PREFERRED APARTMENT COMMUNITIES INC
Form S-11/A
November 02, 2011

As filed with the Securities and Exchange Commission on November 2, 2011

Registration No. 333-176604

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

PRE-EFFECTIVE AMENDMENT NO. 1
TO
Form S-11

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

PREFERRED APARTMENT COMMUNITIES, INC.

(Exact Name of Registrant as Specified in its Governing Instruments)

3625 Cumberland Boulevard, Suite 400
Atlanta, Georgia 30339
(770) 818-4100

(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant s Principal Executive Offices)

John A. Williams
PREFERRED APARTMENT COMMUNITIES, INC.
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee	
Units, each Unit consisting of one share of Series A Redeemable Preferred Stock, par value $0.01 per share, and one Warrant to purchase 20 shares of Common Stock, par value $0.01 per share(2)	$ 150,000,000	$ 17,415.00	
Series A Redeemable Preferred Stock included as part of the Units(3)			
Warrants included as part of the Units(4)			(5)
Common Stock issuable upon exercise of the Warrants(8)	$ 27,000,000	$ 3,134.70	(6)
Common Stock issuable upon redemption of the Series A Redeemable Preferred Stock(7)(8)			
Total	$ 177,000,000	$ 20,549.70*	

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

(2) We are registering hereunder 150,000 Units.

(3) We are registering hereunder 150,000 shares of Series A Redeemable Preferred Stock.

(4) We are registering hereunder Warrants to purchase 3,000,000 shares of Common Stock.

(5) No separate registration fee required pursuant to Rule 457(g) of the Securities Act.

(6) Includes the offering price attributable to shares of Common Stock issuable upon exercise of the Warrants, assuming an exercise price of $9.00 per share. The registration fee has been calculated in accordance with Rules 457(c) and 457(i) of the Securities Act.

(7) We also are registering hereunder an indeterminate number of shares of Common Stock that may be issuable upon the redemption of the Series A Redeemable Preferred Stock. The shares of Common Stock issuable upon redemption of the Series A Redeemable Preferred Stock will be issued for no additional consideration, and therefore no registration fee is required pursuant to Rule 457(i) of the Securities Act.

(8) Pursuant to Rule 416 of the Securities Act, such number of shares of Common Stock registered hereby also shall include an indeterminate number of shares of Common Stock that may be issued in connection with stock splits, stock dividends, recapitalizations or similar events or adjustments in the number of shares issuable as provided in the Warrants and in the articles supplementary setting forth the rights, preferences and limitations of the Series A Redeemable Preferred Stock.

* $20,295.44 has been previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell the securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS NOVEMBER 2, 2011 **SUBJECT TO COMPLETION**

Minimum of 2,000 Units consisting of 2,000 Shares of Series A Redeemable Preferred Stock and Warrants to Purchase 40,000 Shares of Common Stock

Maximum of 150,000 Units consisting of 150,000 Shares of Series A Redeemable Preferred Stock and Warrants to Purchase 3,000,000 Shares of Common Stock

Preferred Apartment Communities, Inc. is an externally managed Maryland corporation incorporated on September 18, 2009 and formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States.

We are offering a minimum of 2,000 and a maximum of 150,000 shares of our Series A Redeemable Preferred Stock, par value $0.01 per share, referred to as our Series A Redeemable Preferred Stock, and warrants, referred to as the Warrants, to purchase a minimum of 40,000 and a maximum of 3,000,000 shares of our common stock in this offering. This prospectus also covers the shares of common stock that are issuable from time to time upon exercise of the Warrants and that may be issuable upon redemption of the Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock and the Warrants will be sold in units, or Units, with each Unit consisting of (i) one share of Series A Redeemable Preferred Stock with an initial stated value of $1,000 per share, and (ii) one Warrant to purchase 20 shares of common stock, exercisable by the holder at an exercise price of 120% of the current market price per share of our common stock determined using the volume weighted average price of our common stock for the 20 trading days prior to the date of issuance of such Warrant, subject to a minimum exercise price of $9.00 per share (subject to adjustment). Each Unit will be sold at a public offering price of $1,000 per Unit. Units will not be issued or certificated. The shares of Series A Redeemable Preferred Stock and the Warrants are immediately separable and will be issued separately. The Warrants are not exercisable until one year from the date of issuance and expire four years from the date of issuance. The Series A Redeemable Preferred Stock will rank senior to our common stock with respect to payment of dividends and distribution of amounts upon liquidation, dissolution or winding up. Holders of our Series A Redeemable Preferred Stock will have no voting rights except as otherwise required.

