

BERKSHIRE INCOME REALTY, INC.

Form 10-K

March 31, 2014

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, 2013

or

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

Commission File Number 001-31659

BERKSHIRE INCOME REALTY, INC.

State of Incorporation - Maryland

Internal Revenue Service - Employer Identification No. 32-0024337

One Beacon Street, Boston, Massachusetts 02108

(617) 523-7722

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

Title of Class

Series A 9% Cumulative Redeemable Preferred Stock

Name of each exchange on which registered

NYSE Amex Equities

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-accelerated Filer ☒

Smaller Reporting Company ☐

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

Aggregate market value of voting and non-voting common equity held by non-affiliates: Not applicable.

There were 1,406,196 shares of Class B common stock outstanding as of March 28, 2014.

There are no documents required to be incorporated by reference to this Annual Report on Form 10-K.

BERKSHIRE INCOME REALTY, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including information with respect to our future business plans, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "33 Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "34 Act"). For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements, subject to a number of risks and uncertainties that could cause actual results to differ significantly from those described in this report. These forward-looking statements include statements regarding, among other things, our business strategy and operations, future expansion plans, future prospects, financial position, anticipated revenues or losses and projected costs, and objectives of management. Without limiting the foregoing, the words "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology are intended to identify forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, changes in economic conditions generally and the real estate and bond markets specifically, legislative/regulatory changes (including changes to laws governing the taxation of real estate investment trusts ("REITs")), possible sales of assets, the acquisition restrictions placed on the Company by an affiliated entity, Berkshire Multifamily Value Plus Fund III, LP ("BVF III" or "Fund III"), availability of capital, interest rates and interest rate spreads, changes in accounting principles generally accepted in the United States of America ("GAAP") and policies and guidelines applicable to REITs, those factors set forth herein in Part I, Item 1A - Risk Factors and other risks and uncertainties as may be detailed from time to time in our public announcements and our reports filed with the Securities and Exchange Commission (the "SEC").

The risks listed here are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, the Company operates in a competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, undue reliance should not be placed on forward-looking statements as a prediction of actual results.

As used herein, the terms "we," "us," "BIR" or the "Company" refer to Berkshire Income Realty, Inc., a Maryland corporation, incorporated on July 19, 2002. The Company is in the business of acquiring, owning, operating, developing and renovating properties. Berkshire Property Advisors, L.L.C. ("Berkshire Advisor" or "Advisor") is an affiliated entity we have contracted with to make decisions relating to the day-to-day management and operation of our business, subject to the Board of Directors ("Board") oversight. Refer to Part III, Item 13 - Certain Relationships and Related Transactions and Director Independence and Part IV, Item 15 - Notes to the Consolidated Financial Statements, Note 14 - Related Party Transactions of this Form 10-K for additional information about the Advisor.

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PART I

ITEM 1. BUSINESS

EXECUTIVE SUMMARY

During 2013, the Company continued to take advantage of improved economic conditions and capital markets to improve the overall quality of properties in the Company's portfolio. In June 2013, the Company completed the disposition of two operating properties in Houston, Texas and realized gains totaling \$18.6 million from the sales. The sale proceeds generated from the transactions have been used by the Company to provide additional capital for investment in the Company's ongoing development projects and to pay off the balance on the Company's revolving credit facility. The outstanding balance on the credit facility was related to prior capital contributions to the ongoing development projects. During 2013, the construction on two of the development projects was completed and lease up of both communities continued.

The Company's prior focus of maintaining high occupancy levels in an effort to maximize operating revenue during the down economy of the past years has moved to a more balanced strategy, which focuses on achieving high occupancy and increased rents in receptive markets. The Company continues to achieve targeted rent increases and maintain occupancy levels in the mid-90% range for most properties, which is consistent with the average occupancy levels of the Company's Same Portfolio Properties ("Same Store") from prior years. The Company utilizes revenue management software in order to determine the optimal rent and occupancy levels which maximize rental revenue. Additionally, the Company continues to employ a strategy of increasing the value of its portfolio by implementing property management initiatives, capital improvements at its properties and replacement of existing properties with higher quality assets through dispositions, acquisitions and ground up development.

In 2013, the multifamily sector continued to exhibit improved performance and strong fundamentals on a national basis evidenced by higher rent levels and stable occupancies resulting from the ongoing favorable apartment unit supply and demand mix. Reduced levels of new unit construction and home ownership rates in the apartment sector have driven multifamily rental demand in recent years resulting in national vacancy rates at ten-year lows. Improved capital markets have had a favorable impact on the sale of multifamily assets with transaction volumes recently reaching five-year highs. The improved economy has allowed the Company to implement rent increases and to take advantage of acquisition and disposition opportunities that meet the desired investment objectives of the portfolio. The Company will continue to pursue its strategy of investing in newer, high quality properties located in desirable submarkets and ground up property development projects as over the next few years.

BUSINESS

In 2002, the Company filed a registration statement on Form S-11 with the SEC with respect to its offers (the "Offering") to issue its 9% Series A Cumulative Redeemable Preferred Stock ("Preferred Shares") in exchange for interests ("Interests") in various mortgage funds (collectively, the "Mortgage Funds"). For each Interest in the Mortgage Funds validly tendered and not withdrawn in the Offering, the Company offered to issue its Preferred Shares based on an exchange ratio applicable to each Mortgage Fund. The registration statement was declared effective on January 9, 2003. Offering costs incurred in connection with the Offering have been reflected as a reduction of Preferred Shares reflected in the financial statements of the Company. On April 4, 2003 and April 18, 2003, the Company issued 2,667,717 and 310,393 Preferred Shares, respectively, with a \$25 liquidation preference per share. Simultaneously with the completion of the Offering on April 4, 2003, KRF Company, L.L.C. ("KRF Company") contributed its ownership interests in five properties to our operating partnership, Berkshire Income Realty-OP, L.P. (the "Operating Partnership"), in exchange for common limited partner interests in the Operating Partnership. KRF Company then contributed an aggregate of \$1,283,213, or 1% of the fair value of the total net assets of the Operating Partnership, to the Company, which together with the \$100 contributed prior to the Offering, resulted

in the issuance of 1,283,313 shares of common stock of the Company to KRF Company. This amount was contributed by the Company to its wholly owned subsidiary, BIR GP, L.L.C., who then contributed the cash to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership.

The Company's financial statements include the accounts of the Company, its subsidiary, the Operating Partnership, as well as the various subsidiaries of the Operating Partnership. The Company owns preferred and general partner interests in the Operating Partnership. The remaining common limited partnership interests in the Operating Partnership owned by KRF Company and affiliates are reflected as "Noncontrolling interest in Operating Partnership" in the financial statements of the Company.

The Company does not have any employees. Its day-to-day business is managed by Berkshire Advisor, an affiliate of KRF Company, the holder of the majority of our common stock, which has been retained pursuant to the advisory services agreement ("Advisory Services Agreement") described under Part III, Item 13 - Certain Relationships and Related Transactions, and Director Independence. Our principal executive offices are located at One Beacon Street, Suite 1500, Boston, Massachusetts 02108 and our telephone number at that address is (617) 523-7722.

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We are required to file annual, quarterly, current reports, and other documents with the SEC under the Securities Exchange Act of 1934, as amended. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at <http://www.sec.gov>. The Company voluntarily provides, free of charge, paper or electronic copies of all filings upon request. Additionally, all filings are available free of charge on our website. Our Internet address is <http://www.berkshireincomerealty.com>.

ITEM 1A. RISK FACTORS

RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this report and other statements we or our representatives make from time to time. Any of the following risks could materially and adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward-looking statements are made in this report. In connection with the forward-looking statements that appear in this report, you should also carefully review the cautionary statement referred to herein under "Special Note Regarding Forward-Looking Statements."

Risk Factors Relating to Our Business

Operating risks and lack of liquidity may adversely affect our investments in real property.

Varying degrees of risk affect real property investments. The investment returns available from equity investments in real estate depend in large part on the amount of income earned and capital appreciation generated by the related properties as well as the expenses incurred. If our assets do not generate revenue sufficient to meet operating expenses, including debt service and capital expenditures, our income and ability to service our debt and other obligations could be adversely affected. Some significant expenditures associated with an investment in real estate, such as mortgage and other debt payments, real estate taxes and maintenance costs, generally are not reduced when circumstances cause a reduction in revenue from the investment. In addition, income from properties and real estate values are also affected by a variety of other factors, such as interest rate levels, governmental regulations and applicable laws and the availability of financing.

Equity real estate investments, such as ours, are relatively illiquid. This illiquidity limits our ability to vary our portfolio in response to changes in economic or other conditions. We cannot be certain that we will recognize full value for any property that we are required to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations.

Our properties are subject to operating risks common to apartment ownership in general. These risks include: our ability to rent units at the properties; competition from other apartment communities; excessive building of comparable properties that might adversely affect apartment occupancy or rental rates; increases in operating costs due to inflation and other factors, which increases may not necessarily be offset by increased rents; increased affordable housing requirements that might adversely affect rental rates; inability or unwillingness of residents to pay rent increases; and future enactment of rent control laws or other laws regulating apartment housing, including present and possible future laws relating to access by disabled persons or the right to convert a property to other uses, such as condominiums or cooperatives. If operating expenses increase, the local rental market may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates. If any of the above were to

occur, our ability to meet our debt service and other obligations could be adversely affected.

In order to achieve or enhance our desired financial results, we may make investments that involve more risk than market rate core and core-plus acquisitions.

In many of the markets where we may seek to acquire properties, we may face significant competition from well capitalized real estate investors, including private investors, publicly traded REITs and institutional investors. This competition can result in sellers obtaining premiums on their real estate, which sometimes pushes the price beyond what we may consider to be a prudent purchase price. To mitigate these factors, our sourcing strategy also includes non-market/seller direct deals, bank and lender owned real estate and foreclosure auctions. Some of these acquisition strategies can involve more risk than market rate core and core-plus acquisitions. The additional risks associated with these broader sourcing strategies could result in lower profits, or higher losses, than would be realized in market rate acquisitions.

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We may renovate our properties, which could involve additional operating risks.

We expect to renovate certain multifamily properties that we acquire. We may also acquire completed multifamily properties. The renovation of real estate involves risks in addition to those involved in the ownership and operation of established multifamily properties, including the risks that specific project approvals may take longer to obtain than expected, that construction may not be completed on schedule or budget and that the properties may not achieve anticipated rent or occupancy levels.

We may not be able to pay the costs of necessary capital improvements on our properties, which could adversely affect our financial condition.

We anticipate funding any required capital improvements on our properties using cash flow from operations, cash reserves or additional financing if necessary. However, the anticipated sources of funding may not be sufficient to make the necessary improvements. If our cash flow from operations and cash reserves proves to be insufficient, we might have to finance the capital improvements. If we are unable to obtain financing on favorable terms, or at all, we may not be able to make necessary capital improvements, which could harm our financial condition.

Our tenants-in-common or future joint venture partners may have interests or goals that conflict with ours, which may restrict our ability to manage some of our investments and adversely affect our results of operations.

One or more of the properties that we own, or properties we acquire in the future may be owned through tenancies-in-common or by joint venture partnerships between us and the seller of the property, an independent third party or another investment entity sponsored by our affiliates. Our investment through tenancies-in-common or in joint venture partnerships that own properties may, under certain circumstances, involve risks that would not otherwise be present. For example, our tenant-in-common or joint venture partner may experience financial difficulties and may at any time have economic or business interests or goals that are inconsistent with our economic or business interests or our policies or goals. In addition, actions by, or litigation involving, any tenant-in-common or joint venture partner might subject the property owned through a tenancy-in-common or by the joint venture to liabilities in excess of those contemplated by the terms of the tenant-in-common or joint venture agreement. Also, there is a risk of impasse between the parties since generally either party may disagree with a proposed transaction involving the property owned through a tenancy-in-common or joint venture partnership and impede any proposed action, including the sale or other disposition of the property.

Our inability to dispose of a property we own or may acquire in the future without the consent of a tenant-in-common or joint venture partner would increase the risk that we could be unable to dispose of the property, or dispose of it promptly, in response to economic or other conditions. The inability to respond promptly to changes in performance of the property could adversely affect our financial condition and results of operations.

We may face significant competition and we may not compete successfully.

We may face significant competition in seeking investments including competition from our affiliate BVF III or other entities formed by our affiliates in the future. Certain acquisition restrictions placed on the Company by BVF III are applicable during the investment period of BVF III. The investment period of BVF III will end on December 20, 2016 or sooner as determined by the general partner of BVF III. In addition, we may be unable to acquire a desired property because of competition from other well capitalized real estate investors, such as publicly traded REITs, institutional investors and other investors, including companies that may be affiliated with Berkshire Advisor. When we are successful in acquiring a desired property, competition from other real estate investors may significantly increase our purchase price. Some of our competitors may have greater financial and other resources than us and may have better relationships with lenders and sellers, and we may not be able to compete successfully for investments.

We plan to borrow, which may adversely affect our return on our investments and may reduce income available for distribution.

