
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2024

or

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

For the transition period from _____ to _____

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

(I.R.S. Employer
Identification No.)

1603 Lyndon B. Johnson Freeway, Suite 800, Dallas, Texas 75234

(Address of principal executive offices) (Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	ARL	NYSE

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.

As of May 9, 2024, there were 16,152,043 shares of common stock outstanding.

AMERICAN REALTY INVESTORS, INC.
FORM 10-Q

TABLE OF CONTENTS

	<u>PAGE</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets at March 31, 2024 and December 31, 2023</u> 3
	<u>Consolidated Statements of Operations for the three months ended March 31, 2024 and 2023</u> 4
	<u>Consolidated Statements of Equity for the three months ended March 31, 2024 and 2023</u> 5
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2024 and 2023</u> 6
	<u>Notes to Consolidated Financial Statements</u> 7
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risks</u> 23
<u>Item 4.</u>	<u>Controls and Procedures</u> 23
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 24
<u>Item 1A.</u>	<u>Risk Factors</u> 24
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 24
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 24
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 24
<u>Item 5.</u>	<u>Other Information</u> 24
<u>Item 6.</u>	<u>Exhibits</u> 25
<u>Signatures</u>	27

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

	March 31, 2024	December 31, 2023
Assets		
Real estate	\$ 503,139	\$ 501,586
Cash and cash equivalents	54,700	36,740
Restricted cash	38,352	42,327
Short-term investments	76,153	90,448
Notes receivable (including \$73,317 and \$75,362 at March 31, 2024 and December 31, 2023, respectively, from related parties)	141,136	144,142
Investment in unconsolidated joint ventures	10,543	10,060
Receivable from related party	96,997	96,533
Other assets (including \$1,028 and \$2,012 at March 31, 2024 and December 31, 2023, respectively, from related parties)	101,159	101,648
Total assets	<u>\$ 1,022,179</u>	<u>\$ 1,023,484</u>
Liabilities and Equity		
Liabilities:		
Mortgages and other notes payable	\$ 181,827	\$ 182,683
Accounts payable and other liabilities (including \$1,022 and \$1,016 at March 31, 2024 and December 31, 2023, respectively, from related parties)	9,560	11,866
Accrued interest	2,775	2,633
Deferred revenue	9,791	9,791
Total liabilities	<u>203,953</u>	<u>206,973</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 outstanding	162	162
Additional paid-in capital	61,664	61,638
Retained earnings	555,153	553,402
Total shareholders' equity	618,780	617,003
Noncontrolling interests	199,446	199,508
Total equity	818,226	816,511
Total liabilities and equity	<u>\$ 1,022,179</u>	<u>\$ 1,023,484</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)
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Revenues:		
Rental revenues (including \$178 and \$268 for the three months ended March 31, 2024 and 2023, respectively, from related parties)	\$ 11,279	\$ 11,009
Other income	620	679
Total revenue	<u>11,899</u>	<u>11,688</u>
Expenses:		
Property operating expenses (including \$80 and \$100 for the three months ended March 31, 2024 and 2023, respectively, from related parties)	6,634	6,106
Depreciation and amortization	3,172	3,102
General and administrative (including \$934 and \$1,539 for the three months ended March 31, 2024 and 2023, respectively, from related parties)	1,408	3,161
Advisory fee to related party	2,202	2,405
Total operating expenses	<u>13,416</u>	<u>14,774</u>
Net operating loss	(1,517)	(3,086)
Interest income (including \$2,298 and \$4,603 for the three months ended March 31, 2024 and 2023, respectively, from related parties)	5,733	8,295
Interest expense	(1,922)	(3,140)
Gain on foreign currency transactions	—	971
Equity in income from unconsolidated joint ventures	483	2,419
Income tax provision	(475)	(1,240)
Net income	<u>2,302</u>	<u>4,219</u>
Net income attributable to noncontrolling interests	(551)	(1,241)
Net income attributable to common shares	<u>\$ 1,751</u>	<u>\$ 2,978</u>
Earnings per share - basic and diluted	<u>\$ 0.11</u>	<u>\$ 0.18</u>
Weighted average common shares used in computing earnings per share	<u>16,152,043</u>	<u>16,152,043</u>