Our common stock is traded on the NYSE Amex, or AMEX, under the symbol APTS. On August 30, 2011, the last reported sale price of our common stock on the AMEX was $6.87 per share. There is no established trading market for our Series A Redeemable Preferred Stock or any of the Warrants and we do not expect a market to develop. We do not intend to apply for a listing of the Series A Redeemable Preferred Stock or any of the Warrants on any national securities exchange.

We intend to elect and qualify to be taxed as a real estate investment trust for U.S. federal income tax purposes, or REIT, commencing with our tax year ending December 31, 2011.

Investing in our securities involves a high degree of risk. You should purchase these securities only if you can afford a complete loss of your investment. See the section entitled Risk Factors beginning on page 24 of this prospectus for a discussion of the risks which should be considered in connection with your investment in our securities. Some of these risks include:

There is limited liquidity for our Series A Redeemable Preferred Stock and Warrants. There is no public trading market for the Series A Redeemable Preferred Stock or Warrants, and we do not currently intend to list our Series A Redeemable Preferred Stock or Warrants on a securities exchange.

If our common stock is no longer listed on the AMEX or another appropriate exchange, we would be required to register the offering in any state in which we subsequently offered our Units. This would require termination of this offering and could result in our raising an amount of gross proceeds that is substantially less than the gross proceeds expected to be raised if the maximum offering is sold. This would reduce our ability to purchase additional properties and limit the diversification of our portfolio.

We have a limited operating history and may not be able to operate our business successfully or generate sufficient cash flow to make or sustain distributions to our stockholders.

We paid a quarterly dividend on our common stock of $0.125 per share for the second quarter of 2011, and our cash available for distribution was insufficient to fully fund the second quarter dividend.

We are depending on our manager to select investments and conduct our operations. Adverse changes in the financial condition of our manager or our relationship with our manager could adversely affect us.

There are substantial conflicts of interest between us and our sponsor, our manager and their respective affiliates regarding affiliate compensation, investment opportunities and management resources.

If we are able to qualify as a REIT and as long as we maintain our status as a REIT, we will be subject to numerous limitations and qualifications imposed on us under the Internal Revenue Code of 1986, as amended, or the Code, including that five or fewer individuals, as specially defined for these purposes, generally are prohibited from beneficially owning more than 50% of our outstanding shares (based on value) during the last half of each taxable year.

Upon the sale of any individual property, holders of Series A Preferred Stock do not have a priority over holders of our common stock regarding return of capital. Investors in the Series A Preferred Stock should note that holders of common stock will receive additional

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distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital;
There is no clawback for distributions with respect to the special limited partnership interest (except in limited circumstances), and such distributions are payable upon the sale of an asset even if investors have not received a return of their entire investment;
Our charter contains various restrictions on the ownership and transfer of our securities.
Maintenance of our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act, our intent to qualify as a REIT, and our REIT qualification (assuming that we are able to qualify as a REIT) impose significant limits on our operations.
Our investment objectives and strategies may be changed without stockholder consent.
We are not yet a REIT and may be unable to qualify as a REIT.

Neither the Securities and Exchange Commission, the Attorney General of the State of New York, nor any state securities commission has approved or disapproved of these securities, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.