Where possible, we may obtain financing to increase the rate of return on our investments and allow us to make more investments than we otherwise could. Financing presents an element of risk if the cash flow from our properties and other investments is insufficient to meet our debt service and other obligations. A property encumbered by debt has an increased risk that the property will operate at a loss, may not meet its debt service obligations and be subject to foreclosure by the lender. Loans that do not fully amortize during the term, such as “bullet” or “balloon-payment” loans, present refinancing risks. Variable rate loans may increase the risk that the property may become unprofitable in adverse economic conditions. Loans that require guaranties, including full principal and interest guaranties, master leases, debt service guaranties and indemnities for liabilities such as hazardous waste, may result in significant liabilities for us.

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Under our current investment policies, we may not incur indebtedness if by doing so our ratio of debt to total assets, at fair market value, exceeds 75%. However, we may re-evaluate our borrowing policies from time to time, and the Board may change our investment policies without the consent of our stockholders.

Our insurance on our real estate may not cover all losses.

We carry comprehensive liability, fire, terrorism, extended coverage and rental loss insurance covering all of our properties, with policy specifications and insured limits that we believe are adequate and appropriate under the circumstances. Many insurance carriers are excluding asbestos-related claims and mold remediation-related claims from standard policies, pricing asbestos and mold remediation endorsements at prohibitively high rates or adding significant restrictions to this coverage. Because of our inability to obtain specialized coverage at rates that correspond to the perceived level of risk, we have not obtained insurance for asbestos-related claims or mold remediation-related risks. We continue to evaluate the availability and cost of additional insurance coverage from the insurance market. If we decide in the future to purchase coverage for asbestos or mold remediation insurance, the cost could have a negative impact on our results of operations. If an uninsured loss or a loss in excess of insured limits occurs on a property, we could lose our capital invested in the property, as well as the anticipated future revenues from the property and, in the case of debt that has recourse to the Company, we would remain obligated for any mortgage debt or other financial obligations not satisfied by cash flow generated from operation or sale of the property. Any loss of this nature could adversely affect us.

Additionally, the policy specifications of our insurance coverage on our properties include deductibles related to an insured loss. The deductibles applicable to an insured loss caused by "Named Storms", a term as defined in the insurance policy, which are usually in the form of a hurricane, at certain properties we operate, are higher than deductibles for other insured losses covered by the policy. Specifically, the deductibles for "Named Storms" are based on a percentage of the insured property value with a specific minimum amount. Both the percentage and the related minimum amounts are higher than the standard policy deductibles for insured losses caused by a "Named Storm" in certain higher risk counties of certain states, including Florida, North Carolina, Texas and Virginia and highest in the counties of Dade, Broward and Palm Beach, Florida. Losses resulting from "Named Storms" could adversely affect us. The "Named Storms" that occurred during the year ended December 31, 2013 did not have a significant impact on the Company's properties.

As part of our risk management program, our property and general liability insurance loss coverage is subject to a deductible amount, which varies by type of claims. In addition to the deductible exposure, the Company has elected to balance insurance costs by assuming limited amounts of additional loss risk in the form of self insurance. The self insurance participation is the primary layer of loss coverage and is funded up to the applicable deductible prior to the traditional insurance coverage becoming applicable. Additionally, the property and general liability insurance policies cover a pool of operating real estate properties and administrative activities owned by multiple ownership funds, but under the common management of Berkshire Advisor. The pooling of the insurance activities results in the sharing of any loss exposure across the real estate portfolios.

Environmental compliance costs and liabilities with respect to our real estate may adversely affect our results of operations.

Our operating costs may be affected by our obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation with respect to the assets, or loans collateralized by assets, with environmental problems that materially impair the value of assets. Under various federal, state or local environmental laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of hazardous or toxic substances located on or in the property. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of the hazardous or

toxic substances.

The costs of any required remediation or removal of these substances may be substantial. In addition, the owner's liability as to any property is generally not limited under these laws, ordinances and regulations and could exceed the value of the property and/or the aggregate assets of the owner. The presence of hazardous or toxic substances, or the failure to remediate properly, may also adversely affect the owner's ability to sell or rent the property or to borrow using the property as collateral. Under these laws, ordinances and regulations, an owner or any entity who arranges for the disposal of hazardous or toxic substances, such as asbestos, at a disposal facility may also be liable for the costs of any required remediation or removal of the hazardous or toxic substances at the facility, whether or not the facility is owned or operated by the owner or entity. In connection with the ownership of any of our properties, or participation in joint ventures, or the disposal of hazardous or toxic substances, we may be liable for any of these costs.

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Other federal, state and local laws may impose liability for the release of hazardous material, including asbestos-containing materials, into the environment, or require the removal of damaged asbestos containing materials in the event of remodeling or renovation, and third parties may seek recovery from owners of real property for personal injury associated with exposure to released asbestos-containing materials or other hazardous materials. We do not currently have insurance for asbestos-related claims.

Recently there has been an increasing number of lawsuits against owners and managers of multifamily properties alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. We do not currently have insurance for all mold-related risks. Environmental laws may also impose restrictions on the manner in which a property may be used or transferred or in which businesses may be operated, and these restrictions may require additional expenditures. In connection with the ownership of properties, we may be potentially liable for any of these costs. The cost of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could materially adversely affect our results of operations and financial condition.

We have been notified of the presence of asbestos in certain structural elements in our properties, which we are addressing in accordance with various operations and maintenance plans. The asbestos operations and maintenance plans require that all structural elements that contain asbestos not be disturbed. In the event the asbestos containing elements are disturbed either through accident, such as a fire, or as a result of planned renovations at the property, those elements would require removal by a licensed contractor, who would provide for containment and disposal in an authorized landfill. The property managers of our properties have been directed to work proactively with licensed ablation contractors whenever there is any question regarding possible exposure.

We are not aware of any environmental liability relating to our properties that we believe would have a material adverse effect on our business, assets or results of operations. Nevertheless, it is possible that there are material environmental liabilities of which we are unaware with respect to our properties. Moreover, we cannot be certain that future laws, ordinances or regulations will not impose material environmental liabilities or that the current environmental condition of our properties will not be affected by residents and occupants of our properties, by the uses or condition of properties in the vicinity of our properties, such as leaking underground storage tanks, or by third parties unaffiliated with us.

We face risks associated with climate change regulations.

Growing concerns about the change in the climate have resulted in new laws and regulations that are intended to limit the amount of carbon emission into the atmosphere. The Company believes that the proposal and enactment of such laws and regulations could increase operating costs of our properties, including energy costs for electricity, heating and cooling as well as increased cost of waste removal at our properties. The Company does not currently believe that increased costs, if any, would have a material impact on the results of operations and anticipates that any increased costs would be passed through to our residents by use of the utility recovery programs employed by the Company.

Our failure to comply with various regulations affecting our properties could adversely affect our financial condition.

Various laws, ordinances, and regulations affect multifamily residential properties, including regulations relating to recreational facilities, such as activity centers and other common areas. We believe that each of our properties has all material permits and approvals to operate its business.

Our multifamily residential properties must comply with Title II of the Americans with Disabilities Act (the "ADA") to the extent that such properties are public accommodations and/or commercial facilities as defined by the ADA. Compliance with the ADA requires removal of structural barriers to handicapped access in certain public areas of our

properties where such removal is readily achievable. The ADA does not, however, consider residential properties to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as a leasing office, are open to the public. We believe that our properties comply in all material respects with all current requirements under the ADA and applicable state laws. Noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The cost of defending against any claims of liability under the ADA or the payment of any fines or damages could adversely affect our financial condition.

The Fair Housing Act (the "FHA") requires, as part of the Fair Housing Amendments Act of 1988, apartment communities first occupied after March 13, 1990 to be accessible to the handicapped. Noncompliance with the FHA could result in the imposition of fines or an award of damages to private litigants. We believe that our properties that are subject to the FHA are in compliance with such law. The cost of defending against any claims of liability under the FHA or the payment of any related fines or damages could adversely affect our financial condition.

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We face risks associated with property acquisitions.

We intend to acquire additional properties in the future, either directly or by acquiring entities that own properties. These acquisition activities are subject to many risks. We may acquire properties or entities that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes, or other legal requirements. In each case, our acquisition may be without any recourse, or with only limited recourse, with respect to unknown liabilities or conditions.

As a result, if any liability were asserted against us relating to those properties or entities, or if any adverse condition existed with respect to the properties or entities, we might have to pay substantial sums to settle or cure it, which could adversely affect our cash flow and operating results. Unknown liabilities to third parties with respect to properties or entities acquired might include: liabilities for clean-up of undisclosed environmental contamination; claims by residents, vendors or other persons dealing with the former owners of the properties; liabilities incurred in the ordinary course of business; and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We may acquire properties through foreclosure auctions, which limit our ability to perform due diligence.

One of our acquisition strategies seeks to acquire properties through foreclosure auctions. Generally when a property is foreclosed on by a lender, there is minimal time between the announcement of foreclosure and the auction to dispose of the property and access to the property for due diligence is either severely limited or unavailable. The lack of time and access for due diligence can result in only limited knowledge of problems, including environmental issues, that are identified after the acquisition has taken place. While the Company generally includes provisions for unforeseen problems into its underwriting models, there is no assurance that these provisions will be sufficient to remediate all of the issues identified after closing. If significant issues are identified after closing, which were not provided for during the underwriting, this sourcing strategy could result in lower profits, or higher losses, than would be realized in market rate acquisitions, where full due diligence is possible.

Development risks could affect available capital and operating profitability.

We intend to develop new apartment units on property that we own or may acquire in the future. These development projects are subject to many risks including governmental approvals, which we have no assurance will be obtained. We may develop properties that have problems relating to environmental conditions, compliance with zoning laws, building codes, or other legal requirements or may be subject to unknown liabilities to third parties with respect to undisclosed environmental contamination, claims by vendors or claims by other persons. The cost to construct the projects may require capital in excess of projected amounts and could possibly affect the economic viability of the project. The apartment units in the completed project may command rents and occupancy rates at less than anticipated levels and result in operating expenses at higher than forecasted levels.

We may also develop properties with joint venture partners. Joint ventures, as previously discussed, have their own risks and those risks may compound the risks associated with a development.

We face valuation and liquidity risk.

The Company may invest in real estate and real estate related investments for which no liquid market exists. The market prices for such investments may be volatile and may not be readily ascertainable. In addition, the economy may be affected by significant disruptions in the global capital, credit and real estate markets. These disruptions could lead to, among other things, significant declines in the volume of transaction activity, in the fair value of many real estate and real estate related investments, and a significant contraction in short-term and long-term debt and equity

funding sources. This contraction in capital includes sources that the Company may depend on to finance certain investments. As a result, amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.

We face financing and/or refinancing risk.

There is no guarantee that the Company's borrowing arrangements or other arrangements for obtaining leverage will continue to be available, or if available, will be available on terms and conditions acceptable to the Company.

Unfavorable economic conditions also could increase funding costs, limit access to the capital markets or result in a decision by lenders not to extend credit to the Company. In addition, a decline in market value of the Company's assets may have particular adverse consequences in instances where the Company borrowed money based on the fair value of those assets. A decrease in market value of those assets may result in the lender requiring the Company to post additional collateral or otherwise sell assets at a time when it may not be in the Company's best interest to do so. In the event the Company is required to liquidate all or a portion of its portfolio quickly, the Company may realize significantly less than the value at which it previously recorded those investments. As of December 31,

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2013, the Company does not have significant exposure to financing in which the lender can require the Company to post additional collateral or otherwise sell assets to settle the financing obligations.

We face loan covenant risk.

In the normal course of business, the Company enters into loan agreements with certain lenders to finance its real estate investment transactions. These loan agreements contain, among other conditions, events of default and various operational covenants and representations. The Company believes it was in compliance with all these covenants during 2013. However, if the lenders determine we were not in compliance, the lenders may decide to curtail or limit extension of credit, and the Company may be forced to repay its loans. For the year ended December 31, 2013, no loan agreements were terminated as a result of non-compliance with covenants. In the event the Company's current credit facilities are not extended and/or the Company is forced to repay its loans, the Company may be required to sell assets at potentially unfavorable prices. In addition, if the Company is required to liquidate all or a portion of its portfolio quickly, the Company may realize significantly less than the value at which it previously recorded those investments.

We face development financing risk.

In order to fund new real estate investments, as well as refurbish and improve existing investments, both the Company as well as potential owners must periodically spend money. The availability of funds for new investments and maintenance of existing investments depends in large measure on capital markets and liquidity factors over which management can exert little control. Events over the past several years, including failures and near failures of a number of large financial service companies, have made the capital markets increasingly volatile, a state from which they have not fully recovered. As a result, many current and prospective owners are finding financing to be increasingly difficult to obtain. In addition, such failures may prevent some projects that are in construction or development from drawing on existing financing commitments, and replacement financing may not be available or may only be available on less favorable terms. Delays, increased costs and other impediments to restructuring such projects may affect our ability to execute our investment strategy in connection with such projects. This contraction in capital sources has not had a significant adverse impact on the Company's liquidity position, results of operations and financial condition but may adversely impact the Company if market conditions were to deteriorate.

We face diversification risk.

The assets of the Company are concentrated in the real estate sector. Accordingly, the investment portfolio of the Company may be subject to more rapid change in value than would be the case if the Company were to maintain a wide diversification among investments or industry sectors. Furthermore, even within the real estate sector, the investment portfolio may be relatively concentrated in terms of geography and type of real estate investment. The Company is engaged primarily in the acquisition, ownership, operations, development and rehabilitation of properties in the Baltimore/Washington, D.C., Southeast, Southwest and Northwest areas of the United States. This lack of diversification may subject the investments of the Company to more rapid change in value than would be the case if the assets of the Company were more widely diversified.

