by us during such fiscal year exceeds the sum of:

- (a) the cost of each such property as originally recorded in our books for tax purposes (without deduction for depreciation, amortization or reserve for losses);
 - (b) capital improvements made to such assets during the period owned; and
 - (c) all closing costs (including real estate commissions) incurred in the sale of such real estate; provided however, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an 8.0% simple annual return on the net investment including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration, and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5.0% higher in the current fiscal year than in the prior fiscal year;
- (3) an acquisition commission, from an unaffiliated party of any existing mortgage or loan, for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of:
- (a) up to 1.0% of the cost of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers; or
 - (b) the compensation customarily charged in arm's-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property, provided that the aggregate purchase price of each property (including acquisition fees and real estate brokerage commissions) may not exceed such property's appraised value at acquisition;
- (4) a construction fee equal to 6.0% of the so-called "hard costs" only of any costs of construction on a completed basis, based upon amounts set forth as approved on any architect's certificate issued in connection with such construction, which fee is payable at such time as the applicable architect certifies other costs for payment to third parties. The phrase "hard costs" means all actual costs of construction paid to contractors, subcontractors and third parties for materials or labor performed as part of the construction but does not include items generally regarded as "soft costs," which are consulting fees, attorneys' fees, architectural fees, permit fees and fees of other professionals; and
- (5) reimbursement of certain expenses incurred by the advisor in the performance of advisory services.

The Advisory Agreement also provides that Pillar receive the following forms of compensation:

- (1) a mortgage or loan acquisition fee with respect to the acquisition or purchase from an unaffiliated party of any existing mortgage loan by us equal to the lesser of:
 - (a) 1.0% of the amount of the mortgage or loan purchased; or
 - (b) a brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by us; and
- (2) a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of:
 - (a) 1.0% of the amount of the loan or the amount refinanced; or
 - (b) a brokerage or refinancing fee which is reasonable and fair under the circumstances; provided, however, that no such fee shall be paid on loans from Pillar, or a related party of Pillar, without the approval of our Board of Directors. No fee shall be paid on loan extensions.

Under the Advisory Agreement, all or a portion of the annual advisory fee must be refunded by the Advisor if our operating expenses (as defined in the Advisory Agreement) exceed certain limits specified in the Advisory Agreement based on our book value, net asset value and net income during the fiscal year.

The Advisory Agreement requires Pillar to pay us, one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by us; provided, however, that the compensation retained by Pillar, or any affiliate of Pillar, shall not exceed the lesser of (1) 2.0% of the amount of the loan commitment or (2) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

The Advisory Agreement further provides that Pillar shall bear the cost of certain expenses of its employees, excluding fees paid to our Directors; rent and other office expenses of both Pillar and us (unless we maintains office space separate from that of Pillar); costs not directly identifiable to our assets, liabilities, operations, business or financial affairs; and miscellaneous administrative expenses relating to the performance by Pillar of its duties under the Advisory Agreement.

If and to the extent that we request Pillar, or any director, officer, partner, or employee of Pillar, to render services for us other than those required to be rendered by the Advisory Agreement, Pillar separately would be compensated for such additional services on terms to be agreed upon between such party and us from time to time. As discussed below, under “Property Management and Real Estate Brokerage,” Regis Realty Prime, LLC, (“Regis”) manages our commercial properties and provides brokerage services.

We have a Cash Management Agreement with Pillar that provides that all of our funds are delivered to Pillar which has a deposit liability to us and is responsible for payment of all payables and investment of all excess funds which earn interest at the Wall Street Journal prime rate plus 1.0% per annum, as set quarterly on the first day of each calendar quarter. Borrowings for our benefit bear the same interest rate. The term of the Cash Management Agreement is coterminous with the Advisory Agreement, and is automatically renewed each year unless terminated with the Advisory Agreement. We believe that the terms of the Advisory Agreement are at least as fair as could be obtained from unaffiliated third parties.

Situations may develop in which our interests are in conflict with those of one or more directors or officers in their individual capacities, or of Pillar, or of their respective related parties. In addition to services performed for us, as described above, Pillar actively provides similar services as agent for, and advisor to, other real estate enterprises, including persons and entities involved in real estate development and financing, including ARL and IOR. The Advisory Agreement provides that Pillar may also serve as advisor to other entities.