	Per Unit	Minimum Offering	Maximum Offering
Public offering price	$ 1,000.00	$ 2,000,000	$ 150,000,000 [(1)]
Selling commissions[(2)]	$ 70.00	$ 140,000	$ 10,500,000
Dealer manager fee[(2)]	$ 30.00	$ 60,000	$ 4,500,000
Proceeds, before expenses, to us	$ 900.00	$ 1,800,000	$ 135,000,000

(1) Initial gross proceeds. If the Warrants are exercised in full at 120% of the current market price per share of our common stock and assuming a current market price of $6.89 per share of common stock, the company will receive additional gross proceeds equal to a minimum of $330,800 and a maximum of $24,810,000.

(2) Selling commissions and the dealer manager fee are paid on a reasonable best efforts basis and will equal 7% and 3% of aggregate gross proceeds, respectively. Each is payable to our dealer manager.

The dealer manager of this offering is International Assets Advisory, LLC. The dealer manager is not required to sell any specific number or dollar amount of Units, but will use its reasonable best efforts to sell the Units offered. However, the dealer manager must sell the minimum number of Units offered (2,000 Units) if any are sold. The minimum permitted purchase is generally $5,000, but purchases of less than $5,000 may be made in the discretion of the dealer manager. We expect to sell a minimum of $2,000,000 in Units and a maximum of $150,000,000 in Units in the offering by December 31, 2012, which may be extended through December 31, 2013, in our sole discretion. If we extend the offering period beyond December 31, 2012, we will supplement this prospectus accordingly. We may terminate this offering at any time or may offer Units pursuant to a new registration statement.

We will deposit all subscription payments in an escrow account held by the escrow agent, UMB Bank N.A., in trust for the subscriber s benefit, pending release to us. 2,000 Units must be sold by December 31, 2012 or we will terminate this offering and promptly return your subscription payments in accordance with the provisions of the escrow agreement.

In this prospectus, we present certain economic and industry data and forecasts derived from cited third party sources, which data and forecasts are publicly available for free or upon payment as part of a subscription service. None of such data and forecasts was prepared specifically for us. No third party source that has prepared such information has reviewed or passed upon our use of the information in this prospectus, and no third party source is quoted or summarized in this prospectus as an expert. All statements contained in this

prospectus in connection with or related to such data and forecasts are attributed to us, and not to any such third party source or any other person.

International Assets Advisory, LLC
as Dealer Manager

Prospectus dated , 2011

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You should rely only on the information contained in this prospectus, in any free writing prospectus prepared by us or information to which we have referred you. We have not, and the dealer manager has not, authorized any dealer, salesperson or other person to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the dealer manager and dealers are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

Until , 2011, all dealers that effect transactions in securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as an underwriter and with respect to any unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It does not contain all the information that you should consider before investing in our common stock. You should read carefully the detailed information set forth in the section entitled Risk Factors and other information included in this prospectus. Except where the context suggests otherwise, the terms company, Company, we, us, and our refer to Preferred Apartment Communities, Inc., a Ma corporation, together with its consolidated subsidiaries, and our manager refers to Preferred Apartment Advisors, LLC, our external manager and advisor, a Delaware limited liability company.

Our Company

We are a Maryland corporation formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our property acquisition strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and we may make mezzanine loans, provide deposit arrangements or provide performance assurances, as may be necessary or appropriate, in connection with the construction of these properties. As a secondary strategy, we also may acquire senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets as determined by our manager as appropriate for us. We refer to these asset classes as our target assets. We conduct substantially all our operations through our operating partnership, Preferred Apartment Communities Operating Partnership, L.P.

We are externally managed and advised by Preferred Apartment Advisors, LLC, a Delaware limited liability company, which is controlled by John A. Williams, our sponsor and a veteran of the multifamily industry with over four decades of experience, including the founding of the multifamily real estate investment trust, Post Properties, Inc. (NYSE:PPS), and Leonard A. Silverstein. Pursuant to the terms of a management agreement between our manager and us, our manager is responsible for administering our day-to-day business operations, identifying and acquiring targeted real estate investments, overseeing the management of the investments, handling the disposition of the real estate investments and providing us with our management team and appropriate support personnel.