We face concentrations of market, interest rate and credit risk.

Concentrations of market, interest rate and credit risk may exist with respect to the Company's investments and its other assets and liabilities. Market risk is a potential loss the Company may incur as a result of changes in the fair value of its investment. The Company may also be subject to risk associated with concentrations of investments in geographic regions and industries. Interest rate risk includes the risk associated with changes in prevailing interest rates. Derivatives may be used for managing interest rate risk associated with the Company's portfolio of investments.

Credit risk includes the possibility that a loss may occur from the failure of counterparties or issuers to make payments according to the terms of a contract. The Company's exposure to credit risk at any point in time is generally limited to amounts recorded as assets on the consolidated balance sheet.

Certain Federal Income Tax Risks

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders.

We intend to operate in a manner to allow us to qualify as a REIT for federal income tax purposes. Although we believe that we have been organized and will operate in this manner, we cannot be certain that we will be able to operate so as to qualify as a REIT under the Tax Code, or to remain so qualified. Qualification as a REIT involves the application of highly technical and complex provisions of the Tax Code for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances, not entirely within our control, may affect our ability to qualify as a REIT.

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The complexity of these provisions and of the applicable income tax regulations under the Tax Code is greater in the case of a REIT that holds its assets through a partnership, as we do. Moreover, our qualification as a REIT depends upon the qualification of certain of our investments as REITs. In addition, we cannot be certain that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to the qualification as a REIT or the federal income tax consequences of this qualification. We are not aware of any proposal currently being considered by Congress to amend the tax laws in a manner that would materially and adversely affect our ability to operate as a REIT.

If for any taxable year we fail to qualify as a REIT, we would not be allowed a deduction for distributions to our stockholders in computing our taxable income and we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. In addition, we would normally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. This would likely result in significant increased costs to us. Any corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders and for investment, which in turn could have an adverse impact on the value of, and trading prices for, our publicly traded securities.

Although we intend to operate in a manner designed to qualify as a REIT, future economic, market, legal, tax or other considerations may cause our Board and the holders of our common stock to determine that it is in the best interests of the Company and our stockholders to revoke our REIT election.

The Operating Partnership is treated for federal income tax purposes as a partnership and not as a corporation or an association taxable as a corporation. If the Internal Revenue Service were to determine that the Operating Partnership were to be treated as a corporation, the Operating Partnership would be required to pay federal income tax at corporate rates on its net income, its partners would be treated as stockholders of the Operating Partnership and distributions to partners would constitute dividends that would not be deductible in computing the Operating Partnership's taxable income. In addition, we would fail to qualify as a REIT, with the resulting consequences described above.

As of December 31, 2013, the Company is in compliance under the Tax Code to qualify as a REIT.

REIT distribution requirements could adversely affect our liquidity.

To obtain the favorable tax treatment for REITs qualifying under the Tax Code, we generally are required each year to distribute to our stockholders at least 90% of our real estate investment trust taxable income, determined without regard to the deduction for dividends paid and by excluding net capital gains. We are subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us with respect to any calendar year are less than the sum of: (1) 85% of our ordinary income for the calendar year; (2) 95% of our capital gain net income for the calendar year, unless we elect to retain and pay income tax on those gains; and (3) 100% of our undistributed amounts from prior years.

Failure to comply with these REIT distribution requirements would result in our income being subject to tax at regular corporate rates.

We intend to distribute our income to our stockholders in a manner intended to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to distribute enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a given year.

Legislative or regulatory action could adversely affect holders of our securities.

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot be certain that any such changes will not adversely affect the taxation of a holder of our securities.

Risk Factors Relating to Our Management

We are dependent on Berkshire Advisor and may not find a suitable replacement at the same cost if Berkshire Advisor terminates the Advisory Services Agreement.

We have entered into a contract with Berkshire Advisor (the "Advisory Services Agreement") under which Berkshire Advisor is obligated to manage our portfolio and identify investment opportunities consistent with our investment policies and objectives, as the Board may adopt from time to time.

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Although the Board has continuing exclusive authority over our management, the conduct of our affairs and the management and disposition of our assets, the Board initially has delegated to Berkshire Advisor, subject to the supervision and review of our Board, the power and duty to make decisions relating to the day-to-day management and operation of our business. We generally utilize officers of Berkshire Advisor to provide our services and employ only a few individuals as our officers, none of whom are compensated by us for their services to us as our officers. We believe that our success depends to a significant extent upon the experience of Berkshire Advisor's officers, whose continued service is not guaranteed. We have no separate facilities and are completely reliant on Berkshire Advisor, which has significant discretion as to the implementation of our operating policies and strategies. We face the risk that Berkshire Advisor could terminate the Advisory Services Agreement and we may not find a suitable replacement at the same cost with similar experience and ability. However, we believe that so long as KRF Company, which is an affiliate of Berkshire Advisor, continues to own a significant amount of our common stock, Berkshire Advisor will not terminate the Advisory Services Agreement. Although KRF Company currently owns most of our common stock, we cannot be certain that KRF Company will continue to do so.

Our relationship with Berkshire Advisor may lead to general conflicts of interest that adversely affect the interests of holders of our Series A Preferred Stock.

Berkshire Advisor is an affiliate of KRF Company, which owns the majority of our common stock. Our directors and executive officers, other than our three independent directors, are also officers or directors of Berkshire Advisor. As a result, our Advisory Services Agreement with Berkshire Advisor was not negotiated at arm's-length and its terms, including the fees payable to Berkshire Advisor, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Asset management fees and acquisition fees for new investments are payable to Berkshire Advisor under the Advisory Services Agreement regardless of the performance of our portfolio and may create conflicts of interest. Conflicts of interest also may arise in connection with any decision to renegotiate, renew or terminate our Advisory Services Agreement. In order to mitigate these conflicts, the renegotiation, renewal or termination of the Advisory Services Agreement requires the approval of the Audit Committee (which committee is comprised of our three directors who are independent under applicable rules and regulations of the SEC and the NYSE AMEX Equities) ("Audit Committee").

Berkshire Advisor and its affiliates may engage in other businesses and business joint ventures, including business activities relating to real estate or other investments, whether similar or dissimilar to those made by us, or may act as advisor to any other person or entity (including other REITs). The ability of Berkshire Advisor and its officers and employees to engage in these other business activities may reduce the time Berkshire Advisor spends managing us. Berkshire Advisor and its affiliates may have conflicts of interest in the allocation of management and staff time, services and functions among us and its other investment entities presently in existence or subsequently formed. However, under our Advisory Services Agreement with Berkshire Advisor, Berkshire Advisor is required to devote sufficient resources as may be required to discharge its obligations to us under the Advisory Services Agreement.

Our Advisory Services Agreement with Berkshire Advisor provides that neither Berkshire Advisor nor any of its affiliates is obligated to present to us all investment opportunities that come to their attention, even if any of those opportunities might be suitable for investment by us. It is within the sole discretion of Berkshire Advisor to allocate investment opportunities to us as it deems advisable. However, it is expected that, to the extent possible, the resolution of conflicting investment opportunities between us and others will be based upon differences in investment objectives and policies, the makeup of investment portfolios, the amount of cash and financing available for investment and the length of time the funds have been available, the estimated income tax effects of the investment, policies relating to leverage and cash flow, the effect of the investment on diversification of investment portfolios and any regulatory restrictions on investment policies.

Our Board of Directors has approved investment guidelines for Berkshire Advisor, but might not approve each multifamily residential property investment decision made by Berkshire Advisor within those guidelines.

Berkshire Advisor is authorized to follow investment guidelines adopted from time to time by the Board in determining the types of assets it may decide to recommend to the Board as proper investments for us. The Board periodically reviews our investment guidelines and our investment portfolio. In conducting periodic reviews, the Board relies primarily on information provided by Berkshire Advisor. However, Berkshire Advisor may make investments in multifamily residential property on our behalf within the Board approved guidelines without the approval of the Board.

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We may change our investment strategy without stockholder consent, which could result in our making different and potentially riskier investments.

We may change our investment strategy at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, our initial plan to primarily acquire, own, operate, develop and rehabilitate multifamily residential properties. In addition, the methods of implementing our investment policies may vary as new investment techniques are developed. A change in our investment strategy may increase our exposure to interest rate and real estate market fluctuations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

A summary of the properties in which the Company had an interest as of December 31, 2013 is presented below. Schedule III included in Item 15 to this report contains additional detailed information with respect to individual properties consolidated by the Company in the financial statements contained herein and is incorporated by reference herein.

Description	Location	Year Acquired	Total # of Units	Ownership Interest	Average Physical Occupancy (1)		Average Apt Size (Sq Ft)	2013	2012
								Avg Monthly Rent Rate Per Apt (2)	Avg Monthly Rent Rate Per Apt (2)
Berkshires of Columbia	Columbia, Maryland	1983	316	91.38	%95.75	%96.13	%1,035	\$1,519	\$1,534
Seasons of Laurel	Laurel, Maryland	1985	1,088	100.00	%94.84	%94.80	%844	1,293	1,278
Laurel Woods	Austin, Texas	2004	150	100.00	%97.32	%97.40	%841	865	804
Bear Creek	Dallas, Texas	2004	152	100.00	%96.47	%95.89	%856	743	729
Bridgewater	Hampton, Virginia	2004	216	100.00	%95.50	%94.17	%997	994	1,012
Reserves at Arboretum	Newport News, Virginia	2009	143	100.00	%96.58	%95.88	%1,073	1,238	1,259
Country Place I	Burtonsville, Maryland	2004	192	58.00	%96.54	%95.62	%1,033	1,453	1,430
Country Place II	Burtonsville, Maryland	2004	120	58.00	%95.59	%95.05	%1,041	1,454	1,415
Yorktowne	Millersville, Maryland	2004	216	100.00	%94.87	%94.89	%932	1,306	1,295
Berkshires on Brompton	Houston, Texas	2005	362	100.00	%97.19	%96.13	%733	1,005	936
Lakeridge	Hampton, Virginia	2005	282	100.00	%96.22	%95.77	%1,088	1,152	1,173
Berkshires at Citrus Park	Tampa, Florida	2005	264	100.00	%94.81	%93.67	%957	961	927
Briarwood Village	Houston, Texas	2006	342	100.00	%95.67	%95.29	%819	758	717
Chisholm Place	Dallas, Texas	2006	142	100.00	%96.88	%97.45	%1,149	1,006	955
Standard at Lenox Park	Atlanta, Georgia	2006	375	100.00	%96.72	%96.82	%930	1,214	1,122
Berkshires at Town Center	Towson, Maryland	2007	199	100.00	%95.69	%94.40	%835	1,374	1,348
Sunfield Lakes	Sherwood, Oregon	2007	200	100.00	%95.39	%93.63	%1,024	1,095	1,005
Executive House	Philadelphia, Pennsylvania	2008	302	100.00	%95.69	%95.53	%938	1,510	1,475
Estancia Townhomes	Dallas, Texas	2011	207	100.00	%93.75	%94.91	%1,683	2,134	2,051
2020 Lawrence (3)	Denver, Colorado	2011	231	91.08	%50.11	%N/A	841	1,715	N/A
Walnut Creek (4)	Walnut Creek, California	2011	N/A	98.00	%N/A	N/A	N/A	N/A	N/A
Total/Average (5)			5,499		93.58	%95.44	%982	\$1,239	\$1,182

All properties in the above table are encumbered by mortgages as of December 31, 2013.

- (1) Physical occupancy represents the actual number of units leased divided by the total number of units available over a period of time.
- (2) Average monthly rent rate per unit is the gross potential rent for all units less vacancy and concessions, divided by the total number of units available.
2020 Lawrence received a temporary certificate of occupancy from the City of Denver on December 12, 2012 and permission to occupy 7 of the 11 completed floors (99 units) from U.S. Department of Housing and Urban
- (3) Development ("HUD") on December 24, 2012. Permission to occupy the remaining floors (132 units) was received on January 18, 2013. As of December 31, 2013, 192 of the 231 units were occupied.
- (4) Property was under development as of December 31, 2013. The Company will own a 98.00% interest in the property once fully invested.
- (5) The Total/Average Physical Occupancy for 2013, excluding the 2020 Lawrence property currently in lease up, would be 95.87%.

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ITEM 3. LEGAL PROCEEDINGS

None.

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

There is no established public trading market for the outstanding common stock of the Company, the majority of which is held by KRF Company. As of March 28, 2014, there were 0 and 3 holders of record of shares of our Class A common stock and Class B common stock, respectively. No shares of the Class A common stock have been issued as of December 31, 2013.

During 2012, the Company declared and distributed a special dividend in the amount of \$0.254943 per share on November 6, 2012 and November 7, 2012, respectively, and declared and distributed a special dividend in the amount of \$0.152966 per share on December 19, 2012.

During 2013, the Company declared a special dividend in the amount of \$0.203954 per share on August 6, 2013, of which \$0.156365 per share was distributed on August 28, 2013 and \$0.047589 per share was distributed on December 12, 2013.