As advisor, Pillar is a fiduciary of our public investors. In determining to which entity a particular investment opportunity will be allocated, Pillar will consider the respective investment objectives of each entity and the appropriateness of a particular investment in light of each such entity’s existing mortgage note and real estate portfolios and business plan. To the extent any particular investment opportunity is appropriate to more than one such entity, such investment opportunity will be allocated to the entity that has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among various entities. Refer to Part III, Item 13 “Certain Relationships and Related Transactions, and Director Independence”.

Pillar may assign the Advisory Agreement with our prior consent.

The principal executive officers of Pillar are set forth below:

Name	Officers
Bradley J. Muth	President and Chief Executive Officer
Erik L. Johnson	Executive Vice President and Chief Financial Officer
Louis J. Corna	Executive Vice President and Secretary

Property Management

Regis manages four of our commercial properties for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

Real Estate Brokerage

Regis provides real estate brokerage services to us on a non-exclusive basis, and is entitled to receive a real estate commission for property purchases and sales in accordance with the following sliding scale of total fees to be paid:

- (1) maximum fee of 4.5% on the first \$2.0 million of any purchase or sale transaction of which no more than 3.5% is to be paid to Regis;
- (2) maximum fee of 3.5% on transaction amounts between \$2.0 million-\$5.0 million of which no more than 3.0% is to be paid to Regis;
- (3) maximum fee of 2.5% on transaction amounts between \$5.0 million-\$10.0 million of which no more than 2.0% is to be paid to Regis; and
- (4) maximum fee of 2.0% on transaction amounts in excess of \$10.0 million of which no more than 1.5% is to be paid to Regis.

ITEM 11. EXECUTIVE COMPENSATION

We have no employees, payroll or benefit plans and pay no compensation to our executive officers. Our executive officers are also officers and employees of Pillar, our Advisor, and are compensated by Pillar. Such executive officers perform a variety of services for Pillar and the amount of their compensation is determined solely by Pillar. Pillar does not allocate the cash compensation of its officers among the various entities for which it serves as advisor. Refer to Item 10. “Directors, Executive Officers and Corporate Governance” for a more detailed discussion of the compensation payable to Pillar by us.

The only remuneration paid by us is to our directors who are not officers or employees of Pillar or its related companies. The Independent Directors (1) review our business plan to determine that it is in the best interest of our stockholders, (2) review the advisory contract, (3) supervise the performance of the advisor and review the reasonableness of the compensation paid to the advisor in terms of the nature and quality of services performed, (4) review the reasonableness of our total fees and expenses and (5) select, when necessary, a qualified independent real estate appraiser to appraise properties acquired.

Each non-affiliated Director is entitled to receive an annual retainer of \$12,000, with the Chairman of the Audit Committee to receive a one-time annual fee of \$500. Directors who are also employees of the Company or its advisor receive no additional compensation for service as a Director.

During December 31, 2021, \$83,400 was paid to non-employee Directors in total Directors’ fees. The fees paid to the directors are as follows: Henry A. Butler \$9,700; William J. Hogan, \$18,300; Robert A. Jakuszewski, \$18,300; Ted R. Munselle, \$18,800 and Raymond D. Roberts, Sr., \$18,300.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

The following table sets forth the ownership of our common stock, both beneficially and of record, both individually and in the aggregate, for those persons or entities known to be beneficial owners of more than 5.0% of the outstanding shares of our common stock as of the close of business on March 28, 2021.

	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
The May Trust 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	14,669,820	90.8 %
May Realty Holdings, Inc. 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	14,669,820	90.8 %
Realty Advisors, Inc. 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	14,669,820	90.8 %

* “Beneficial Ownership” means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentage is based upon 16,152,043 shares of Common stock outstanding at March 28, 2021.

RAI is a wholly owned subsidiary of MRHI, which is a wholly owned subsidiary of The May Trust. The beneficiaries of The May Trust are the children of the late Gene E. Phillips.

Security Ownership of Management.