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(dollars in thousands)
(Unaudited)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interest	Total Equity
Three Months Ended March 31, 2024							
Balance, January 1, 2024	\$ 1,801	\$ 162	61,638	553,402	\$ 617,003	\$ 199,508	\$ 816,511
Net income	—	—	—	1,751	1,751	551	2,302
Repurchase of treasury shares by IOR	—	—	—	—	—	(587)	(587)
Adjustment to noncontrolling interest	—	—	26	—	26	(26)	—
Balance, March 31, 2024	<u>\$ 1,801</u>	<u>\$ 162</u>	<u>\$ 61,664</u>	<u>\$ 555,153</u>	<u>\$ 618,780</u>	<u>\$ 199,446</u>	<u>\$ 818,226</u>
Three Months Ended March 31, 2023							
Balance, January 1, 2023	\$ 1,801	\$ 162	\$ 62,090	\$ 549,434	\$ 613,487	\$ 198,681	\$ 812,168
Net income	—	—	—	2,978	2,978	1,241	4,219
Balance, March 31, 2023	<u>\$ 1,801</u>	<u>\$ 162</u>	<u>\$ 62,090</u>	<u>\$ 552,412</u>	<u>\$ 616,465</u>	<u>\$ 199,922</u>	<u>\$ 816,387</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)
(Unaudited)

	Three Months Ended	
	March 31,	
	2024	2023
Cash Flow From Operating Activities:		
Net income	\$ 2,302	\$ 4,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on foreign currency transactions	—	(971)
Depreciation and amortization	3,185	3,755
Provision of bad debts	29	—
Equity in income from unconsolidated joint ventures	(483)	(2,419)
Changes in assets and liabilities:		
Other assets	1,359	(5,030)
Related party receivable	(464)	818
Accrued interest	142	(1,483)
Accounts payable and other liabilities	(2,203)	2,650
Net cash provided by operating activities	3,867	1,539
Cash Flow From Investing Activities:		
Collection of notes receivable	3,005	248
Purchase of short-term investments	(17,399)	(63,956)
Redemption of short-term investments	31,694	27,192
Development and renovation of real estate	(5,726)	(5,653)
Deferred leasing costs	—	(19)
Distribution from unconsolidated joint venture	—	17,976
Net cash provided by (used in) investing activities	11,574	(24,212)
Cash Flow From Financing Activities:		
Payments on mortgages, other notes and bonds payable	(858)	(89,111)
Repurchase of IOR shares	(587)	—
Deferred financing costs	(11)	(16)
Net cash used in financing activities	(1,456)	(89,127)
Net increase (decrease) in cash, cash equivalents and restricted cash	13,985	(111,800)
Cash, cash equivalents and restricted cash, beginning of period	79,067	222,328
Cash, cash equivalents and restricted cash, end of period	\$ 93,052	\$ 110,528

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

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

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”) and over 90% of our stock is owned by related party entities.

Our primary business is the acquisition, development and ownership of income-producing multifamily and commercial 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 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 income from the sale of 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 traded 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 were listed on the Tel Aviv Stock Exchange (“TASE”).

At March 31, 2024, our portfolio of properties consisted of:

- Four office buildings comprising in aggregate of approximately 1,056,793 square feet;
- Fourteen multifamily properties, owned directly by us, comprising of 2,328 units; and
- Approximately 1,843 acres of developed and undeveloped land.

Our day to day operations are managed by Pillar Income Asset Management, Inc. (“Pillar”). Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities, asset management, property development, construction management and arranging debt and equity financing with third party lenders and investors. We have no employees; all of our services are performed by Pillar employees. Three of our commercial properties are managed by Regis Realty Prime, LLC (“Regis”). Regis provides leasing and brokerage services. Our multifamily properties and one of our commercial properties are managed by outside management companies. Pillar and Regis are considered to be related parties (See Note 12 – Related Party Transactions).

2. Summary of Significant Accounting Policies

Short-Term Investments

We account for our investment in corporate bonds and demand notes (collectively "debt securities") as held-to-maturity securities as we have the intent and the ability to hold these securities until maturity. Accordingly, our debt securities are carried at their amortized cost. The discount on these debt securities are amortized into interest income on a straight-line basis over the term of the underlying notes, which approximate the effective interest method.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included.

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on the reported results of operation. An adjustment has been made to reclassify \$3,208 interest expense to related party for the three months ended March 31, 2023 from interest expense to interest income on the consolidated statements of operations.

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

The consolidated balance sheet at December 31, 2023 was derived from the audited consolidated financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023.

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.

3. Earnings Per Share

Earnings Per Share (“EPS”) is computed by dividing net income available to common shares by the weighted-average number of common shares outstanding during the period. Shares issued during the period are weighted for the portion of the period that they were outstanding.