The Company did not declare any regular quarterly dividend on its common stock for any quarter during 2012 or 2013 but plans to declare cash dividends on its outstanding common stock in the future as operations allow. Refer to Declaration of Dividends and Distributions in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc.

Refer to Part III, Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters herein for disclosures relating to the Company's equity compensation plans.

During the period from October 1, 2013 to December 31, 2013, no purchases of any of the Company's securities registered pursuant to Section 12 of the 34 Act, were made by or on behalf of the Company or any affiliated purchaser.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data regarding the financial position and operating results of the Company. See Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc. for a discussion of the entities that comprise the Company. The following financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc. and the financial statements of the Company (including the related notes contained therein). See the "Index to Financial Statements and Financial Statement Schedules" on page 54 to this report.

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Selected financial data for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 have been revised to reflect the sale of Gables of Texas ("Gables") and Walden Pond in 2013, Arboretum, Arrowhead, Moorings, Riverbirch and Silver Hill in 2012 and Glo in 2011. The operating results of Gables and Walden Pond from 2009 to 2012, Arboretum, Arrowhead, Moorings, Riverbirch and Silver Hill from 2009 to 2011, Glo from 2009 to 2010 have been reclassified to discontinued operations to provide comparable information to 2013.

	Berkshire Income Realty, Inc.				
	December 31,				
	2013	2012	2011	2010	2009
Operating Data:					
Total Revenue	\$80,032,130	\$74,513,645	\$70,687,866	\$63,758,606	\$62,518,155
Depreciation	25,481,041	24,421,521	26,460,715	26,078,500	27,111,212
Loss before equity in income (loss) of unconsolidated multifamily entities	(12,364,111)	(12,920,748)	(19,189,185)	(21,082,793)	(22,471,023)
Loss from continuing operations	(11,475,333)	(13,189,669)	(22,619,200)	(25,163,018)	(27,561,387)
Income (loss) from discontinued operations	18,684,966	42,210,823	24,541,499	(563,493)	(1,123,847)
Net income attributable to the Company	6,710,373	7,000,079	6,435,839	5,926,204	5,864,070
Net income (loss) available to common shareholders	9,598	299,302	(264,924)	(774,561)	(836,715)
Net income (loss) from continuing operations attributable to the Company per common share, basic and diluted	\$(13.28)	\$(29.81)	\$(17.64)	\$(0.15)	\$0.20
Net income (loss) from discontinued operations attributable to the Company per common share, basic and diluted	\$13.29	\$30.02	\$17.45	\$(0.40)	\$(0.80)
Net income (loss) available to common shareholders per common share, basic and diluted	\$0.01	\$0.21	\$(0.19)	\$(0.55)	\$(0.60)
Weighted average common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196	1,406,196	1,406,196
Distributions to noncontrolling interest partners in Operating Partnership	\$12,981,638	\$25,146,220	\$—	\$—	\$—
Distributions to common shareholders	\$286,800	\$573,600	\$—	\$—	\$—
Balance Sheet Data, at year end:					
Real estate, before accumulated depreciation	\$623,955,057	\$638,824,856	\$650,262,329	\$619,577,347	\$610,702,698
Real estate, after accumulated depreciation	381,663,433	402,999,104	422,662,237	419,531,860	441,983,721
Cash and cash equivalents	15,254,613	12,224,361	9,645,420	12,893,665	17,956,617
Total assets	427,308,914	447,178,210	468,749,642	456,866,429	502,172,132
Total long term obligations	476,775,480	479,435,998	484,748,358	476,386,979	474,830,728

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Noncontrolling interest in properties	879,785	1,527,431	346,524	(191,881)	416,382
Noncontrolling interest in Operating Partnership	(102,297,937)	(89,708,267)	(76,785,818)	(65,806,083)	(34,172,349)
Stockholders' equity	27,870,670	28,147,872	28,422,170	28,691,012	29,465,573
Other Data:					
Total properties (at end of year)	21	23	26	26	26
Total apartment units (at end of year)	5,499	6,055	6,787	6,781	6,781
Funds from operations (1)	10,907,025	10,601,772	9,604,325	6,526,029	4,804,965
Cash flows provided by operating activities	15,636,752	19,840,004	16,146,661	13,953,330	9,596,978
Cash flows provided by (used in) investing activities	16,167,623	36,375,636	(52,324,348)	3,520,272	(25,744,815)
Cash flows (used in) provided by financing activities	(28,774,123)	(53,636,699)	32,929,442	(22,536,554)	9,876,839

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The Company has adopted the revised definition of Funds from Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). Management considers FFO to be an appropriate measure of performance of an equity REIT. We calculate FFO by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items), for gains (or losses) from sales of properties, impairments, real estate related depreciation and amortization, and adjustment for unconsolidated partnerships and joint ventures. Management believes that in order to facilitate a clear understanding of the historical operating (1) results of the Company, FFO should be considered in conjunction with net income (loss) as presented in the consolidated financial statements included elsewhere herein. Management considers FFO to be a useful measure for reviewing the comparative operating and financial performance of the Company because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies.

The Company's calculation of FFO may not be directly comparable to FFO reported by other REITs or similar real estate companies that have not adopted the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO is not a GAAP financial measure and should not be considered as an alternative to net income (loss), the most directly comparable financial measure of our performance calculated and presented in accordance with GAAP, as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income (loss) and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table presents a reconciliation of net income to FFO for the years ended December 31, 2013, 2012 and 2011:

	December 31,		
	2013	2012	2011
Net income	\$7,209,633	\$29,021,154	\$1,922,299
Add:			
Depreciation of real property	22,207,591	22,127,308	23,782,722
Depreciation of real property included in results of discontinued operations	472,807	2,614,306	4,043,822
Amortization of acquired in-place leases and tenant relationships	5,377	68,280	531,422
Amortization of acquired in-place leases and tenant relationships included in results of discontinued operations	—	—	8,916
Equity in loss of unconsolidated multifamily entities	—	268,921	3,430,015
Funds from operations of unconsolidated multifamily entities, net of impairments	1,304,723	1,100,467	1,124,125
Less:			
Noncontrolling interest in properties share of funds from operations	(755,803)	(1,015,799)	(1,322,049)
Gain on disposition of real estate assets	(18,648,525)	(43,582,865)	(23,916,947)
Equity in income of unconsolidated multifamily entities	(888,778)	—	—
Funds from Operations	\$10,907,025	\$10,601,772	\$9,604,325

FFO for the year ended December 31, 2013 increased as compared to FFO for the year ended December 31, 2012. The increase in FFO is due primarily to increased net operating income driven by higher rents and added operations from 2020 Lawrence, which completed construction in the first quarter of 2013, and lower incentive advisory fees. The increase was partially offset by higher interest expense resulting from less capitalized interest for 2020 Lawrence and

NoMa as construction completed in 2013 and the loss of operating income provided by assets that were sold during 2012 and the second quarter of 2013.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. OPERATIONS OF BERKSHIRE INCOME REALTY, INC.

Management's Discussion and Analysis of Financial Condition and Results of Operation of Berkshire Income Realty, Inc. is intended to facilitate an understanding of the Company's business and results of operations. It should be read in conjunction with the Consolidated Financial Statements, the accompanying notes to the Consolidated Financial Statements and the selected financial data included in this Form 10K. This Form 10K, including the following discussion, contains forward looking statements regarding future events or trends as described more fully under "Special Note Regarding Forward-Looking Statements" on page 3. Actual results could differ materially from those projected in such statements as a result of the risk factors described in Part I, Item 1A - Risk Factors of this Form 10K.

Overview

The Company is engaged primarily in the acquisition, ownership, operation, development and rehabilitation of properties in the Baltimore/Washington D.C., Southeast, Southwest and Northwest areas of the United States. We conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets through the Operating Partnership, a Delaware limited partnership. The Company's wholly owned subsidiary, BIR GP, L.L.C., a Delaware limited liability company, is the sole general partner of the Operating Partnership. As of March 28, 2014, the Company is the owner of 100% of the preferred limited partner units of the Operating Partnership, whose terms mirror the terms of the Company's Preferred Shares and, through BIR GP, L.L.C., owns 100% of the general partner interest of the Operating Partnership, which represents approximately 2.39% of the common economic interest of the Operating Partnership.

Our general and limited partner interests in the Operating Partnership entitle us to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to our percentage interest therein. The other partners of the Operating Partnership are affiliates of the Company that contributed their direct or indirect interests in certain properties to the Operating Partnership in exchange for common units of limited partnership interest in the Operating Partnership.

Our highlights for the year ended December 31, 2013 included the following:

On June 25, 2013, the Company completed the sale of Walden Pond and Gables, both located in Houston, Texas, to an unaffiliated buyer. The combined sale price was \$31,500,000 and was subject to normal operating proration and adjustments as provided for in the purchase and sale agreement.

On August 6, 2013, the Board authorized the general partner of the Operating Partnership to make a special distribution of \$12,000,000 from the proceeds of the sale of Walden Pond and Gables to the common general partner and noncontrolling interest partners in Operating Partnership. On the same day, the Board declared a common dividend of \$0.203954 per share on the Company's Class B common stock in respect to the special distribution to the common general partner.

On August 28, 2013, the Operating Partnership distributed \$9,200,000 of the \$12,000,000 special distribution that was authorized by the Board on August 6, 2013 to the common general partner and noncontrolling interest partners in Operating Partnership. Concurrently with the Operating Partnership distributions, the common dividend of \$219,880 was paid from the special distribution proceeds of the common general partner.

On November 1, 2013, the first and second mortgages on Berkshires of Columbia were scheduled to mature. The Company exercised the extension options available under the terms of the loans to extend the maturity dates from November 1, 2013 to November 1, 2014. On November 1, 2013, the first and second mortgages on Berkshires of

Columbia were converted to adjustable rate mortgages with a variable rate of 2.40% above the 1-month London Inter-Bank Offered Rate ("LIBOR"), as reported by Telerate, until the extended maturity date of November 1, 2014. The third mortgage that had an original maturity date of November 1, 2014 was also converted to an adjustable rate mortgage with a variable rate of 2.40% above the 1-month LIBOR on November 1, 2013. Subsequent to year end, the Company refinanced all three mortgages on January 16, 2014 for \$44,000,000 into a single mortgage bearing a variable rate of 2.43% above LIBOR and maturity date of February 1, 2024.

On November 1, 2013, the Company through its joint venture partnership for the Walnut Creek development, acquired the land associated with the development project. The purchase price was \$5,600,000 and the Company assumed the seller's outstanding land loan in the amount of \$4,828,495. The assumed land loan had a fixed interest rate of 6.00% and matured on March 31, 2014. Subsequent to year end on March 31, 2014, the outstanding land loan balance of \$4,828,495 was paid off with available funds contributed to the joint venture partnership.

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Accounting Standards Codification ("ASC") 805-10 requires that identifiable assets acquired and liabilities assumed to be recorded at fair value as of the acquisition date. As of the acquisition date, the amounts recognized for each major class of assets acquired and liabilities assumed is as follows:

Asset acquired:

Multifamily apartment communities	\$ 5,600,000
Total assets acquired	\$ 5,600,000

Liabilities assumed:

Mortgage notes payable	\$ 4,828,495
Accrued expenses	457,217
Total liabilities assumed	\$ 5,285,712

On December 1, 2013, the mortgage on Bridgewater was scheduled to mature. The Company exercised the extension option available under the terms of the loan to extend the maturity date from December 1, 2013 to December 1, 2014. On December 1, 2013, the mortgage was converted to an adjustable rate mortgage with a variable rate of 2.50% above the Freddie Mac Reference Bill Rate, as reported on the Freddie Mac Debt Securities web page, until the extended maturity date of December 1, 2014.

On December 10, 2013, the Company closed on the financing of the supplemental mortgage on Seasons of Laurel for \$10,210,000. The supplemental mortgage has a fixed interest rate of 5.95% and will mature on October 1, 2022.

On December 12, 2013, the Operating Partnership distributed the remaining \$2,800,000 special distribution that was authorized by the Board on August 6, 2013. Concurrently with the Operating Partnership distributions, the common dividend totaling \$66,920 was paid from the special distribution proceeds of the common general partner.

During the year ended December 31, 2013, the Company received distributions of \$3,773,403 from its investments in unconsolidated multifamily entities.

During the year ended December 31, 2013, the Company borrowed an aggregate of \$1,627,000 under the revolving credit facility available from an affiliate of the Company for use in its investing activities and repaid \$1,627,000 during the same period.

Acquisition Strategy

The Company continues to seek core and core-plus acquisitions as it repositions its portfolio. However, it is facing significant competition in many of the markets where it intends to invest. To broaden the scope of its acquisition sourcing efforts, the Company continues to seek non-market/seller direct deals, bank and lender owned real estate, foreclosure auctions and development. We believe that this broadened approach will provide additional opportunities to acquire properties that otherwise would not exist in the highly competitive markets which we have targeted.