We also hope to benefit from Mr. Williams current organization and platform that specializes in multifamily real estate investment and management. With operations in over 20 nationwide markets, Mr. Williams organization includes (i) Williams Realty Advisors, LLC, or WRA a full service investment management firm, (ii) Williams Asset Management, LLC, or WAM a full service acquisition, asset management and disposition firm, and (iii) RAM Partners, LLC, or RAM, and Williams Residential Management, LLC, or WRM both full-service property level management firms. RAM provides third party property level management services and WRM handles all owned assets within the Williams umbrella group. Collectively, RAM and WRM manage over 27,500 multifamily units. We believe these organizations will provide the full range of services necessary to fulfill our investment objectives.

On April 5, 2011, we completed our initial public offering, or the IPO, of 4,500,000 shares of our common stock. The public offering price of the shares sold in the offering was $10.00 per share. We received total gross proceeds of $45.0 million from the IPO. After deducting underwriting discounts and commissions and offering expenses payable by us, the aggregate net proceeds we received from the IPO approximately $39.8 million. Concurrently with the closing of the IPO, on April 5, 2011, in a separate private placement pursuant to Regulation D under the Securities Act of 1933, as amended, or the Securities Act, the Company sold 500,000 shares of its common stock to Williams Opportunity Fund, LLC, or WOF, at the public offering price of $10.00 per share, for total gross proceeds of $5 million. Aggregate offering expenses in connection with the private placement were approximately $0.3 million; therefore we received approximately $4.7 million in net proceeds from the private placement. WOF is an affiliate of the Company and our manager.

On May 4, 2011, in connection with the exercise of the over-allotment option granted to our underwriters in the IPO, we closed the sale of 107,361 shares of our common stock at $10.00 per share. The total gross proceeds we received from this sale were approximately $1.1 million. After deducting underwriting discounts and commissions and offering expenses payable, the aggregate net proceeds we received from this sale totaled approximately $1.0 million.

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We also intend to raise additional capital in the future.

Our manager intends to brand all apartment communities owned by the Company as A Preferred Apartment Community , to make A Preferred Apartment Community a trademarked logo and ultimate tagline for each of our communities that will signify certain brand and management standards, and intends to obtain all rights to the trademarks, including federal registration of the trademarks with the United States Patent and Trademark Office, to secure such brand. There can be no assurance that such trademarks will be issued. The strategy will allow each individual community to be part of a centralized marketing and advertising campaign, in addition to property level marketing and advertising. We expect that these campaigns will further enhance each individual property's presence in the marketplace, and we believe that this will allow our communities to be perceived as premier over other properties within the marketplace. Our manager intends to enter into a non-exclusive license agreement with the Company as licensee with respect to all intellectual property of the manager other than trademarks. The license agreement will terminate automatically upon termination of our management agreement or will terminate upon a material breach of the license agreement that remains uncured for more than 30 days after receipt of notice of such breach. If the trademarks relating to the A Preferred Apartment Community brand are issued, our manager intends to enter into a non-exclusive license agreement with the Company as licensee with respect to the manager s trademarks on substantially similar terms as the initial intellectual property license agreement.

On April 15, 2011, we acquired 100% of the membership interests in Stone Rise Apartments, LLC, a Delaware limited liability company (f/k/a Oxford Rise JV LLC), the fee-simple owner of a 216-unit multifamily community located in suburban Philadelphia, Pennsylvania, or Stone Rise, for a total purchase price of $30.15 million, exclusive of acquisition-related and financing-related transaction costs. The membership interests in Oxford Rise JV LLC were owned by WOF.

On April 21, 2011, we acquired 100% of the membership interests in PAC Summit Crossing, LLC, a Georgia limited liability company (f/k/a Oxford Summit Partners, LLC), the fee-simple owner of a 345-unit multifamily community located in suburban Atlanta, Georgia, or Summit Crossing, for a total purchase price of $33.2 million, exclusive of acquisition-related and financing-related transaction costs. Williams Realty Fund I, LLC, or WRF, owned a majority of the membership interests in PAC Summit Crossing, LLC. WRF is an affiliate of the Company and our manager.