The following table details our basic and diluted earnings per common share calculation:

	Three Months Ended	
	March 31,	
	2024	2023
Net income	\$ 2,302	\$ 4,219
Net income attributable to noncontrolling interests	(551)	(1,241)
Net income attributable to common shares	<u>\$ 1,751</u>	<u>\$ 2,978</u>
Weighted-average common shares outstanding — basic and diluted	<u>16,152,043</u>	<u>16,152,043</u>
EPS - attributable to common shares — basic and diluted	<u>\$ 0.11</u>	<u>\$ 0.18</u>

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

4. Supplemental Cash Flow Information

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

	Three Months Ended March 31,	
	2024	2023
Cash paid for interest	\$ 1,597	\$ 8,720
Cash - beginning of period		
Cash and cash equivalents	\$ 36,740	\$ 113,445
Restricted cash	42,327	108,883
	<u>\$ 79,067</u>	<u>\$ 222,328</u>
Cash - end of period		
Cash and cash equivalents	\$ 54,700	\$ 55,340
Restricted cash	38,352	55,188
	<u>\$ 93,052</u>	<u>\$ 110,528</u>
Payments on mortgages, other notes and bonds payable		
Payments on mortgages and other notes payable	\$ 858	\$ 832
Payments on bonds payable	—	88,279
	<u>\$ 858</u>	<u>\$ 89,111</u>

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

	Three Months Ended March 31,	
	2024	2023
Property acquired in exchange for reduction in related party receivable	\$ —	\$ 5,487

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 and (ii) the acquisition, ownership and management of commercial properties. The services for our multifamily segment include rental of apartments 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.

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

The following table presents our reportable segments for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
Multifamily Segment		
Revenues	\$ 8,053	\$ 7,373
Operating expenses	(4,219)	(3,708)
Profit from segment	3,834	3,665
Commercial Segment		
Revenues	3,226	3,636
Operating expenses	(2,415)	(2,398)
Profit from segment	811	1,238
Total profit from segments	\$ 4,645	\$ 4,903

The table below reflects the reconciliation of total profit from segments to net income for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
Total profit from segments	\$ 4,645	\$ 4,903
Other non-segment items of income (expense)		
Depreciation and amortization	(3,172)	(3,102)
General and administrative	(1,408)	(3,161)
Advisory fee to related party	(2,202)	(2,405)
Other income	620	679
Interest income	5,733	8,295
Interest expense	(1,922)	(3,140)
Gain on foreign currency transaction	—	971
Income from unconsolidated joint ventures	483	2,419
Income tax provision	(475)	(1,240)
Net income	\$ 2,302	\$ 4,219

6. Lease Revenue

We lease our multifamily properties and commercial properties under agreements that are classified as operating leases. Our multifamily property leases generally include minimum rents and charges for ancillary services. Our commercial property leases generally include 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.

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

The following table summarizes the components of our rental revenue for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
Fixed component	\$ 10,999	\$ 10,708
Variable component	280	301
	<u>\$ 11,279</u>	<u>\$ 11,009</u>

The following table summarizes the future rental payments that are payable to us from non-cancelable leases. The table excludes multifamily leases, which typically have a term of one-year or less:

2024	\$ 11,441
2025	11,067
2026	10,700
2027	10,408
2028	9,681
Thereafter	16,393
	<u>\$ 69,690</u>

7. Real Estate Activity

Below is a summary of our real estate as of March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
Land	\$ 104,156	\$ 104,156
Building and improvements	373,020	372,399
Tenant improvements	16,234	16,286
Construction in progress	79,873	76,110
Total cost	<u>573,283</u>	<u>568,951</u>
Less accumulated depreciation	<u>(70,144)</u>	<u>(67,365)</u>
Total real estate	<u>\$ 503,139</u>	<u>\$ 501,586</u>

On March 15, 2023, we entered into a development agreement with Pillar to build a 240 unit multifamily property in Lake Wales, Florida ("Lake Wales") that is expected to be completed in 2025 for a total cost of approximately \$55,330. The cost of construction will be funded in part by a \$33,000 construction loan (See Note 11 – Mortgages and Other Notes Payable). The development agreement provides for a \$1,637 fee that will be paid to Pillar over the construction period. As of March 31, 2024, we have incurred a total of \$18,888 in development costs.

On November 6, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in McKinney, Texas ("Merano") that is expected to be completed in 2025 for a total cost of approximately \$51,910. The cost of construction will be funded in part by a \$25,407 construction loan (See Note 11 – Mortgages and Other Notes Payable). The development agreement provides for a \$1,551 fee that will be paid to Pillar over the construction period. As of March 31, 2024, we have incurred a total of \$8,916 in development costs.