Development Strategy

The Company continues to pursue development opportunities for projects that meet the investment strategy of the Company as a means of updating and growing its portfolio. The Company seeks projects in the planning stage or projects in the early phase of construction that may require additional management expertise or new sources of capital to complete the development of the project. The Company currently utilizes and anticipates identifying joint venture partners with projects to accomplish its strategy. However, similar to the competitive challenges it faces with its acquisition strategy, the Company also faces significant competition in many of the markets where it intends to invest in development projects. To broaden the scope of its development sourcing efforts, the Company will seek joint

venture partners with local market construction and operating knowledge and experience as a means of growing its development opportunities. Along with capital, the Company lends the development and operational expertise of the Advisor to the project in an effort to influence the construction of the property and subsequent operations of the completed property by the joint venture partner. We believe that this broadened approach to the development process will afford us additional opportunities to develop properties that otherwise would not exist in the highly competitive markets in which we are seeking to invest.

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Financing and Capital Strategy

In select instances the Company evaluates opportunities available through joint venture relationships with institutional real estate investors on certain acquisitions. We believe this strategy allows the Company to enhance its returns on core and core-plus properties, without increasing the risk that is otherwise inherent in real estate investments. We believe a joint venture strategy allows us to acquire more properties than our current capital base would otherwise allow, thereby achieving greater diversification and a larger portfolio to support the operating overhead inherent in a public company.

On January 28, 2005, the Board approved the investment of up to \$25,000,000 in, or 10% of the total equity raised by Berkshire Multifamily Value Fund, L.P. ("BVF"). The investment was also approved by the Audit Committee. BVF, which was sponsored by our affiliate, Berkshire Advisor, was formed in August of 2005 and successfully raised equity in excess of expectations. The Company's final commitment under the subscription agreement with BVF totals \$23,400,000 and the Company made all contributions of its commitment of \$23,400,000 as of December 31, 2008. The Company has evaluated its investment in BVF and concluded that the investment, although subject to the requirements of Accounting Standards Codification ("ASC") 810-10 "Consolidation of Variable Interest Entities", does not require the Company to consolidate the activity of BVF. Additionally, the Company has determined, pursuant to the guidance promulgated in ASC 810-20 as amended by Accounting Standards Update ("ASU") No. 2009-17, that the Company does not have a controlling interest in the BVF and is not required to consolidate the activity of BVF. The Company accounts for its investment in BVF under ASC 970-323, as an equity method investment.

BVF III, an investment fund formed during 2012, was sponsored by our affiliate, Berkshire Advisor. The Company did not make an investment in BVF III, but as an affiliate, is subject to certain investment restrictions. The investment objectives of BVF III are similar to those of the Company and under the terms of BVF III, Berkshire Advisors is generally required to present investment opportunities, which meet BVF III's investment criteria, only to BVF III. Under the terms of BVF III, the Company has the right to acquire assets that satisfy the requirements of Section 1031 of the Internal Revenue Code for like-kind exchanges of properties held by the Company. In addition, the Company is permitted to acquire two exclusive investments, as defined by BVF III, in any 12-month period and has a right of carryover if the two opportunities are not used in that period.

In 2011, the Company, through joint venture partnerships, committed to participate in the development of three apartment building projects.

The first is a 231-unit multifamily mid-rise community in Denver, Colorado ("2020 Lawrence Project"). The Company owns a 91.08% interest in the 2020 Lawrence Project and has committed and fully funded \$8,000,000 of capital to the joint venture. As of December 31, 2013, the 2020 Lawrence Project was complete. The Company consolidates its investment in the 2020 Lawrence Project.

The second project is a 603-unit multifamily mid-rise community in Washington, D.C. ("NoMa Project"). The Company owns a one-third interest in a joint venture with an affiliated entity, which owns a 90% interest in the NoMa Project. The Company invested 100% of its total committed capital amount of \$14,520,000 as of December 31, 2013. As of December 31, 2013, the NoMa Project was complete. The Company accounts for its investment in the joint venture as an equity method investment.

The third project is a 141-unit apartment building in Walnut Creek, California ("Walnut Creek Project"). Once fully invested, the Company will own a 98% interest in the Walnut Creek Project. As of December 31, 2013, the Company has currently allocated approximately \$23,935,000 of capital to the joint venture and has made capital contributions of \$2,269,522, or 9%, of the current capital allocation. The Company consolidates its investment in the Walnut Creek

Project.

Critical Accounting Policies

The discussion below describes what we believe are the critical accounting policies that affect the Company's more significant judgments and the estimates used in the preparation of its financial statements. The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the Company's financial statements and related notes. We believe that the following critical accounting policies affect significant judgments and estimates used in the preparation of the Company's financial statements.

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Purchase Accounting for Acquisition of Real Estate

The Company accounts for its acquisitions of investments in real estate in accordance with ASC 805-10, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, furniture, fixtures and equipment and identified intangible assets and liabilities, consisting of the value of the above-market and below-market leases, the value of in-place leases and value of other tenant relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in ASC 810-10.

The Company allocates purchase price to the fair value of the tangible assets of an acquired property (which includes land, building, furniture, fixtures and equipment) determined by valuing the property as if it were vacant. The as-if-vacant value is allocated to land and buildings, furniture, fixtures and equipment based on management's determination of the relative fair values of these assets.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

In making estimates of fair value for purposes of initial accounting of the purchased real estate, the Company utilizes information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. The Company also considers our own analysis of recently acquired and existing comparable properties in our portfolio.

The total amount of other intangible assets acquired is further allocated to in-place leases and tenant relationships, which includes other tenant relationship intangible values based on management's evaluation of the specific characteristics of the residential leases and the Company's tenant retention history. The value of in-place leases and tenant relationships is determined based on the specific expiration dates of the in-place leases and amortized over a period of 12 months and the tenant relationships are based on the straight line method of amortization over a 24-month period.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, as follows:

Rental property	25 to 27.5 years
Improvements	5 to 25 years
Appliances and equipment	3 to 8 years

Development of Real Estate

Costs directly associated with the development of properties are capitalized. Additionally, the Company capitalizes interest, real estate taxes, insurance and project management and development fees. The Company uses judgment to determine when a development project commences and capitalization begins and when a development project is substantially complete and capitalization ceases. Generally, cost capitalization begins during the pre-construction period, defined as activities that are necessary to start the development of the property. A development property is considered substantially complete after major construction has ended and the property is available for occupancy. For properties that are built in phases, capitalization stops on each phase when it is considered substantially complete and ready for use and costs continue to be capitalized only on those phases under construction.

Capital Improvements

The Company's policy is to capitalize the cost of acquisitions (exclusive of transaction costs), rehabilitation and improvement of properties. Capital improvements are costs that increase the value and extend the useful life of an asset. Ordinary repair and maintenance costs that do not extend the useful life of the asset are expensed as incurred. Costs incurred on a lease turnover due to normal wear by the resident are expensed on the turn. Recurring capital improvements typically include items such as appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements. Non-recurring upgrades include kitchen and bath upgrades, new roofs, window replacements and the development of on-site fitness, business and community centers.

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The Company is required to make subjective assessments as to the useful lives of its properties and improvements for purposes of determining the amount of depreciation to reflect on an annual basis. These assessments have a direct impact on the Company's operating results.

Investments in Unconsolidated Multifamily Entities

The Company's investments in unconsolidated multifamily entities, or ownership arrangements with unaffiliated third parties, were evaluated pursuant to the requirements of ASC 810-10. Additionally, the Company has determined, pursuant to the guidance promulgated in ASC 810-20 as amended by ASU No. 2009-17 that the Company does not have a controlling interest in the unconsolidated multifamily entities and is not required to consolidate the activity of these entities. The Company has accounted for its unconsolidated investments in accordance with ASC 970-323 as equity method investments. The investments are carried as an asset in a single line on the Consolidated Balance Sheet as "Investments in unconsolidated multifamily entities" and the Company's equity in the income or loss of the unconsolidated investments is reflected as a single line item in the Consolidated Statement of Operations as "Equity in income (loss) of unconsolidated multifamily entities".

Impairment of Long-Lived Assets

The Company reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value, such as operational performance, adverse change in the assets' physical condition, market conditions, legal and environmental concerns and the Company's intent with regard to each asset. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future rental occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. The Company did not recognize an impairment loss in 2013 or 2012 and no such losses have been recognized to date.

Impairment of Investments in Unconsolidated Multifamily Entities

Our investments in unconsolidated multifamily entities are reviewed for impairment periodically when events or circumstances indicating that a decline in the fair values below the carrying values has occurred and such decline is other-than-temporary. The ultimate realization of our investment in unconsolidated multifamily entities is dependent on a number of factors, including the performance of each investment and market and economic conditions. The Company did not recognize an other-than-temporary impairment charge in 2013 or 2012.

Corporate Governance

Since the incorporation of our Company, we have implemented the following corporate governance initiatives to address certain legal requirements promulgated under the Sarbanes-Oxley Act of 2002, as well as NYSE Amex Equities corporate governance listing standards:

We have elected annually three independent directors, Messrs. Robert Kaufman, Richard Peiser and Randolph Hawthorne, each of whom the Board determined to be independent under applicable SEC and NYSE Amex Equities rules and regulations;

The Board has determined annually that Robert Kaufman, the Chairman of our Audit Committee, qualifies as an "audit committee financial expert" under applicable rules and regulations of the SEC;

The Board's Audit Committee adopted our Audit and Non-Audit Services Pre-Approval Policy, which sets forth the procedures and the conditions pursuant to which permissible services to be performed by our independent public accountants must be pre-approved;

The Board's Audit Committee established "Audit Committee Complaint Procedures" for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including the anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

The Board adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees and a copy of which is available upon written request addressed to the Company, c/o Investor Relations, One Beacon Street, Suite 1500, Boston, MA 02108; and

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The Board established an Ethics Hotline that employees may use to anonymously report possible violations of the Code of Business Conduct and Ethics, including concerns regarding questionable accounting, internal accounting controls or auditing matters.

Recent Accounting Pronouncements

There were no new accounting pronouncements issued or effective during the fiscal year ended December 31, 2013 which have had or are expected to have a material impact on the Company's operating results, financial position, or disclosures.

Liquidity and Capital Resources

Cash and Cash Flows

As of December 31, 2013, 2012 and 2011, the Company had approximately \$15,255,000, \$12,224,000 and \$9,645,000 of cash and cash equivalents, respectively.

	December 31,		
	2013	2012	2011
Cash provided by operating activities	\$15,636,752	\$19,840,004	\$16,146,661
Cash provided by (used in) investing activities	16,167,623	36,375,636	(52,324,348)
Cash (used in) provided by financing activities	(28,774,123)	(53,636,699)	32,929,442

During the year ended December 31, 2013, the Company's cash increased by approximately \$3,030,000.

The Company's net cash flow from operating activities for the year ended December 31, 2013 decreased by \$4.2 million from the same period in 2012 primarily due to \$4.8 million of decrease in cash attributable to changes in assets and liabilities and \$2.5 million of higher interest expense, partially offset by \$4.1 million higher Net Operating Income ("NOI") (see page 31 for more detail).

The Company's net cash flow from investing activities for the year ended December 31, 2013 decreased by \$20.2 million from the comparable period in 2012 primarily due to \$31.0 million of proceeds received from the sale of Walden Pond and Gables as compared to \$75.4 million proceeds of five properties sold in 2012. Additionally, the Company received \$3.5 million distribution proceeds from its investment in unconsolidated multifamily entities as compared to \$1.4 million in 2012. Cash outflows for capital improvements were \$15.5 million for the year ended December 31, 2013 compared to \$40.0 million in 2012, of which \$10.8 million and \$35.8 million was for development activities, respectively. Additionally, the Company had a cash outflow for purchase deposit of \$2.0 million for two properties which are planned to be acquired in the first quarter of 2014.

Cash used in financing activities for the year ended December 31, 2013 decreased by \$24.9 million from the same period in 2012, due to aggregate distributions to noncontrolling interest partners in properties and Operating Partnership of \$14.7 million in 2013 compared to \$33.9 million in 2012, net payment of revolving credit facility - affiliate of \$0 in 2013 compared to \$8.3 million in 2012, offset by net cash outflow for mortgage notes of \$7.5 million in 2013 compared to \$5.7 million in 2012.

The Company's principal liquidity demands are expected to be distributions to our preferred and common shareholders and Operating Partnership unitholders based on availability of cash and approval of the Board, capital improvements, rehabilitation projects and repairs and maintenance for the properties, debt repayment, ongoing development projects and acquisition and development of additional properties within the investment restrictions placed on it by BVF III.

Debt repayment in 2013 represented both normal monthly amortization of the mortgage debt and prepayments of mortgage debt related to properties sold during 2013.

The Company intends to meet its short-term liquidity requirements through net cash flows provided by operating activities and advances from the revolving credit facilities. The Company considers its ability to generate cash to be adequate to meet all operating requirements and make distributions to its preferred stockholders in accordance with the provisions of the Internal Revenue Code of 1986, as amended, applicable to REITs. Funds required to make distributions to our preferred shareholders that are not provided by operating activities will be supplemented by property debt financing and refinancing activities and advances on the revolving credit facility. Funds required to make distributions to common shareholders and Operating Partnership unitholders are funded by operations and refinancing proceeds.