On April 29, 2011, we acquired Oxford Trail, a 204-unit multifamily community located in Hampton, Virginia, or Trail Creek, for a total purchase price of $23.5 million, exclusive of acquisition-related and financing-related transaction costs. We purchased a fee-simple interest in the property from Oxford Trail JV LLC. WRF owned indirectly an approximately 10% membership interest in Oxford Trail JV LLC.

On June 30, 2011, we made a mezzanine loan investment of $6.0 million to Oxford Hampton Partners LLC, a Georgia limited liability company, to partially finance the construction of a 96-unit multifamily community located adjacent to our existing Trail Creek multifamily community in Hampton, Virginia. Oxford Hampton Partners LLC was required to fully draw down the mezzanine loan on the closing date. WRF has contributed 100% of the cash equity in Oxford Hampton Partners LLC to date.

Market Opportunities

As a result of the recent United States financial crisis and downturn in the United States economy, multifamily assets have seen a dramatic drop in their value. A combination of higher capitalization rates and downward pressure on renter incomes has adversely affected owners of multifamily assets and limited their options. Many recent transactions were highly leveraged with favorable initial financing terms. In many instances, the initial terms of these financings are about to expire or the debt is about to mature. These owners may have difficulty refinancing given the state of the real estate credit markets and their only options may be a sale at a discount to their original investment or foreclosure.

We believe our investments will benefit from the following:

- the lower levels of new supply projected for the next several years;
- the expected rebound in the general economy;
- the continual introduction of the echo boom generation into the market; and

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the decline in homeownership.

We believe this stress in the market will create multiple opportunities for investments.

Our Competitive Strengths

We believe that we distinguish ourselves from our competitors through the following competitive advantages:

- the experience of Mr. Williams and his management team who have significant expertise in multifamily real estate and real estate-related debt investments and capital markets;
- benefits from Mr. Williams and his management team s relationships in the multifamily industry, which we expect to include access to a pipeline of investment opportunities; and
- asset and property management teams focused on multifamily assets, including third party property management of over 22,500 multifamily units across 15 states, asset management of over 3,000 multifamily units across four states and in-house property management of over 5,100 multifamily units across six states.

Our Investment Strategy

Our investment strategy will include, without limitation, the following:

- acquiring assets where assets or the owners of assets are overleveraged or where the owners may be struggling to meet current debt service obligations on such assets, or, in certain circumstances, where owners are financial institutions or conduits under either legal or economic compulsion to sell;
- multifamily properties which we believe will generate sustainable cash available for distribution sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation;
- taking advantage of supply constraints in multifamily housing in part as a result of a lack of new construction over the past several years; and
- taking advantage of favorable financing available from the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae).

We currently do not anticipate investing in unimproved property, developing new construction properties or acquiring new construction, except we would consider a forward purchase or option to purchase contract on a to-be -built multifamily asset with appropriate provisions for minimum occupancy and income thresholds in order for us to expect the asset to be priced appropriately. In connection with entering into a forward purchase or option to purchase contract, we may be required to provide a deposit, a mezzanine loan or other assurances of our ability to perform our obligations under the forward purchase or option to purchase contract. We do not currently anticipate making any mezzanine loans other than in the context of such forward purchase or option to purchase contracts.

Although some of our initial acquisitions were from affiliates of our manager, we anticipate that our future asset acquisitions generally will be from unaffiliated third parties. However, we would still consider an acquisition from an affiliated third party if such acquisition made financial sense to us and was approved by our conflicts committee comprised of independent directors.

Our Target Markets

Generally, we expect to target metropolitan statistical areas, or MSAs, of approximately one million people or more with favorable economic conditions. The conditions of a market we may monitor include, but are not limited to, job growth, household income, the pipeline of new supply for multifamily units, the pipeline of new supply for single family units, current and forecasted occupancy for multifamily units, current and forecasted rental rate growth for multifamily units, and other statistics that may be relevant to individual markets. In addition, we will analyze forecast data from our manager s affiliates gathered in their operations to support our assumptions. We also will utilize our management team s network of industry contacts and

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relationships to generate significant information about current and future market conditions. See the section entitled Business Our Target Assets included elsewhere in this prospectus for a detailed discussion of our target assets.