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

On December 15, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in Temple, Texas ("Bandera Ridge") that is expected to be completed in 2025 for a total cost of approximately \$49,603. The cost of construction will be funded in part by a \$23,500 construction loan (See Note 11 – Mortgages and Other Notes Payable). The development agreement provides for a \$1,607 fee that will be paid to Pillar over the construction period. As of March 31, 2024, we have incurred a total of \$3,124 in development costs.

Construction in progress includes the cost of development of Windmill Farms and the costs associated with our multifamily development projects.

We incurred depreciation expense of \$3,018 and \$2,935 for the three months ended March 31, 2024 and 2023, respectively.

8. Short-term Investments

The following is a summary of our short term investment as of March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
Corporate bonds, at par value	\$ 70,266	\$ 90,000
Demand notes	6,413	1,484
	<u>76,679</u>	<u>91,484</u>
Less discount	(526)	(1,036)
	<u>\$ 76,153</u>	<u>\$ 90,448</u>

The average interest rate on the investments was 5.71% and 5.65% at March 31, 2024 and December 31, 2023, respectively.

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

9. Notes Receivable

The following table summarizes our notes receivable as of March 31, 2024 and December 31, 2023:

Property/Borrower	Carrying value		Interest Rate	Maturity Date
	March 31, 2024	December 31, 2023		
ABC Land and Development, Inc.	\$ 4,408	\$ 4,408	9.50 %	6/30/26
ABC Paradise, LLC	1,210	1,210	9.50 %	6/30/26
Autumn Breeze(1)	1,847	2,157	5.00 %	7/1/25
Bellwether Ridge(1)	3,798	3,798	5.00 %	11/1/26
Cascades at Spring Street(2)(3)	180	180	5.38 %	6/30/27
Dominion at Mercer Crossing(4)	6,167	6,354	9.50 %	6/7/28
Echo Station(2)(3)	10,305	10,305	5.38 %	12/31/32
Forest Pines(1)	6,472	6,472	5.00 %	5/1/27
Inwood on the Park(2)(3)	20,325	20,325	5.38 %	6/30/28
Kensington Park(2)(3)	8,217	10,262	5.38 %	3/31/27
Lake Shore Villas(2)(3)	6,000	6,000	5.38 %	12/31/32
Legacy Pleasant Grove	496	496	12.00 %	10/23/24
McKinney Ranch	3,926	3,926	6.00 %	9/15/24
Ocean Estates II(2)(3)	3,615	3,615	5.38 %	5/31/28
One Realco Land Holding, Inc.	1,728	1,728	9.50 %	6/30/26
Parc at Ingleside(1)	3,759	3,759	5.00 %	11/1/26
Parc at Opelika Phase II(1)(5)	3,190	3,190	10.00 %	1/13/23
Parc at Windmill Farms(1)(5)	7,886	7,886	5.00 %	11/1/22
Phillips Foundation for Better Living, Inc.(2)	182	182	5.38 %	3/31/28
Plaza at Chase Oaks(2)(3)	11,772	11,772	5.38 %	3/31/28
Plum Tree(1)	1,600	1,767	5.00 %	4/26/26
Polk County Land	3,000	3,000	9.50 %	6/30/26
Riverview on the Park Land, LLC	1,045	1,045	9.50 %	6/30/26
Spartan Land	5,907	5,907	6.00 %	1/16/25
Spyglass of Ennis(1)	4,882	5,179	5.00 %	11/1/24
Steeple Crest(1)	6,498	6,498	5.00 %	8/1/26
Timbers at The Park(2)(3)	11,173	11,173	5.38 %	12/31/32
Tuscany Villas(2)(3)	1,548	1,548	5.38 %	4/30/27
	<u>\$ 141,136</u>	<u>\$ 144,142</u>		

- (1) The note is convertible, at our option, into a 100% ownership interest in the underlying property, and is collateralized by the underlying 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. On October 1, 2023, the interest rate on the notes was amended from a fixed rate of 12.0% to a floating rate indexed to the Secured Overnight Financing Rate ("SOFR") in effect on the last day of the preceding calendar quarter. In connection with the amendment, accrued interest of \$4,159 was forgiven in exchange for participation in the proceeds from any future sale or refinancing of the underlying property.
- (4) The note bears interest at prime plus 1.0%.
- (5) We are working with the borrower to extend the maturity and/or exercise our conversion option.

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

10. Investment in Unconsolidated Joint Ventures

Victory Abode Apartments, LLC

On November 16, 2018, our SPC subsidiary formed the Victory Abode Apartments, LLC ("VAA"), a joint venture with the Macquarie Group ("Macquarie"). VAA was formed as a result of our sale of a 50% ownership interest in a portfolio of multifamily properties to Macquarie in exchange for a 50% voting interest in VAA and a note payable.

