

CORPORATE GOVERNANCE GUIDELINES

As of February 19, 2004

The Board of Directors (the “Board”) of American Realty Investors, Inc. (the “Corporation”), has developed and adopted certain corporate governance principles (the “Guidelines”) establishing a common set of expectations to assist the Board, and its committees in performing their duties in compliance with applicable requirements. In recognition of the continuing discussions about corporate governance, the Board will review and, if appropriate, revise these Guidelines from time to time.

A. *Director Responsibilities*

1. Represent the interests of the Corporation's shareholders in maintaining and enhancing the success of the Corporation's business, including optimizing long-term returns to increase shareholder value.
2. Selection and evaluation of a well-qualified principal executive officer (“CEO”) of high integrity, and approval of other members of the senior management team.
3. Oversee and interact with senior management with respect to key aspects of the business including strategic planning, management development and succession, operating performance, and shareholder returns.
4. Provide general advice and counsel to the Corporation's CEO and senior executives.
5. Adopt and oversee compliance with the Corporation's Code of Business Conduct and Ethics. Promptly disclose any waivers of the Code of Business Conduct and Ethics for Directors or executive officers.
6. Hold regularly scheduled executive sessions of independent directors. Designate and publicly disclose the name of the Director who will preside at such meetings. Formally evaluate the performance of the CEO and senior management each year in executive sessions.
7. Regular attendance at Board meetings is mandatory. Meeting materials should be reviewed in advance.
8. *Duty of Care:* In discharging the duties of a Director, including duties as a Committee member, Nevada law requires that a Director shall act (a) in good faith; (b) with care an ordinary prudent person in a like position would exercise under similar circumstances; and (c) in a manner he or she believes to be in the best interests of the Corporation.

B. *Director Qualification Standards*

1. The Nominating and Corporate Governance Committee, with the input of the CEO, is responsible for recommending to the Board (a) nominees for Board membership to fill vacancies or newly created positions and (b) the persons to be nominated by the Board for election at the Corporation's Annual Meeting of Shareholders. The Nominating and Corporate Governance Committee does not solicit Director nominations, but will consider recommendations sent to the Secretary of the Corporation at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234.
2. In connection with the selection and nomination process, the Nominating and Corporate Governance Committee shall review the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Corporation and the Board. The Board will generally look for individuals who have displayed high ethical standards, integrity, and sound business judgment. This process is designed to ensure that the Board includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to the business of the Corporation.
3. Any Director who satisfies all of the following criteria shall be determined to be an independent director of the Corporation:
 - (a) has not been an employee of the Corporation for more than three years;
 - (b) has not been affiliated with or employed by the present or former independent auditor of the Corporation or of any affiliate of the Corporation for more than three years;
 - (c) for more than three years, has not been part of an interlocking directorate in which an executive officer of the Corporation served on the compensation committee of another company that concurrently employs the director;
 - (d) has any immediate family members (*i.e.*, spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than employees) who shares the director's home) who did not satisfy the criteria set forth in (a)-(c) above, for more than three years;
 - (e) is not a director or employee of another company whose revenues from the Corporation account for more than 5% of the revenues of such company, except as otherwise recommended by the Nominating and Corporate Governance Committee and approved by the Board of Directors;

- (f) is not a director or employee of another company whose business with the Corporation accounts for more than 5% of the Corporation's revenues, except as otherwise recommended by the Nominating and Corporate Governance Committee and approved by the Board of Directors; and
- (g) has no other material relationship with the Corporation, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation.

In making a determination regarding a proposed director's independence, the Board shall consider all relevant facts and circumstances, including the director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, and such other criteria as the Board may determine from time to time.

- 4. In addition to satisfying all of the independence criteria set forth in paragraph 3 of the Guidelines, all members of the Audit Committee must also meet the following requirements:
 - (a) Director's fees are the only compensation that members of the Audit Committee may receive from the Corporation. Audit Committee members may not receive consulting, advisory or other compensatory fees from the Corporation (other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board); and
 - (b) No member of the Audit Committee may be an "affiliated person" of the Corporation or any subsidiary of the Corporation, as such term is defined by the Securities and Exchange Commission.
- 5. The number of boards on which a Director may sit may be reviewed on a case-by-case basis by the Nominating and Corporate Governance Committee.
- 6. The Board has not established term or age limits for Directors. Although term or age limits can promote the inclusion on the Board of people with diverse perspectives, the process described in paragraph 2 of this Section can achieve the same result. Moreover, term or age limits have the disadvantage of causing the Corporation to lose the contributions of Directors who have been able to develop over a period of time, increasing insight into the Corporation and its operations, thereby increasing their contributions to the Corporation.

C. *Board Committees*

1. The Board shall at all times have a Nominating and Corporate Governance Committee and an Audit Committee, each comprised solely of independent directors.
2. The Board shall evaluate and determine the circumstances under which to form new committees.

D. *Director Compensation*

1. Non-employee directors and committee chairs shall receive reasonable compensation for their services, as may be determined from time to time by the Board upon recommendation of the Nominating and Corporate Governance Committee. Compensation for non-employee directors and committee chairs shall be consistent with the market practices of other similarly situated companies but shall not be at a level or in a form that would call into question the Board's objectivity. The Nominating and Corporate Governance Committee of the Board shall annually review and report to the Board with respect to director compensation and benefits.
2. Directors who are employees of the Advisor or its affiliates receive no additional pay for serving as Directors.
3. Directors who are members of the Audit Committee may receive no compensation from the Corporation other than the fees they receive for serving as Directors.

E. *Director Access to Management and Independent Advisors*

1. The Board is expected to be highly interactive with senior management. Directors are granted access to the name, location, and phone number of all employees of the Corporation.
2. It is Board policy that executive officers and other members of senior management who report directly to the CEO be present at Board meetings at the invitation of the Board. The Board encourages such executive officers and senior management to make presentations, or to include in discussions at Board meetings managers and other employees who (a) can provide insight into the matters being discussed because of their functional expertise and/or personal involvement in such matters and/or (b) are individuals with high potential whom such executive officers and senior management believe the Directors should have the opportunity to meet and evaluate.
3. Directors are authorized to consult with independent advisors, as is necessary and appropriate without consulting management.

F. *Director Orientation and Continuing Education*

1. The Board shall implement and maintain an orientation program for newly elected directors.

2. Directors are required to continue educating themselves with respect to international markets, accounting and finance, leadership, crisis response, industry practices, general management, and strategic planning.

G. *Management Succession and CEO Compensation*

1. The Board plans for succession to the position of principal executive officer. The Nominating and Corporate Governance Committee is responsible for making recommendations to the Board about succession planning. The Nominating and Corporate Governance Committee also recommends to the Board succession plans in the event of an emergency or the retirement of the principal executive or financial officer.
2. The principal executive officer shall provide an annual report to the Board assessing senior managers and their potential to succeed him or her, and such report shall be reviewed by the Nominating and Corporate Governance Committee. The report shall also contain the principal executive officer's recommendation as to his or her successor.
3. The Nominating and Corporate Governance Committee is responsible for making recommendations to the Board concerning annual and long-term performance goals for the principal executive officer and for evaluating his or her performance against such goals.

H. *Annual Performance Evaluation of the Board*

1. The Board and its Committees will conduct a self-evaluation at least annually to determine whether it and its Committees are functioning effectively.
2. The Board will also review the Nominating and Corporate Governance Committee's periodic recommendations concerning the performance and effectiveness of the Board and its Committees.