The Company intends to meet its long-term liquidity requirements through property debt financing and refinancing, noting that possible interest rate increases resulting from current economic conditions could negatively impact the Company's ability to

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refinance existing debt at acceptable rates. As of December 31, 2013, approximately \$231,790,000 of principal, or 48.7% of the Company's outstanding mortgage debt, is due to be repaid within the next three years. During that three-year period, principal of approximately \$91,185,000, \$60,137,000 and \$70,929,000 relates to loans that are due to mature and be repaid in full in 2014, 2015 and 2016, respectively. The Company plans to fund any maturing mortgages through refinancing of such mortgages or through the sale of the related properties. Additionally, the Company may seek to expand its purchasing power through the use of joint venture relationships with other companies with liquidity.

On March 31, 2011, the Operating Partnership, through the joint venture ("JV 2020 Lawrence") of its subsidiary, BIR 2020 Lawrence, L.L.C. ("BIR 2020") with Zocalo Community Development, Inc. ("Zocalo") and JB 2020, LLC, entered into an agreement for fixed rate construction-to-permanent financing totaling up to \$45,463,100, which is collateralized by the related property and is insured by HUD. The construction loan was converted to permanent financing on June 27, 2013 with a term of 40 years and has a fixed interest rate of 5.00%. The loan will mature on February 1, 2053. The proceeds of the financing were used to develop the 2020 Lawrence Project. As of December 31, 2013, the outstanding balance on the loan was \$45,159,532, of which \$2,770,663 was received during the year ended December 31, 2013.

As of December 31, 2013, the Company has fixed interest rate mortgage financing on all operating properties in the portfolio, with the exception of Berkshires of Columbia and Bridgewater which have variable interest rate debt.

The Company has a \$20,000,000 revolving credit facility in place with an affiliate of the Company (the "Credit Facility - Affiliate"), which was amended on May 31, 2007 to add additional terms to the Credit Facility - Affiliate ("Amendment No. 1"), on February 17, 2011 to add an amendment period with a temporary increase in the commitment amount to \$40,000,000 ("Amendment No. 2"), and on May 24, 2011 to increase the commitment fee ("Amendment No. 3"). The Credit Facility - Affiliate provides for interest on borrowings at a rate of 5% above the 30-day LIBOR rate, as announced by Reuters, and fees based on borrowings under the credit facility and various operational and financial covenants, including a maximum leverage ratio and a maximum debt service ratio. The Credit Facility - Affiliate does not have a stated maturity date but is subject to a 60-day notice of termination by which the lender can affect a termination of the commitment under the Credit Facility - Affiliate and render all outstanding amounts due and payable. Additionally, the Credit Facility - Affiliate also contains a clean-up requirement which requires the borrower to repay in full all outstanding loans and have no outstanding obligations under the agreement for a 14 consecutive day period during each 365-day period. The Company was in compliance with this provision during 2013 and 2012.

Amendment No. 2 provides for a temporary modification of certain provisions of the Credit Facility - Affiliate during a period commencing with the date of execution and ending on July 31, 2012 (the "Amendment Period"), subject to extension. During the Amendment Period, certain provisions of the Credit Facility - Affiliate were modified and included: an increase in the amount of the commitment from \$20,000,000 to \$40,000,000; elimination of the leverage ratio covenant and clean-up requirement (each as defined in the revolving credit facility agreement) and computation and payment of interest on a quarterly basis. At the conclusion of the Amendment Period, including extensions, the provisions modified pursuant to Amendment No. 2 reverted back to the provisions of the Credit Facility - Affiliate agreement prior to the Amendment Period.

Amendment No. 3 limits the total commitment fee provided for in the agreement to be no greater than \$400,000 in the aggregate.

On July 31, 2012, the provisions of the Amendment Period, as described above, expired as the Company did not elect to exercise the extension provision to the Amendment Period of the Credit Facility - Affiliate, as provided for in Amendment No. 2. As a result, the specific provisions, which had been modified pursuant to Amendment No. 2,

reverted back to the original provisions of the Credit Facility - Affiliate agreement prior to the Amendment Period.

During the years ended December 31, 2013, 2012 and 2011, the Company borrowed \$1,627,000, \$1,691,000 and \$34,028,500, respectively, under the Credit Facility - Affiliate and repaid \$1,627,000, \$10,040,422 and \$25,679,078, respectively, during the same periods. As of December 31, 2013 and 2012, there was no outstanding balance on the Credit Facility - Affiliate.

Indebtedness

On March 31, 2011, the Operating Partnership, through JV 2020 Lawrence, entered into an agreement for fixed rate construction-to-permanent financing totaling up to \$45,463,100, which is collateralized by the related property and is insured by HUD. The construction loan was converted to permanent financing on June 27, 2013 with a term of 40 years and has a fixed interest rate of 5.00%. The loan will mature on February 1, 2053. The proceeds of the financing were used to develop the 2020 Lawrence Project. As of December 31, 2013, the outstanding balance on the loan was \$45,159,532, of which \$2,770,663 was received during the year ended December 31, 2013. (Refer to Part IV, Item 15 - Notes to the Consolidated Financial Statements, Note 5 - Mortgage Notes Payable for a complete list of indebtedness of the Company.)

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On November 1, 2013, the Company through its joint venture partnership for the Walnut Creek Project, acquired the land associated with the development project. The Company assumed the seller's outstanding land loan in the amount of \$4,828,495. The assumed land loan had a fixed interest rate of 6.00% and matured on March 31, 2014. Subsequent to year end on March 31, 2014, the outstanding land loan balance of \$4,828,495 was paid off with available funds contributed to the joint venture partnership.

Also on November 1, 2013, the first and second mortgages on Berkshires of Columbia were scheduled to mature. The Company exercised the extension options available under the terms of the loans to extend the maturity dates from November 1, 2013 to November 1, 2014. On November 1, 2013, the mortgages were converted to adjustable rate mortgages with a variable rate of 2.40% above LIBOR until the extended maturity date of November 1, 2014. The third mortgage, which has a maturity date of November 1, 2014, was also converted to an adjustable rate mortgage with a variable rate of 2.40% above LIBOR until maturity.

On December 1, 2013, the mortgage on Bridgewater was scheduled to mature. The Company exercised the extension option available under the terms of the loan to extend the maturity date from December 1, 2013 to December 1, 2014. On December 1, 2013, the mortgage was converted to an adjustable rate mortgage with a variable rate of 2.50% above the Freddie Mac Reference Bill Rate until the extended maturity of December 1, 2014.

On December 10, 2013, the Company closed on the financing of the supplemental mortgage on Seasons of Laurel for \$10,210,000. The supplemental mortgage has a fixed interest rate of 5.95% and will mature on October 1, 2022.

Capital Expenditures

The Company paid \$4,714,207, \$4,161,686 and \$3,647,992 in recurring capital expenditures during the years ended December 31, 2013, 2012 and 2011, respectively. Recurring capital expenditures typically include items such as appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements.

The Company paid \$10,791,168, \$35,793,289 and \$14,352,519 in renovation-related and development capital expenditures during the years ended December 31, 2013, 2012 and 2011, respectively. Renovation related capital expenditures generally include capital expenditures of a significant non-recurring nature, including construction management fees payable to an affiliate of the Company, where the Company expects to see a financial return on the expenditure or where the Company believes the expenditure preserves the status of a property within its submarket. Costs directly associated with the development of properties are capitalized. Additionally, the Company capitalizes interest, real estate taxes, insurance and project management/development fees. Management uses judgment to determine when a development project commences and capitalization begins and when a development project is substantially complete and capitalization ceases. Generally, most capitalization begins during the pre-construction period, defined as activities that are necessary to start the development of the property. A development is generally considered substantially complete after major construction has ended and the property is available for occupancy. For properties that are built in phases, capitalization generally ceases on each phase when it is considered substantially complete and ready for use. Costs will continue to be capitalized only on those phases under development.

Development Projects

On February 10, 2011, the Operating Partnership, through BIR 2020, entered into an agreement to acquire 91.08% of the ownership interests in the 2020 Lawrence Project to build a 231-unit multifamily mid-rise community in Denver, Colorado. As of December 31, 2013, the project development costs incurred were approximately \$52,600,000 of the total budgeted costs of approximately \$55,500,000, of which \$45,463,100 was funded by HUD-insured financing. There was \$39,691, \$1,781,534 and \$481,958 of interest capitalized in the years ended December 31, 2013, 2012 and

2011, respectively. The Company's total capital committed to the 2020 Lawrence Project is \$8,000,000, which is fully funded as of December 31, 2013. As of December 31, 2013, the 2020 Lawrence Project was completed under budget. The Company consolidates its investment in the 2020 Lawrence Project.

On March 2, 2011, the Operating Partnership, through its investment in BIR/BVF-II NoMa JV, L.L.C. ("NoMa JV"), acquired a 30% interest in the NoMa Project to build a 603-unit multifamily apartment community in Washington, D.C. There was \$305,175, \$821,036 and \$584,116 of interest capitalized in the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, the project development costs incurred were approximately \$130,700,000 of the total budgeted costs of approximately \$143,400,000. The Company had invested 100% of its total committed capital amount of \$14,520,000 in NoMa JV as of December 31, 2013. As of December 31, 2013, the NoMa Project was completed under budget. The Company accounts for its investment in NoMa JV as an equity method investment.

On December 12, 2011, the Company executed a limited liability agreement with an unrelated entity for the Walnut Creek Project to build a 141-unit apartment building in Walnut Creek, California, which is currently in the pre-construction phase. Once fully invested, the Company's ownership percentage will be 98%. There was \$159,400, \$51,624 and \$0 of interest capitalized in the

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years ended December 31, 2013, 2012 and 2011, respectively. Total capital currently allocated to the project is approximately \$23,935,000. As of December 31, 2013, the Company has made capital contributions of \$2,269,522, or 9.5%, of its current total capital allocation. The Walnut Creek Project was delayed due to environmental and regulatory requirements. The Company is currently reviewing the term sheet for the construction financing and the current construction project. The construction would be projected to start in the second quarter of 2014. The Company consolidates its investment in the Walnut Creek Project.

The following table presents a summary of the development project in which the Company holds direct or indirect fee simple interests:

Development Project	Anticipated Total # of Units	Anticipated Average Apt Size (Sq Ft)	Anticipated Rentable Building Size (Sq Ft) (1)	Budgeted Costs (in millions)	Costs Incurred to-date December 31, 2013 (in millions)	Anticipated Completion Date
Walnut Creek (2)	141	905	145,550	65.4	9.2	Q4 2015

(1) Includes retail space of 18,000 sq ft at the Walnut Creek Project.

(2) The Company is currently reviewing the term sheet for the construction financing and the current construction budget.

Pursuant to terms of the mortgage debt on certain properties in the Company's portfolio, lenders require the Company to fund repair or replacement escrow accounts. The funds in the escrow accounts are disbursed to the Company upon completion of the required repairs or renovations activities. The Company is required to provide the lender with documentation evidencing the completion of the repairs, which in some cases, are subject to inspection by the lender. Refer to Part IV, Item 15 - Notes to the Consolidated Financial Statements, Note 10 - Commitments and Contingencies.

The Company's capital budgets for 2014 anticipate spending approximately \$10,858,000 for ongoing capital needs. As of December 31, 2013, the Company has not committed to any new significant rehabilitation projects.

Off-Balance Sheet Arrangements

The Company's investment in BVF obligated the Company to make capital contributions to BVF in the amount of \$23,400,000 during the investment period of BVF. As of December 31, 2013, the Company has made 100% of the capital contributions required by BVF. The Company has no obligation to make any additional contributions of capital to BVF.

The Company's investment in NoMa JV obligated the Company to make capital contributions to NoMa JV in the amount of \$14,520,000. As of December 31, 2013, the Company had invested 100% of its total committed capital. The Company has no obligation to make any additional contributions of capital to NoMa JV.

As of December 31, 2013, the Company did not have any off-balance sheet transactions, arrangements, or obligations, including contingent obligations, other than those disclosed under contractual obligations.

Acquisitions and Dispositions

Discussion of acquisitions for the year ended December 31, 2013

On November 1, 2013, the Company through its joint venture partnership for the Walnut Creek Project, acquired the land associated with the development project. The purchase price was \$5,600,000 and the Company assumed the seller's outstanding land loan in the amount of \$4,828,495. The assumed land loan had a fixed interest rate of 6.00% and matured on March 31, 2014. Subsequent to year end on March 31, 2014, the outstanding land loan balance of \$4,828,495 was paid off with available funds contributed to the joint venture partnership. The acquisition transaction was subject to normal prorations and adjustments.

Discussion of dispositions for the year ended December 31, 2013

On June 25, 2013, the Company completed the sale of Walden Pond and Gables, both located in Houston, Texas, to an unaffiliated buyer. The combined sale price was \$31,500,000 and was subject to normal operation prorations and adjustments as provided for in the purchase and sale agreement.

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Contractual Obligations and Other Commitments

On March 31, 2011, the Operating Partnership, through JV 2020 Lawrence, entered into an agreement for fixed rate construction-to-permanent financing totaling up to \$45,463,100, which is collateralized by the related property and is insured by HUD. The construction loan was converted to permanent financing on June 27, 2013 with a term of 40 years and a fixed interest rate of 5.00%. The loan will mature on February 1, 2053. The proceeds of the financing were used to develop the 2020 Lawrence Project. As of December 31, 2013, the outstanding balance on the loan was \$45,159,532.