On September 16, 2022, VAA sold 45 of its properties ("VAA Sale Portfolio") for \$1,810,700, resulting in a gain on sale of \$738,444 to the joint venture. In connection with the sale, we received an initial distribution of \$182,848 from VAA.

On November 1, 2022, we received an additional distribution from VAA, which included the full operational control of the remaining seven properties of VAA ("VAA Holdback Portfolio") and a cash payment of \$204,036.

On March 23, 2023, we received \$17,976 from VAA, which represented the remaining distribution of the proceeds from the sale of the VAA Sale Portfolio.

We used our share of the proceeds from the sale of the VAA Sale Portfolio to invest in short-term investments and real estate, pay down our debt and for general corporate purposes. We anticipate that the final liquidation of the joint venture will be completed during the remainder of 2024.

Gruppa Florentina, LLC

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

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

11. Mortgages and Other Notes Payable

The following table summarizes our mortgages and other notes payable as of March 31, 2024 and December 31, 2023:

Property/ Entity	Carrying Value		Interest Rate	Maturity Date
	March 31, 2024	December 31, 2023		
770 South Post Oak	\$ 11,126	\$ 11,187	4.40 %	6/1/2025
Blue Lake Villas	9,459	9,503	3.15 %	11/1/2055
Blue Lake Villas Phase II	3,329	3,349	2.85 %	6/1/2052
Chelsea	8,018	8,064	3.40 %	12/1/2050
EQK Portage	3,350	3,350	10.00 %	11/13/2024
Forest Grove	6,951	6,988	3.75 %	5/5/2024
Landing on Bayou Cane	14,373	14,442	3.50 %	9/1/2053
Legacy at Pleasant Grove	12,633	12,716	3.60 %	4/1/2048
New Concept Energy	3,542	3,542	6.00 %	9/30/2025
Northside on Travis	11,327	11,394	2.50 %	2/1/2053
Parc at Denham Springs	16,312	16,399	3.75 %	4/1/2051
Parc at Denham Springs Phase II	15,562	15,608	4.05 %	2/1/2060
RCM HC Enterprises	5,086	5,086	5.00 %	12/31/2024
Residences at Holland Lake	10,373	10,424	3.60 %	3/1/2053
Villas at Bon Secour	19,104	19,205	3.08 %	9/1/2031
Villas of Park West I(1)	9,132	9,181	3.04 %	3/1/2053
Villas of Park West II(1)	8,290	8,334	3.18 %	3/1/2053
Vista Ridge	9,470	9,512	4.00 %	8/1/2053
Windmill Farms(2)	4,390	4,399	7.50 %	2/28/2026
	<u>\$ 181,827</u>	<u>\$ 182,683</u>		

- (1) On October 16, 2023, we received approval from the lender to assume the loan on the property that we acquired from our joint venture (See Note 10 - Investment in Unconsolidated Joint Ventures).
- (2) On February 8, 2024, we extended the maturity to February 28, 2026 at an interest rate of 7.50%.

As of March 31, 2024, we were in compliance with all of our loan covenants except for the minimum debt service coverage ratio (“DSCR”) for the loan on 770 South Post Oak. As a result, the lender requires us to lock the surplus cash flow of the property into a designated deposit account controlled by them, until we are in compliance with the DSCR for a period of two consecutive quarters.

On March 15, 2023, we entered into a \$33,000 construction loan to finance the development of Lake Wales (See Note 7 - Real Estate Activity) that bears interest at SOFR plus 3% and matures on March 15, 2026, with two one-year extension options. As of March 31, 2024, no advances have been drawn on the loan.

On November 6, 2023, we entered into a \$25,407 construction loan to finance the development of Merano (See Note 7 - Real Estate Activity) that bears interest at prime plus 0.25% and matures on November 6, 2028. As of March 31, 2024, no advances have been drawn on the loan.

On December 15, 2023, we entered into a \$23,500 construction loan to finance the development of Bandera Ridge (See Note 7 - Real Estate Activity) that bears interest at SOFR plus 3% and matures on December 15, 2028. As of March 31, 2024, no advances have been drawn on the loan.

All of the above mortgages and other notes payable are collateralized by the underlying property. In addition, we have guaranteed the loans on Bandera Ridge, Forest Grove, Lake Wales, Merano, Villas at Bon Secour and Windmill Farms.

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

12. Related Party Transactions

We engage in certain services and business transactions with related parties, including but not limited to, the rent of office space, leasing services, asset management, administrative services, and the 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 a subsidiary of May Realty Holdings, Inc. ("MRHI"), which owns approximately 90.8% of the Company. Pillar is compensated for advisory services in accordance with an advisory agreement and is compensated for development and construction services in accordance with project specific development agreements. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreements. 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 \$178 and \$268 for the three months ended March 31, 2024 and 2023, respectively, for office space leased to Pillar and Regis.