Our Financing Strategy

We intend to utilize leverage in making our investments. The number of different investments we will acquire will be affected by numerous factors, including the amount of funds available to us. By operating on a leveraged basis, we will have more funds available for our investments. This will allow us to make more investments than would otherwise be possible, resulting in a larger and more diversified portfolio. See the Risk Factors section of this prospectus for more information about the risks related to operating on a leveraged basis.

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the value of our tangible assets (including our real estate assets, real estate loan investments, accounts receivable and cash and cash equivalents) on a portfolio basis based on fair market value. As of June 30, 2011, our outstanding debt (both secured and unsecured) was approximately 56.5% of the value of our tangible assets on a portfolio basis based on fair market value. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our board without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. These targets, however, will not apply to individual real estate assets or investments. Other than in connection with forward purchase contracts or purchase option agreements where we have provided a mezzanine loan for development, at the date of acquisition of each asset, we anticipate that the cost of investment for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. In addition, we intend to acquire all our properties through separate special purpose entities and we intend to finance each of these properties using financing techniques for that property alone without any cross-collateralization to our other properties or guarantees by us or our operating partnership. Finally, we intend to have no long-term corporate level debt. See the section entitled Business Our Financing Strategy included elsewhere in this prospectus for a detailed discussion of our borrowing policies.

Our secured and unsecured aggregate borrowings are intended by us to be reasonable in relation to our net assets and will be reviewed by our board of directors at least quarterly. In determining whether our borrowings are reasonable in relation to our net assets, we expect that our board of directors will consider many factors, including without limitation, the lending standards of government-sponsored enterprises, such as Fannie Mae, Freddie Mac and other companies for loans in connection with the financing of multifamily properties, the leverage ratios of publicly traded and non-traded REITs with similar investment strategies, cash flow coverage, whether we have positive leverage (in that, the board will compare the capitalization rates of our properties to the interest rates on the indebtedness of such properties) and general market and economic conditions. There is no limitation on the amount that we may borrow for any single investment.

Risk Management

Risk management is a fundamental principle in our manager s construction of our portfolio and in the management of each investment. Diversification of our portfolio by investment size and location is critical to controlling portfolio-level risk. Over the long term, we intend that no single asset will exceed 15% of our total assets and that we will not have more than 25% of our total assets invested in any single MSA. However, until a sufficient number of properties are acquired, we anticipate that we will have single assets in excess of 15% of our total assets and more than 25% of our assets in a single MSA.

Summary Risk Factors

Investing in our securities involves a high degree of risk. If we are unable to effectively manage the impact of these risks, we may not meet our investment objectives, and therefore, you should purchase these securities only if you can afford a complete loss of your investment. See the section entitled Risk Factors included elsewhere in this prospectus for a discussion of the risks that should be considered in connection with your investment in our securities. Some of the more significant risks relating to the underwritten offering and an investment in our securities include:

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There is limited liquidity for our Series A Redeemable Preferred Stock and Warrants. There is no public trading market for our Series A Redeemable Preferred Stock or Warrants, and we do not currently intend to list our Series A Redeemable Preferred Stock or Warrants on a securities exchange. If you are able to sell your Series A Redeemable Preferred Stock or Warrants, you may have to sell them at a significant discount. Beginning one year from the date of original issuance and ending four years from the date of such issuance, the Warrants are exercisable for shares of our common stock, which currently are publicly traded on the AMEX. Beginning two years from the date of original issuance, the shares of Series A Redeemable Preferred Stock will be redeemable by the holder, payable, in our sole discretion, in cash or equal value of common stock;