The following table sets forth the ownership of our common stock, both beneficially and of record, both individually and in the aggregate, for our directors and executive officers as of the close of business on March 28, 2021.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
Henry A. Butler	—	— %
Louis J. Corna	—	— %
William J. Hogan	—	— %
Robert A. Jakuszewski	—	— %
Erik L. Johnson	—	— %
Ted R. Munselle	—	— %
Bradley J. Muth	—	— %
Bradford A. Phillips	—	— %
Raymond D. Roberts, Sr.	—	— %
All Directors and Executive Officers as a group (9 individuals)	—	— %

* Beneficial Ownership” means the sole power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentages are based upon 16,152,043 shares of Common Stock outstanding at March 28, 2021.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Policies with Respect to Certain Activities

Article 14 of our Articles of Incorporation provides that we shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of the Company, (2) any director, officer or employee of the advisor, (3) the advisor, or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Exchange Act of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by our Board of Directors or the appropriate committee thereof and (b) our Board of Directors or committee thereof determines that such contract or transaction is fair to the Company and simultaneously authorizes or ratifies such contract or transaction by the affirmative vote of a majority of our independent directors entitled to vote thereon.

Article 14 defines an “Independent Director” (for purposes of that Article) as one who is neither an officer or employee of the Company, nor a director, officer or employee of our advisor.

Our policy is to have such contracts or transactions approved or ratified by a majority of the disinterested Directors with full knowledge of the character of such transactions, as being fair and reasonable to the stockholders at the time of such approval or ratification under the circumstances then prevailing. Such Directors also consider the fairness of such transactions to the Company. We believe that, to date, such transactions have represented the best investments available at the time and they were at least as advantageous to us as other investments that could have been obtained.

We may enter into future transactions with entities, the officers, directors, or stockholders of which are also officers, directors, or stockholders of the Company, if such transactions would be beneficial to our operations and consistent with our then-current investment objectives and policies, subject to approval by a majority of disinterested Directors as discussed above.

We do not prohibit its officers, directors, stockholders, or related parties from engaging in business activities of the types conducted by the Company.

Certain Business Relationships

Pillar has been our Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing our affairs, and for setting the policies which guide it, our day-to-day operations are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with our business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to ARL and IOR. As the contractual advisor, Pillar is compensated under an Advisory Agreement that is more fully described in Part III, Item 10. “Directors, Executive Officers and Corporate Governance – The Advisor”. We have no employees and as such, employees of Pillar render services to us in accordance with the terms of the Advisory Agreement.

Pillar is owned by Realty Advisors, LLC, which is owned by RAI, which is owned by MRHI, which is owned by the May Trust.

All of our directors also serve as Directors of ARL and IOR. Our executive officers also serve as executive officers of TCI. As such, they owe fiduciary duties to that entity as well as to Pillar under applicable law. TCI has the same relationship with Pillar, as does the Company. Mr. Daniel J. Moos is the sole Manager and Class B 2% income Member of Victory Abode Apartments LLC, and until August 2020, was the President of ARL, TCI and IOR.

Effective since January 1, 2011, Regis manages our commercial properties for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

At December 31, 2021, TCI owned approximately 81.1% of the outstanding common shares of IOR.

We are part of a tax sharing and compensating agreement with respect to federal income taxes among ARL, TCI and IOR and their subsidiaries. In accordance with the agreement, our expense (benefit) in each year is calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%.

We have a development agreement with Unified Housing Foundation, Inc. “UHF” a non-profit corporation that provides management services for the development of residential apartment projects in the future. We have also invested in surplus cash notes receivables from UHF and have sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

Related Party Transactions

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

In 2021, we paid Pillar advisory fees of \$14.0 million and cost reimbursements of \$3.6 million.

We paid property management fees, construction management fees and leasing commissions of \$0.9 million to Regis in 2021. In addition, SPC is part of a management service agreement with the controlling shareholder owned company in which SPC for an annual payment of 0.5% on the value of the investment properties receives from the Advisor office space, administrative and management services. During 2021, SPC paid management fees to Pillar in the amount of \$2.5 million.