On June 12, 2012, Zocalo, entered into the Colorado Energy Loan, through the Colorado Energy Office, for \$1,250,000 to be used for inclusion of energy efficient components in the construction of the 2020 Lawrence Project. The Colorado Energy Loan has a fixed interest rate of 5.00% and a maturity date of June 11, 2022. Zocalo has pledged all of its membership interests, both currently owned and subsequently acquired, in JV 2020 Lawrence as collateral for the Colorado Energy Loan. Pursuant to an authorizing resolution adopted by the members of JV 2020 Lawrence, Zocalo advanced the proceeds of the Colorado Energy Loan, as received from time to time, to JV 2020 Lawrence for application to the 2020 Lawrence Project. Such advances to JV 2020 Lawrence will not be considered contributions of capital to JV 2020 Lawrence. Also, Zocalo is authorized and directed to cause JV 2020 Lawrence to repay such advances, including principal and interest, made by Zocalo at such times as required by the Colorado Energy Loan. Any payments pursuant to the authorizing resolution shall be payable only from surplus cash of the 2020 Lawrence Project as defined by HUD in the governing regulatory agreement of the primary financing on the project as described above. If surplus cash is not available to satisfy Zocalo's payment obligations under the Colorado Energy Loan, then either Zocalo or BIR 2020 may issue a funding notice, pursuant to the JV 2020 Lawrence limited liability company agreement, for payment obligation amounts due and payable. As of December 31, 2013, the outstanding balance on the Colorado Energy Loan was \$1,250,000.

Although there were no property acquisitions in 2013, the Company expects to continue to take advantage of the low interest rate mortgage environment as it acquires additional properties. The Company expects to use leverage up to 75% of the fair market value on an aggregated portfolio basis.

The primary obligations of the Company relate to its borrowings under the mortgage notes payable. The \$475,525,480 in mortgage notes payable has varying maturities ranging from one to 40 years. The following table summarizes our contractual obligations as of December 31, 2013:

	2014	2015	2016	2017	2018	Thereafter
Long Term Debt Obligations (1)	\$95,352,442	\$63,294,459	\$73,143,563	\$39,941,535	\$14,648,701	\$189,144,780
Interest Payments (2)	24,767,992	19,011,328	16,908,565	13,039,882	11,486,311	79,073,539
Capital Lease Obligations	—	—	—	—	—	—
Operating Lease Obligations	—	—	—	—	—	—
Purchase Obligations (3)	—	—	—	—	—	—
Other Long-Term Liabilities Reflected on Balance Sheet under GAAP (1)	—	18,545	38,493	40,442	42,489	1,110,031
Interest Payments on Other Long-Term Liabilities Reflected on Balance Sheet under	30,993	62,757	61,098	59,149	57,101	182,188

GAAP (2)

Amounts include principal payments only. The Company will pay interest on outstanding indebtedness based on the rates and terms as summarized in Part IV, Item 15 - Notes to the Consolidated Financial Statements, Note 5 - (1) Mortgage Notes Payable and Note 7 - Note Payable - Other. Additionally, of the 2014 balance of \$95,352,442, \$32,338,134 was refinanced on January 16, 2014 and will now mature in 2024 and \$41,406,347 has available a one year extension option from the current maturity date in 2014.

(2) Interest payments represent amounts expected to be incurred on outstanding debt as of December 31, 2013.

The Company has obligations under numerous contracts with various service providers at its properties. The (3) contracts are generally for periods of less than one year or are not material either individually or in aggregate to the Company's operations.

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Competition

The Company competes with other multifamily apartment community owners and operators and other real estate companies in seeking properties for acquisition and in attracting potential residents. The Company's properties are in developed areas where there are other properties of the same type, which directly compete for residents. The Company believes that its focus on resident service and satisfaction gives it a competitive advantage when competing against other communities for tenants.

Market Environment

In 2013, the multifamily sector continued to exhibit improved performance and strong fundamentals on a national basis evidenced by higher rent levels and stable occupancies resulting from the ongoing favorable apartment unit supply and demand mix. Reduced levels of new unit construction and home ownership rates in the apartment sector have driven multifamily rental demand in recent years resulting in national vacancy rates at ten-year lows. Improved capital markets have had a favorable impact on the sale of multifamily assets with transaction volumes recently reaching five-year highs.

As had been the case during the previous downturn in the economy, credit worthy borrowers in the multifamily sector continue to have access to capital through Fannie Mae and Freddie Mac and other sources, at favorably low interest rates. There is no assurance that under existing or future regulatory restrictions this source of capital, unique to multifamily borrowers will continue to be available.

The Company continues to believe that projected demographic trends will favor the multifamily sector, driven primarily by the continued flow of prime renters (those under 35 years old), the fastest growing segment of the population, and an increasing number of aging Baby Boomers who will drive demand for senior housing and lifestyle communities as well as apartments for that segment attracted to downsizing in population centers. The Company's properties are generally located in markets where zoning restrictions, scarcity of land and high construction costs create significant barriers to new development. The Company believes it is well positioned to manage its portfolio and to take advantage of current trends in the apartment sector to create value.

Declaration of Dividends and Distributions on Class B Common Stock

On November 6, 2012, the Board authorized the general partner of the Operating Partnership to make a special distribution of \$15,000,000 from the proceeds of the sale of Silver Hill and Arboretum to the common general partner and noncontrolling interest partners in Operating Partnership, which was paid on November 7, 2012. On the same day, in respect of the special distribution to the common general partner, the Board declared a common dividend of \$0.254943 per share on the Company's Class B common stock. Concurrently with the Operating Partnership distributions, the common dividend was paid from the special distribution proceeds of the common general partner.

On December 19, 2012, the Board authorized the general partner of the Operating Partnership to make a special distribution of \$9,000,000 from the proceeds of the sale of Arrowhead and Moorings to the common general partner and noncontrolling interest partners in Operating Partnership, which was paid on the same day. Also on December 19, 2012, the Board declared a common dividend of \$0.152966 per share on the Company's Class B common stock in respect of the special distribution to the common general partner. Concurrently with the Operating Partnership distributions, the common dividend was paid from the special distribution proceeds of the common general partner.

On August 6, 2013, the Board authorized the general partner of the Operating Partnership to make a special distribution of \$12,000,000 from the proceeds of the sale of Walden Pond and Gables to the common general partner and noncontrolling interest partners in Operating Partnership. On the same day, the Board declared a common

dividend of \$0.203954 per share on the Company's Class B common stock in respect of the special distribution to the common general partner. On August 28, 2013 and December 12, 2013, the Operating Partnership made a special distribution of \$9,200,000 and \$2,800,000, respectively, to the common general partner and noncontrolling interest partners in the Operating Partnership.

Concurrently with the Operating Partnership distributions on August 28, 2013 and December 12, 2013, common dividends of \$219,880 and \$66,920, respectively, were paid from the special distribution proceeds of the common general partner.

For the years ended December 31, 2013 and 2012, the Company's aggregate dividends on the Class B common stock totaled \$286,800 and \$573,600, respectively. There were no dividends payable to the Class B common stockholders as of December 31, 2013 or 2012.

The Company's policy to provide for common distributions is based on available cash and Board approval.

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Leasing Activities

The table below presents leasing activities information which includes the volume of new and renewed leases with average rents for each and the impact of rent concessions for all properties, including those acquired or disposed of during the period.

	Year ended December 31, 2013 (1)				Year ended December 31, 2012 (1)			
	# of Units	Average Apt Size (Sq Ft)	Average Monthly Rent Rate per Apt	Impact of Average Rent Concessions	# of Units	Average Apt Size (Sq Ft)	Average Monthly Rent Rate per Apt	Impact of Average Rent Concessions
New leases	2,762	958	\$1,178	\$ 9	3,015	954	\$1,074	\$ 30
Renewed leases	2,689	958	1,203	—	3,153	952	1,100	—

(1) Represents data for all properties including those acquired or disposed of during the year.

Results of Operations and Financial Condition

The Company's portfolio (the "Total Property Portfolio") consists of all properties acquired or placed in service and owned at any time during the year through December 31, 2013. As a result of changes in the Total Portfolio over time, including the change in the portfolio holdings during 2013, the financial statements show considerable changes in revenue and expenses from period to period, and thus its period-to-period financial data is not comparable. Therefore, the comparison of operating results for the years ended December 31, 2013 and 2012 reflect changes attributable to the properties that were owned by the Company throughout each period presented (the "Same Property Portfolio").

"Net Operating Income" ("NOI") falls within the definition of a "non-GAAP financial measure" as stated in Item 10(e) of Regulation S-K promulgated by the SEC and should not be considered as an alternative to net income (loss), the most directly comparable financial measure of our performance calculated and presented in accordance with GAAP. The Company believes NOI is a measure of operating results that is useful to investors to analyze the performance of a real estate company because it provides a direct measure of the operating results of the Company's properties. The Company also believes it is a useful measure to facilitate the comparison of operating performance among competitors. The calculation of NOI requires classification of income statement items between operating and non-operating expenses, where operating items include only those items of revenue and expense which are directly related to the income producing activities of the properties. We believe that to achieve a more complete understanding of the Company's performance, NOI should be compared with our reported net income (loss). Management uses NOI to evaluate the operating results of properties without reflecting the effect of capital decisions such as the issuance of mortgage debt and investments in capital items, in turn these capital decisions have an impact on interest expense and depreciation and amortization.

The most directly comparable financial measure of our NOI, calculated and presented in accordance with GAAP, is net income (loss), shown on the statement of operations. For the years ended December 31, 2013, 2012 and 2011, the net income was \$7,209,633, \$29,021,154 and \$1,922,299, respectively. A reconciliation of our NOI to net income for the years ended December 31, 2013, 2012 and 2011 are presented as part of the following tables on pages 31 and 36.

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Comparison of year ended December 31, 2013 to the year ended December 31, 2012

The tables below reflect selected operating information for the Same Property Portfolio and the Total Property Portfolio for the years ended December 31, 2013 and 2012. The Same Property Portfolio consists of the 19 properties acquired or placed in service on or prior to January 1, 2012 and owned through December 31, 2013. The Total Property Portfolio includes the effect of the change in the sale of five properties, Arboretum, Arrowhead, Moorings, Riverbirch and Silver Hill, during the year ended December 31, 2012 and the sale of two properties, Gables and Walden Pond, during the year ended December 31, 2013. (The 2012 and 2013 activity for Arboretum, Arrowhead, Moorings, Riverbirch, Silver Hill, Gables and Walden Pond has been removed from the presentation as the results have been reflected as discontinued operations in the consolidated statements of operations.)

	Same Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change	
	2013	2012			
Revenue:					
Rental	\$71,149,619	\$68,533,451	\$2,616,168	3.82	%
Utility reimbursement and other	6,415,527	5,951,471	464,056	7.80	%
Total revenue	77,565,146	74,484,922	3,080,224	4.14	%
Operating Expenses:					
Operating	17,428,186	17,230,003	198,183	1.15	%
Maintenance	4,374,838	4,390,899	(16,061)	(0.37))%
Real estate taxes	7,264,509	6,845,069	419,440	6.13	%
General and administrative	—	—	—	—	%
Management fees	3,103,709	2,967,379	136,330	4.59	%
Incentive advisory fees	—	—	—	—	%
Total operating expenses	32,171,242	31,433,350	737,892	2.35	%
Net Operating Income	45,393,904	43,051,572	2,342,332	5.44	%
Non-operating expenses:					
Depreciation	23,365,337	24,421,521	(1,056,184)	(4.32))%
Interest, inclusive of amortization of deferred financing fees	24,431,681	24,911,303	(479,622)	(1.93))%
Amortization of acquired in-place leases and tenant relationships	5,378	68,280	(62,902)	(92.12))%
Total non-operating expenses	47,802,396	49,401,104	(1,598,708)	(3.24))%
Net loss	\$(2,408,492)	\$(6,349,532)	\$3,941,040	62.07	%

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Comparison of the year ended December 31, 2013 to the year ended December 31, 2012

	Total Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change	
	2013	2012			
Revenue:					
Rental	\$73,191,622	\$68,545,521	\$4,646,101	6.78	%
Utility reimbursement and other	6,840,508	5,968,124	872,384	14.62	%
Total revenue	80,032,130	74,513,645	5,518,485	7.41	%
Operating Expenses:					
Operating	18,433,143	17,585,096	848,047	4.82	%
Maintenance	4,516,367	4,396,133	120,234	2.73	%
Real estate taxes	7,677,392	6,845,669	831,723	12.15	%
General and administrative	2,504,227	2,424,966	79,261	3.27	%
Management fees	4,824,959	4,642,323	182,636	3.93	%
Incentive advisory fees	2,494,013	3,113,100	(619,087)	(19.89))%
Total operating expenses	40,450,101	39,007,287	1,442,814	3.70	%
Net Operating Income	39,582,029	35,506,358	4,075,671	11.48	%
Non-operating expenses:					
Depreciation	25,481,041	24,421,521	1,059,520	4.34	%
Interest, inclusive of amortization of deferred financing fees	26,459,722	23,937,305	2,522,417	10.54	%
Amortization of acquired in-place leases and tenant relationships	5,377	68,280	(62,903)	(92.13))%
Total non-operating expenses	51,946,140	48,427,106	3,519,034	7.27	%
Loss before equity in income (loss) in unconsolidated multifamily entities	(12,364,111)	(12,920,748)	556,637	4.31	%
Equity in income (loss) of unconsolidated multifamily entities	888,778	(268,921)	1,157,699	430.50	%
Discontinued operations	18,684,966	42,210,823	(23,525,857)	55.73	%
Net income	\$7,209,633	\$29,021,154	\$(21,811,521)	75.16	%

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Comparison of the year ended December 31, 2013 to the year ended December 31, 2012
(Same Property Portfolio)

Revenue

Rental Revenue

Rental revenue for the Same Property Portfolio increased for the year ended December 31, 2013 in comparison to the same period in 2012. The increase in rental revenue is attributable to increase in rental rates and average occupancy. Average 2013 monthly rental rates of \$1,202 per apartment unit increased by 3.26% over the 2012 rent rate of \$1,164, attributing to an increase of \$2,527,200 in rental revenue. Average physical occupancy for the 2013 Same Property Portfolio was 95.87%, slightly above the 2012 average of 95.44%, attributing to \$89,000 increase in rental revenue. Market conditions remain stable in the majority of the submarkets in which the Company owns and operates apartments. The Company continues to benefit from its focus on resident retention in the Same Property Portfolio. Improving economic conditions and the continued strength in the apartment markets has allowed the Company to implement rent increases at properties in strong markets while retaining high levels of quality tenants throughout the portfolio.