The Series A Redeemable Preferred Stock is a covered security and therefore not subject to registration in the various states due to its seniority to the common stock, which is listed on the AMEX. If our common stock is no longer listed on the AMEX or another appropriate exchange, we would be required to register the offering in any state in which we subsequently offered our Units. This would require termination of this offering and could result in our raising an amount of gross proceeds that is substantially less than the gross proceeds expected to be raised if the maximum offering is sold. This would reduce our ability to purchase additional properties and limit the diversification of our portfolio. Although the Warrants are not covered securities, most states include an exemption for Warrants that are exercisable into a listed security. Therefore, the Warrants are subject to state registration in any state that does not provide such an exemption and the offering must be declared effective in order to sell the Warrants in these states;

We have a limited operating history and may not be able to operate our business successfully or generate sufficient cash flow to make or sustain distributions to our stockholders;

We paid a quarterly dividend on our common stock of $0.125 per share for the second quarter of 2011; our cash available for distribution was insufficient to fully fund the second quarter dividend and we used approximately $227,000 from our working capital and dividend reserve, designed for this purpose, to cover this shortfall;

You may not have the opportunity to evaluate our investments before you make your purchase of our Series A Redeemable Preferred Stock or Warrants, thus making your investment more speculative;

No public market currently exists and no active market may ever develop for shares of our Series A Redeemable Preferred Stock or Warrants;

If we, through our manager, are unable to find suitable investments, then we may not be able to achieve our investment objectives or pay distributions;

Our properties may be adversely affected by current economic conditions and uncertainty, as well as economic cycles and risks inherent to the geographical markets we intend to target and the apartment community sector;

Upon the sale of any individual property, holders of Series A Preferred Stock do not have a priority over holders of our common stock regarding return of capital. Investors in the Series A Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital;

There is no clawback for distributions with respect to the special limited partnership interest (except in limited circumstances), and such distributions are payable upon the sale of an asset even if investors have not received a return of their entire investment;

We may be unable to pay or maintain cash distributions or increase distributions over time;

We may borrow money, sell assets or use proceeds of this offering to make distributions to our stockholders if we are unable to make distributions with our cash flows from our operations. Such distributions could reduce the cash available to us and could constitute a return of capital to stockholders;

We are dependent upon our sponsor, our manager and their respective affiliates to conduct our operations, and therefore, any adverse changes in the financial health of our sponsor, our manager or their affiliates could hinder our operating performance and the return on your investment;

There are numerous conflicts of interest between the interests of investors and our interests or the interests of our manager, our sponsor and their respective affiliates, which we may not experience if we were self-managed;

The incentive structure of our manager s special limited partnership interest may result in our manager recommending riskier or more speculative investments;

The ownership of 36,666 shares of our common stock by NELL Partners, the ownership by WOF of 1,000,000 shares of common stock and the ownership by WRF of 690,000 shares of common stock will limit the ability of holders of shares of common stock not affiliated with our sponsor to influence corporate matters;

Our investment objectives and strategies may be changed without stockholder consent;

We are obligated to pay substantial fees to our manager and its affiliates, including fees payable without regard to our profitability;

There are significant risks associated with maintaining as high a level of leverage as we expect to maintain (generally 50% to 65% of our tangible assets value on a portfolio basis based on fair market value and our investment guidelines allow borrowings up to 75% of the cost of our tangible assets at the time of any new borrowing and our charter and our by-laws contain no limitations on the amount of leverage we may use);

If we are able to qualify as a REIT and as long as we maintain our status as a REIT, we will be subject to limitations on ownership and transferability of our shares of common stock;

We are subject to risks associated with the significant dislocations and liquidity disruptions currently existing or occurring in the United States credit markets;

We may fail to qualify or continue to qualify to be treated as a REIT; and

We may be deemed to be an investment company under the Investment Company Act and thus subject to regulation under the Investment Company Act.

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Our Structure

We were formed as a Maryland corporation on September 18, 2009. The following chart shows our structure after giving effect to this offering:

(1) NELL Partners, Inc. is controlled by John A. Williams, our sponsor, and Leonard A. Silverstein.

(2) Preferred Apartment Advisors, LLC is controlled by NELL Partners, Inc. Other than the 1% Manager Revenue Interest (as defined in the section entitled Our Manager and Management Agreement 1% Manager Revenue Interest included elsewhere in this prospectus) held by WOF, all interests of Preferred Apartment Advisors, LLC are held by NELL Partners, Inc.