As of December 31, 2021, we had notes and interest receivables of \$67.3 million and \$3.9 million, respectively, due from related parties. Refer to Part 2, Item 8. Note 9 – Notes Receivable of our consolidated financial statements. During the current period, we recognized interest income of \$6.3 million, originated \$10.9 million, received \$1.3 million principal payments, and received interest payments of \$6.8 million from these related party notes receivables.

We were the primary guarantor, on a \$24.3 million mezzanine loan between UHF and a lender. The guarantee was removed on January 29, 2021, concurrent with the repayment of the loan by UHF.

We received rental revenue \$0.9 million, for the years ended December 31, 2021 for office space leased to Pillar and Regis.

From time to time, we have made advances and/or borrowing to/from other related parties, which generally have not had specific repayment terms, did not bear interest, are unsecured, and have been reflected our financial statements as other assets or other liabilities. We charge interest on the outstanding balance of funds advanced from us. The interest rate, set at the beginning of each quarter, is the prime rate plus 1.0% on the average daily cash balances advanced. At December 31, 2021, we had a receivable from related parties of \$100.6 million.

Director Independence

See “Determination of Director Independence” under Item 10 above to which reference is made.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

For the years ended December 31, 2021 and 2020, we were billed by Farmer, Fuqua and Huff, L.P. for services in the following categories:

Audit Fees. Fees for audit services were \$183,333 and \$324,500 for the years ended December 31, 2021 and 2020, respectively. These are fees for professional services performed by the principal auditor for the audit of the Company’s annual financial statements and review of financial statements included in the Company’s 10-Q filings and services that are normally provided in connection with statutory and regulatory filing or engagement.

Audit-Related Fees. No fees for audit-related services were paid for the years ended December 31, 2021 and 2020. These are fees for assurance and related services performed by the principal auditor that are reasonably related to the performance of the audit or review of the Company’s financial statements. These services include attestations by the principal auditor that are not required by statute or regulation and consulting on financial accounting/reporting standards.

Tax Fees. Fees for tax services were \$— and \$23,850 for the years ended December 31, 2021 and 2020, respectively. These are fees for professional services performed by the principal auditor with respect to tax compliance, tax

planning, tax consultation, returns preparation and review of returns. The review of tax returns includes the Company and its consolidated subsidiaries.

All Other Fees. No other fees were paid for the years ended December 31, 2021 and 2020. These are fees for other permissible work performed by the principal auditor that do not meet the above category descriptions.

All services rendered by the principal auditors are permissible under applicable laws and regulations and were pre-approved by either the Board of Directors or the Audit Committee, as required by law. The fees paid to the principal auditors for the services described in the above table fall under the categories listed below:

These services are actively monitored (as to both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in the principal auditor's core work, which is the audit of the Company's consolidated financial statements.

The Audit Committee has established policies and procedures for the approval and pre-approval of audit services and permitted non-audit services. The Audit Committee has the responsibility to engage and terminate our independent auditors, to pre-approve their performance of audit services and permitted non-audit services, to approve all audit and non-audit fees, and to set guidelines for permitted non-audit services and fees. All fees for 2021 and 2020 were pre-approved by the Audit Committee or were within the pre-approved guidelines for permitted non-audit services and fees established by the Audit Committee, and there were no instances of waiver of approved requirements or guidelines during the same periods.

Our Audit Committee has adopted a pre-approval policy of audit and non-audit services (the "Policy"), which sets forth the procedures and conditions pursuant to which services to be performed by the independent auditor are to be pre-approved. Consistent with the SEC rules establishing two different approaches to pre-approving non-prohibited services, the Policy of the Audit Committee covers Pre-approval of audit services, audit-related services, international administration tax services, non-U.S. income tax compliance services, pension and benefit plan consulting and compliance services, and U.S. tax compliance and planning. At the beginning of each fiscal year, the Audit Committee will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and will approve or reject each service, taking into account whether services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor's independence from management. Typically, in addition to the generally pre-approved services, other services would include due diligence for an acquisition that may or may not have been known at the beginning of the year. The Audit Committee has also delegated to any member of the Audit Committee designated by the Board or the financial expert member of the Audit Committee responsibilities to pre-approve services to be performed by the independent auditor not exceeding \$25,000 in value or cost per engagement of audit and non-audit services, and such authority may only be exercised when the Audit Committee is not in session.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