Property operating expense includes \$80 and \$100 for the three months ended March 31, 2024 and 2023, respectively, for management fees on commercial properties payable to Regis.

General and administrative expense includes \$934 and \$1,539 for the three months ended March 31, 2024 and 2023, respectively, for employee compensation and other reimbursable costs payable to Pillar.

Advisory fees paid to Pillar were \$2,202 and \$2,405 for the three months ended March 31, 2024 and 2023, respectively. Development fees paid to Pillar were \$388 for the three months ended March 31, 2024.

Notes receivable include amounts held by UHF (See Note 9 – Notes Receivable). UHF is deemed to be a related party due to our significant investment in the performance of the collateral secured by the notes receivable. In addition, we have a related party receivable from Pillar ("Pillar Receivable"), which represents amounts advanced to Pillar net of unreimbursed fees, expenses and costs as provided above. The Pillar Receivable bears interest in accordance with a cash management agreement. On January 1, 2024, an amendment to the cash management agreement changed the interest rate on the Pillar Receivable from prime plus one percent to SOFR. Interest income on the UHF notes and the Pillar Receivable was \$2,298 and \$4,603 for the three months ended March 31, 2024 and 2023, respectively.

13. 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 at March 31, 2024 and December 31, 2023, which in turn owned 82.3% and 81.1% of IOR as of March 31, 2024 and December 31, 2023, respectively.

14. Deferred Income

In previous years, we sold properties to related parties at a gain and therefore the sales criteria for the full accrual method was not met, and as such we deferred the gain recognition and accounted for the sales by applying the finance, deposit, installment or cost recovery methods, as appropriate. The gain on these transactions is deferred until the properties are sold to a non-related third party.

As of March 31, 2024 and December 31, 2023, we had deferred gain of \$9,791.

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

15. Income Taxes

We are part of a tax sharing and compensating agreement with respect to federal income taxes with MRHI, TCI and IOR. In accordance with the agreement, our expense in each year is calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%. The following table summarizes our income tax provision:

	Three Months Ended March 31,	
	2024	2023
Current	\$ 475	\$ 41
Deferred	—	1,199
	<u>\$ 475</u>	<u>\$ 1,240</u>

16. 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 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 by 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, and on March 8, 2024, the court reversed the judgment and remanded the case for further proceedings.

17. Subsequent Events

The date to which events occurring after March 31, 2024, the date of the most recent balance sheet, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is May 9, 2024, which is the date on which the consolidated financial statements were available to be issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis by management should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes included in this Quarterly Report on Form 10-Q (the "Quarterly Report") and in our Form 10-K for the year ended December 31, 2023 (the "Annual Report").

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

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;
- demand for apartments and commercial properties in our markets and the effect on occupancy and rental rates;
- our ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;
- risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully
- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;
- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
- potential liability for uninsured losses and environmental contamination; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Part I, Item 1A. "Risk Factors" Annual Report on Form 10-K, which investors should review.

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 residential apartment communities ("multifamily properties"), office buildings and retail properties ("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, asset management, and arranging debt and equity financing with third party lenders and investors. We have no employees; all of our services are performed by Pillar employees. Pillar is considered to be a related party due to its common ownership with May Realty Holdings, Inc. ("MRHI"), who is our controlling shareholder.

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

Financing Activities

- On January 31, 2023, we paid off our \$67.5 million of Series C bonds.
- On February 28, 2023, we extended the maturity of our loan on Windmill Farms until February 28, 2024 at a revised interest rate of 7.75%.
- On March 15, 2023, we entered into a \$33.0 million construction loan to finance the development of Lake Wales (See "Development Activities") that bears interest at SOFR plus 3% and matures on March 15, 2026, with two one-year extension options.
- On May 4, 2023, we paid off the remaining \$14.0 million of our Series A Bonds and \$28.9 million of our Series B Bonds, which resulted in a loss on early extinguishment of debt of \$1.7 million.
- On August 28, 2023, we paid off our \$1.2 million loan on Athens.
- On October 1, 2023, we amended the terms of our UHF notes receivable. As a result, the interest rates on the notes were amended from a fixed rate of 12.0% to a floating rate indexed to SOFR. In connection with the amendment, accrued interest of \$4.2 million was forgiven in exchange for participation in the proceeds from any future sale or refinancing of the underlying properties.
- On November 6, 2023, we entered into a \$25.4 million construction loan to finance the development of Merano (See "Development Activities") that bears interest at prime plus 0.25% and matures on November 6, 2028.
- On December 15, 2023, we entered into a \$23.5 million construction loan to finance the development of Bandera Ridge (See "Development Activities") that bears interest at SOFR plus 3% and matures on December 15, 2028.
- On January 1, 2024, we amended our cash management agreement with Pillar. As a result, the interest rate on the related party receivable changed from prime plus one to SOFR.
- On February 8, 2024, we extended the maturity of our loan on Windmill Farms to February 28, 2026 at an interest rate of 7.50%.