Utility reimbursement and other revenue

Same Property Portfolio utility reimbursement and other revenue increased for the year ended December 31, 2013 as compared to the year ended December 31, 2012, due primarily to increased utility reimbursements as a result of higher utility expenses for the applicable billing periods. The table below breaks out these two components:

	Same Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change	
	2013	2012			
Utility reimbursement and other					
Utility reimbursement	\$3,365,441	\$2,954,367	\$411,074	13.91	%
Other	3,050,086	2,997,104	52,982	1.77	%
Total Utility reimbursement and other	\$6,415,527	\$5,951,471	\$464,056	7.80	%

Operating Expenses

Operating

Overall operating expenses increased for the year ended December 31, 2013 as compared to the same period of 2012. Higher payroll was primarily due to increased health insurance costs as a result of higher claims and retirement matching in 2013 compared to 2012. Higher property insurance expenses across the Same Property Portfolio were primarily due to higher premium on property and general liability insurance. Changes in gain on fixed assets replacement was primarily due to the level of insurance related incidents in 2013 as compared to 2012. These increases were partially offset by savings in property general and administrative cost mainly from reduced state income taxes at Executive House. Reduced other expense was primarily a result of lower expenses on corporate units rentals.

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The table below breaks out the major components of this line item:

	Same Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change	
	2013	2012			
Operating					
Payroll	\$7,311,339	\$7,146,317	\$165,022	2.31	%
Utilities	5,327,067	5,260,564	66,503	1.26	%
Insurance	1,572,339	1,482,835	89,504	6.04	%
Property-related G&A	1,846,066	1,995,331	(149,265)	(7.48))%
Leasing	737,416	764,776	(27,360)	(3.58))%
Advertising	621,323	646,214	(24,891)	(3.85))%
Gain on fixed assets replacement	(49,813)	(198,608)	148,795	(74.92))%
Other	62,449	132,574	(70,125)	(52.89))%
Total Operating	\$17,428,186	\$17,230,003	\$198,183	1.15	%

Maintenance

Maintenance expense decreased for the year ended December 31, 2013 as compared to the same period of 2012, mainly due to reduced spending on painting, landscaping and cleaning, partially offset by higher costs in repairs due to higher unit turnover costs in an effort to make units as attractive as possible and to maintain occupancy.

Management continues to employ a proactive maintenance rehabilitation strategy at its apartment communities and considers the strategy an effective program that preserves, and in some cases increases, its occupancy levels through improved consumer appeal of the apartment communities, from both an interior and exterior perspective.

The table below breaks out the major components of this line item:

	Same Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change	
	2013	2012			
Maintenance					
Pool service	\$248,753	\$232,826	\$15,927	6.84	%
Exterminating	145,823	171,005	(25,182)	(14.73))%
Landscaping	749,718	798,100	(48,382)	(6.06))%
Supplies	63,642	57,283	6,359	11.10	%
Cleaning	758,554	786,940	(28,386)	(3.61))%
Snow removal	25,669	18,147	7,522	41.45	%
Painting	852,394	911,216	(58,822)	(6.46))%
Repairs	940,208	859,973	80,235	9.33	%
Other	590,077	555,409	34,668	6.24	%
Total Maintenance	\$4,374,838	\$4,390,899	\$(16,061)	(0.37))%

Real Estate Taxes

Real estate taxes increased for the year ended December 31, 2013 from the comparable period of 2012 as a result of increased assessments and rates. The Company continually scrutinizes the assessed values of its properties and takes advantage of arbitration hearings or similar forums with the taxing authorities to appeal increases in assessed values that it considers to be unreasonable. The Company has been successful in achieving tax abatements for some of its properties based on challenges made to the assessed values and has received tax refunds of approximately \$113,000

on two properties during the year ended December 31, 2013. Going forward, the Company anticipates a general upward trend in real estate tax expense as local and state taxing agencies continue to place significant reliance on property tax revenue.

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Management Fees

Management fees of the Same Property Portfolio increased for the year ended December 31, 2013 compared to the same period of 2012 as a result of an increase in total revenue.

Non-Operating Expenses

Depreciation

Depreciation expense of the Same Property Portfolio decreased for the year ended December 31, 2013 as compared to the same period of the prior year. The decrease is a result of assets that have been fully depreciated, partially offset by the additions to the basis of fixed assets in the portfolio driven by normal recurring capital spending activities over the properties in the Same Property Portfolio.

Interest, inclusive of amortization of deferred financing fees

Interest expense for the year ended December 31, 2013 decreased over the comparable period of 2012 primarily due to reduced principal balances at most properties as a result of mortgage principal amortization. Additionally, two properties that extended mortgage loans elected variable interest rates, which are lower than rates previously in place in those loans.

Amortization of acquired in-place leases and tenant relationships

Amortization of acquired in-place leases and tenant relationships decreased for the year ended December 31, 2013 as compared to the same period in 2012. The decrease is related to the completion of amortization of the acquired-in-place lease and tenant relationships intangible assets booked at acquisition and amortized over a 24-month period which did not extend into the year ended December 31, 2013.

Comparison of the year ended December 31, 2013 to the year ended December 31, 2012
(Total Property Portfolio)

In addition to the reasons discussed with respect to the Same Property Portfolio, increases in revenue, total operating and non-operating expenses of the Total Property Portfolio for the year ended December 31, 2013 as compared to the year ended December 31, 2012 are due mainly to the completion of the 2020 Lawrence Project during the first quarter of 2013, as expenses were capitalized during most of 2012 while the property was in development. The increase in total operating expense was partially offset by decreased incentive advisory fees. (Refer to Part IV, Item 15 - Notes to the Consolidated Financial Statements, Note 14 - Related Party Transactions on page 79 for further discussion.) Equity in income (loss) of unconsolidated multifamily entities increased primarily as a result of the Company's share of gain on property sale recorded at the unconsolidated limited partnership.

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Comparison of year ended December 31, 2012 to the year ended December 31, 2011

The tables below reflect selected operating information for the Same Property Portfolio and the Total Property Portfolio for the years ended December 31, 2012 and 2011. The Same Property Portfolio consists of the 18 properties acquired or placed in service on or prior to January 1, 2011 and owned through December 31, 2012. The Total Property Portfolio includes the effect of the change in the one property acquired during the year ended December 31, 2011, Estancia Townhomes, and the sale of one property, Glo, during the year ended December 31, 2011, the sale of five properties, Arboretum, Arrowhead, Moorings, Riverbirch and Silver Hill during the year ended December 31, 2012 and the sale of two properties, Gables and Walden Pond during the year ended December 31, 2013. (The 2011 and 2012 activity for Glo, Arboretum, Arrowhead, Moorings, Riverbirch, Silver Hill, Gables and Walden Pond has been removed from the presentation as the results have been reflected as discontinued operations in the consolidated statements of operations.)

	Same Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change	
	2012	2011			
Revenue:					
Rental	\$63,920,963	\$61,340,979	\$2,579,984	4.21	%
Utility reimbursement and other	5,772,507	5,303,021	469,486	8.85	%
Total revenue	69,693,470	66,644,000	3,049,470	4.58	%
Operating Expenses:					
Operating	16,553,353	16,331,662	221,691	1.36	%
Maintenance	4,207,041	4,270,987	(63,946)	(1.50))%
Real estate taxes	5,997,612	5,914,671	82,941	1.40	%
General and administrative	—	—	—	—	%
Management fees	2,775,960	2,551,872	224,088	8.78	%
Incentive advisory fees	—	—	—	—	%
Total operating expenses	29,533,966	29,069,192	464,774	1.60	%
Net Operating Income	40,159,504	37,574,808	2,584,696	6.88	%
Non-operating expenses:					
Depreciation	22,309,007	24,600,577	(2,291,570)	(9.32))%
Interest, inclusive of amortization of deferred financing fees	23,382,074	23,657,670	(275,596)	(1.16))%
Amortization of acquired in-place leases and tenant relationships	—	—	—	—	%
Total non-operating expenses	45,691,081	48,258,247	(2,567,166)	(5.32))%
Net loss	\$(5,531,577)	\$(10,683,439)	\$5,151,862	48.22	%

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Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

	Total Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change	
	2012	2011			
Revenue:					
Rental	\$68,545,521	\$65,240,687	\$3,304,834	5.07	%
Utility reimbursement and other	5,968,124	5,447,179	520,945	9.56	%
Total revenue	74,513,645	70,687,866	3,825,779	5.41	%
Operating Expenses:					
Operating	17,585,096	17,268,329	316,767	1.83	%
Maintenance	4,396,133	4,456,806	(60,673)	(1.36))%
Real estate taxes	6,845,669	6,688,309	157,360	2.35	%
General and administrative	2,424,966	2,337,435	87,531	3.74	%
Management fees	4,642,323	4,406,673	235,650	5.35	%
Incentive advisory fees	3,113,100	1,696,485	1,416,615	83.50	%
Total operating expenses	39,007,287	36,854,037	2,153,250	5.84	%
Net Operating Income	35,506,358	33,833,829	1,672,529	4.94	%
Non-operating expenses:					
Depreciation	24,421,521	26,460,715	(2,039,194)	(7.71))%
Interest, inclusive of amortization of deferred financing fees	23,937,305	26,030,877	(2,093,572)	(8.04))%
Amortization of acquired in-place leases and tenant relationships	68,280	531,422	(463,142)	(87.15))%
Total non-operating expenses	48,427,106	53,023,014	(4,595,908)	(8.67))%
Loss before equity in loss of unconsolidated multifamily entities	(12,920,748)	(19,189,185)	6,268,437	32.67	%
Equity in loss of unconsolidated multifamily entities	(268,921)	(3,430,015)	3,161,094	92.16	%
Discontinued Operations	42,210,823	24,541,499	17,669,324	(72.00))%
Net income	\$29,021,154	\$1,922,299	\$27,098,855	(1,409.71))%

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Comparison of the year ended December 31, 2012 to the year ended December 31, 2011
(Same Property Portfolio)

Revenue

Rental Revenue

Rental revenue for the Same Property Portfolio increased for the year ended December 31, 2012 in comparison to the same period in 2011. The increase in rental revenue is mainly attributable to increase in rental rates partially offset by a decrease in average occupancy. Average 2012 monthly rental rate of \$1,130 per apartment unit increased by 4.63% over the 2011 rental rates of \$1,080, attributing to an increase of \$3,021,000 in rental revenue. Average physical occupancy for the 2012 Same Property Portfolio was 95.47%, decreased slightly from the 95.94% average in 2011. Rental revenue decreased by \$441,000 as a result of change in occupancy. Market conditions remain stable in the majority of the submarkets in which the Company owns and operates apartments. The Company continues to benefit from its focus on resident retention in the Same Property Portfolio. Improving economic conditions and the continued strength in the apartment markets has allowed the Company to implement rent increases at properties in strong markets while retaining high levels of quality tenants throughout the portfolio.

Utility reimbursement and other revenue

Same Property Portfolio utility reimbursement and other revenue increased for the year ended December 31, 2012 as compared to the year ended December 31, 2011, due primarily to the continued use of utility bill back programs, increased fees charged to tenants and potential tenants, including pet fees, redecorating fees, late fees and other similar revenue items. The table below breaks out these two components:

	Same Property Portfolio Year ended December 31,				
	2012	2011	Increase/ (Decrease)	% Change	
Utility reimbursement and other					
Utility reimbursement	\$2,945,260	\$2,709,211	\$236,049	8.71	%
Other	2,827,247	2,593,810	233,437	9.00	%
Total Utility reimbursement and other	\$5,772,507	\$5,303,021	\$469,486	8.85	%

Operating Expenses

Operating

Overall operating expenses increased for the year ended December 31, 2012 as compared to the same period of 2011. Higher payroll expenses due to bonus payments and health insurance and increased state income taxes related to municipal taxes at a property, were partially offset by savings in utilities including gas and electricity as a result of a cooler summer and milder winter.

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The table below breaks out the major components of this line item:

		Same Property Portfolio Year ended December 31,		Increase/ (Decrease)	% Change
		2012	2011		
Operating					