a. *Financial Statements*

Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets as of December 31, 2021 and 2020
Consolidated Statements of Operations for the Years Ended December 31, 2021, 2020, and 2019
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2021, 2020, and 2019
Consolidated Statements of Cash Flows for the Years Ended December 31, 2021, 2020, and 2019
Notes to Financial Statements

b. *Financial Statement Schedules*

Schedule III—Real Estate and Accumulated Depreciation
Schedule IV—Mortgage Loan Receivables on Real Estate

c. *Exhibits*

The following documents are filed as Exhibits to this Report:

- 3.1 Certificate of Restatement of Articles of Incorporation of American Realty Investors, Inc., dated August 3, 2000 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
- 3.2 Certificate of Correction of Restated Articles of Incorporation of American Realty Investors, Inc., dated August 29, 2000 (incorporate by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
- 3.3 Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc. decreasing the number of authorized shares of and eliminating Series B Cumulative Convertible Preferred Stock dated August 26, 2003 (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
- 3.4 Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc. decreasing the number of authorized shares of and eliminating Series I Cumulative Preferred Stock dated October 1, 2003 (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
- 3.5 By-laws of American Realty Investors, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-4, filed on December 30, 1999).
- 4.1 Certificate of Designations, Preferences and Relative Participating or Optional or Other Special Rights, and Qualifications, Limitations or Restrictions Thereof of Series F Redeemable Preferred Stock of American Realty Investors, Inc., dated June 11, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- 4.2 Certificate of Withdrawal of Preferred Stock, Decreasing the Number of Authorized Shares of and Eliminating Series F Redeemable Preferred Stock, dated June 18, 2002 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
- 4.3 Certificate of Designation, Preferences and Rights of the Series I Cumulative Preferred Stock of American Realty Investors, Inc., dated February 3, 2003 (incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
- 4.4 Certificate of Designation for Nevada Profit Corporations designating the Series J 8% Cumulative Convertible Preferred Stock as filed with the Secretary of State of Nevada on March 16, 2006 (incorporated by reference to Registrant current report on Form 8-K for event of March 16, 2006).
- 10.1 Advisory Agreement between American Realty Investors, Inc. and Pillar Income Asset Management, LLC, dated April 30, 2011 (incorporated by reference to Exhibit 10.0 to the Registrant's Current Report on Form 8-K, dated April 30, 2011).
- 10.2 Second Amendment to Modification of Stipulation of Settlement dated October 17, 2001 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-4, dated February 24, 2002).
- 14.0 Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.0 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).
- [21.1 *](#) Subsidiaries of the Registrant.
- [31.1 *](#) Rule 13a-14(a) Certification by Principal Executive Officer.
- [31.2 *](#) Rule 13a-14(a) Certification by Principal Financial Officer.

[32.1*](#) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

ITEM 16. FORM 10-K SUMMARY

Optional and not included herein.

SIGNATURES

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

AMERICAN REALTY INVESTORS, INC.

Dated: March 28, 2021

By: /s/ ERIK L. JOHNSON

Erik L. Johnson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ HENRY A. BUTLER</u> Henry A. Butler	Chairman of the Board and Director	March 28, 2021
<u>/s/ WILLIAM J. HOGAN</u> William J. Hogan	Director	March 28, 2021
<u>/s/ ROBERT A. JAKUSZEWSKI</u> Robert A. Jakuszewski	Director	March 28, 2021
<u>/s/ TED R. MUNSELLE</u> Ted R. Munselle	Director	March 28, 2021
<u>/s/ BRADFORD A. PHILLIPS</u> Bradford A. Phillips	Director	March 28, 2021
<u>/s/ RAYMOND D. ROBERTS, SR.</u> Raymond D. Roberts, Sr.	Director	March 28, 2021
<u>/s/ BRADLEY J. MUTH</u> Bradley J. Muth	President and Chief Executive Officer (Principal Executive Officer)	March 28, 2021
<u>/s/ ERIK L. JOHNSON</u> Erik L. Johnson	Executive Vice President and Chief Financial (Principal Financial Officer)	March 28, 2021