Development Activities

We have agreements to develop two parcel of land ("PODs") from our land holdings in Windmill Farms. The agreements provide for the development of 125 acres of raw land into approximately 470 land lots to be used for single family homes for a total of \$24.3 million. We estimate that we will complete the development of these PODs over a two-year period starting the third quarter of 2024. During 2024, we spent \$0.7 million on reimbursable infrastructure investments.

On March 15, 2023, we entered into a development agreement with Pillar to build a 240 unit multifamily property in Lake Wales, Florida ("Lake Wales") that is expected to be completed in 2025 for a total cost of approximately \$55.3 million. The cost of construction will be funded in part by a \$33.0 million construction loan (See "Financing Activities"). The development agreement provides for a \$1.6 million fee that will be paid to Pillar over the construction period. As of March 31, 2024, we have incurred a total of \$18.9 million in development costs.

On November 6, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in McKinney, Texas ("Merano") that is expected to be completed in 2025 for a total cost of approximately \$51.9 million. The cost of construction will be funded in part by a \$25.4 million construction loan (See "Financing Activities"). The development agreement provides for a \$1.6 million fee that will be paid to Pillar over the construction period. As of March 31, 2024, we have incurred a total of \$8.9 million in development costs.

On December 15, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in Temple, Texas ("Bandera Ridge") that is expected to be completed in 2025 for a total cost of approximately \$49.6 million. The cost of construction will be funded in part by a \$23.5 million construction loan (See "Financing Activities"). The development agreement provides for a \$1.6 million fee that will be paid to Pillar over the construction period. As of March 31, 2024, we have incurred a total of \$3.1 million in development costs.

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 in the Annual Report. 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 a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data.

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

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

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

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.

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 Redevelopment Property, the Acquisition Properties and the Disposition Properties (each as defined below).

For purposes of the discussion below, we define "Same Properties" as all of our properties with the exception of those properties that have been recently constructed or leased-up (“Redevelopment Property”), properties that have recently been acquired ("Acquisition Properties") and properties that have been disposed ("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.

For the comparison of the three months ended March 31, 2024 to the three months ended March 31, 2023, the Redevelopment Property is Landing on Bayou Cane (See "Development Activities" in Management's Overview). The change in revenues and expenses of the Redevelopment Property from 2023 to 2024 is primarily due to the lease-up of the property in 2023 as the restored units were placed in service. There were no Acquisition Properties or Disposition Properties for the comparison of the three months ended March 31, 2024 to the three months ended March 31, 2023.

The following table summarizes our results of operations for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,		
	2024	2023	Variance
Multifamily Segment			
Revenue	\$ 8,053	\$ 7,373	\$ 680
Operating expenses	(4,219)	(3,708)	(511)
	3,834	3,665	169
Commercial Segment			
Revenue	3,226	3,636	(410)
Operating expenses	(2,415)	(2,398)	(17)
	811	1,238	(427)
Segment profit	4,645	4,903	(258)
Other non-segment items of income (expense)			
Depreciation and amortization	(3,172)	(3,102)	(70)
General, administrative and advisory	(3,610)	(5,566)	1,956
Interest income, net	3,811	5,155	(1,344)
Gain on foreign currency transactions	—	971	(971)
Income from joint ventures	483	2,419	(1,936)
Other expense	145	(561)	706
Net income	<u>\$ 2,302</u>	<u>\$ 4,219</u>	<u>\$ (1,917)</u>

Comparison of the three months ended March 31, 2024 to the three months ended March 31, 2023:

Our \$1.9 million decrease in net income is primarily attributed to the following:

- The increase in profit from the multifamily segment is primarily due to an increase of \$0.1 million from the Redevelopment Property due to the lease up of the property.
- The decrease in profit from the commercial segment is primarily due to a decrease in revenue as a result of a decline in occupancy at Browning Place.
- The decrease in general, administrative and advisory expenses is primarily due to a reduction in legal, auditing and other administrative expenses associated with the bonds payable, which were repaid in 2023.
- The decrease in interest income, net is due to a \$2.6 million decrease in interest income offset in part by a \$1.2 million decrease in interest expense. The decrease in interest income is primarily due to the change in interest rates on the UHF notes in 2023 and the change in interest rates on the Pillar Receivable in 2024. The decrease in interest expense is primarily due to the repayment of the bonds payable in 2023 (See "Financing Activities" in Management's Overview).
- The decrease in gain on foreign currency transactions is due to the bonds payable that were outstanding in 2023.

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 notes receivable; 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 and cash equivalents as of March 31, 2024, along with cash that will be generated from notes related party receivables and investment in cash equivalents and short-term investments, will be sufficient to meet all of our cash requirements. We may 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.

The following summary discussion of our cash flows is based on the consolidated statements of cash flows in our consolidated financial statements, 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):

	Three Months Ended March 31,		Variance
	2024	2023	
Net cash provided by operating activities	\$ 3,867	\$ 1,539	\$ 2,328
Net cash provided by (used in) investing activities	\$ 11,574	\$ (24,212)	\$ 35,786
Net cash used in financing activities	\$ (1,456)	\$ (89,127)	\$ 87,671

The increase in cash provided by operating activities is primarily due to a decrease in interest payments.

The \$35.8 million change in cash from investing activities is primarily due to the \$51.1 million increase in net purchase of short term investments offset in part by the \$18.0 million decrease in distribution from joint venture. The distribution from joint venture in 2023 relates to the final distribution of proceeds from the sale of the VAA Sale Portfolio in 2022.

The \$87.7 million decrease in cash used in financing activities is primarily due to the \$88.3 million repayment of our bonds in 2023.

Funds From Operations ("FFO")

We use FFO in addition to net income to report our operating and financial results and consider 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 present FFO excluding the impact of the effects of foreign currency transactions.

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 table reconciles net income attributable to the Company to FFO and FFO adjusted for the three months ended March 31, 2024 and 2023 (dollars and shares in thousands):

	Three Months Ended March 31,	
	2024	2023
Net income attributable to the Company	\$ 1,751	\$ 2,978
Depreciation and amortization	3,172	3,102
Depreciation and amortization on unconsolidated joint ventures at our pro rata share	53	49
FFO-Basic and Diluted	4,976	6,129
Gain on foreign currency transactions	—	(971)
FFO-adjusted	<u>\$ 4,976</u>	<u>\$ 5,158</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Optional and not included.

ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation by our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive and Financial Officer, to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the 2023 10-K. For a discussion on these risk factors, please see “Item 1A. Risk Factors” contained in the 2023 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We have a program that allows for the repurchase of up to 1,250,000 shares. There were no shares purchased under this program during the three months ended March 31, 2024. As of March 31, 2024, 986,750 shares have been purchased and 263,250 shares may be purchased under the program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed herewith or incorporated by reference as indicated below:

Exhibit Number	Description of Exhibit
3.0	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).
3.1	Certificate of Correction of Restated Articles of Incorporation of American Realty Investors, Inc. dated August 29, 2000 (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q dated September 30, 2000).
3.2	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 23, 2003 (incorporated by reference to Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
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 I Cumulative Preferred Stock dated October 1, 2003 (incorporated by reference to Exhibit 3.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.4	Bylaws of American Realty Investors, Inc. (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-4 filed 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's current report on Form 8-K for event of March 16, 2006).
4.5	Certificate of Designation for Nevada Profit Corporation designating the Series K Convertible Preferred Stock as filed with the Secretary of State of Nevada on May 6, 2013 (incorporated by reference to Registrant's current report on form 8-K for event of May 7, 2013).
10.1	Advisory Agreement between American Realty Investors, Inc. and Pillar Income Asset Management, Inc., dated April 30, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated May 2, 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).
31.1 *	Certification by the Principal Executive and Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1 *	Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

[Table of Contents](#)

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.

SIGNATURE PAGE

Pursuant to the requirements 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.

Date: May 9, 2024

By: /s/ ERIK L. JOHNSON
Erik L. Johnson
Executive Vice President and Chief Financial Officer

CERTIFICATION

I, Erik L. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Realty Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officers(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
 - (d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2024

By: /s/ ERIK L. JOHNSON

Erik L. Johnson

Executive Vice President and Chief Financial Officer
(Principal Executive and Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officer of American Realty Investors, Inc., a Nevada corporation (the “Company”) hereby certifies that:

- (i) The Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2024 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2024 fairly presents in all material respects, the financial condition and results of operations of the Company, at and for the period indicated.

Dated: May 9, 2024

By: /s/ ERIK L. JOHNSON

Erik L. Johnson

Executive Vice President and Chief Financial Officer
(Principal Executive and Financial Officer)