(3) The common stock investors in the initial public offering own registered shares of common stock of Preferred Apartment Communities, Inc. The 500,000 shares of common stock acquired by WOF in the private placement offering are not registered shares.

(4) NELL Partners, Inc. owns 36,666 shares of common stock and WOF owns 1,000,000 shares of common stock. 690,000 shares of common stock were sold to Williams Realty Fund I, LLC in the initial public offering and 500,000 shares of common stock were sold to WOF in the initial public offering.

(5) Each property is expected to be held in a special purpose entity.

(6) As the special limited partner of the operating partnership, our manager is entitled to receive a participation in net sales proceeds of our investments. See the section entitled Our Manager and Management Agreement Management Compensation Special Limited Partnership Interest included elsewhere in this prospectus for information relating to the calculation of distributions with respect to the special limited partnership interest and conditions under which it may be paid.

(7) The shares of common stock issuable upon the redemption of the Series A Redeemable Preferred Stock will be registered shares.

Management Agreement

We are externally managed and advised by our manager. Our manager is subject to the supervision and oversight of our board of directors at all times and has only such functions and authority as we delegate to it. We do not expect to have any employees.

We have entered into a third amended and restated management agreement, or management agreement, with our manager. Pursuant to the management agreement, our manager provides us with a management team and appropriate support personnel to implement our business strategy and perform certain services for us,

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subject to oversight by our board of directors. Our manager is responsible for, among other duties (1) performing and administering all our day-to-day operations, (2) determining investment criteria in conjunction with our board of directors, (3) sourcing, analyzing and executing asset acquisitions, sales and financings, (4) performing asset management duties, (5) performing property management duties, and (6) performing financial and accounting management. Our manager has an investment committee that oversees our investment guidelines, our investment portfolio and its compliance with our investment guidelines and policies.

The initial term of the management agreement expires on April 5, 2016 and will be automatically renewed for a one-year term each anniversary date thereafter unless previously terminated as described below. Our independent directors will review our manager s performance and fees that may be payable to our manager annually, and, following the initial term, the management agreement may be terminated annually upon the affirmative vote of at least 75% of our independent directors, based upon (1) unsatisfactory performance that is materially detrimental to us, or (2) our determination that the fees payable to our manager are not in accordance with market rates, subject to our manager s right to prevent such termination due to above-market fees by accepting a reduction of fees to at or below market rates agreed to by at least 75% of our independent directors. We must provide 180 days prior written notice of any such termination. We also may terminate the management agreement at any time, including during the initial term, without the payment of any termination fee, with at least 30 days prior written notice from our board of directors for cause, as defined in the management agreement, in the absence of our manager s cure. We do not have the right to decline to renew the management agreement. Our manager may decline to renew the management agreement by providing us with 180 days prior written notice. Our manager may terminate the management agreement for good reason, with at least 60 days prior written notice, in the absence of our cure. Unless the manager declines to renew the management agreement or the management agreement is terminated for cause, our manager will be paid accrued fees upon termination as described in the table below.

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The following table summarizes the fees and expense reimbursements that we will pay to our dealer manager, our manager (or persons affiliated with or related to our manager, including our officers) and to our independent directors:

Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units) / Maximum Offering (150,000 Units)
Selling Commission	For acting as the dealer manager, we will pay to our dealer manager 7% of gross proceeds of this offering. Our dealer manager may reallow all or a portion of the selling commissions to participating broker-dealers.	$140,000/$10,500,000
Dealer Manager Fee	For acting as the dealer manager, we will pay to our dealer manager 3% of gross proceeds of this offering. Our dealer manager may reallow up to 1.5% of gross offering proceeds it receives as dealer manager fees to participating broker-dealers.	$60,000/$4,500,000
Other Offering Expenses	We will reimburse our manager up to 1.5% of gross offering proceeds for actual expenses incurred in connection with this offering. Other offering expenses include all expenses to be paid by us in connection with the offering, such as our legal, accounting, printing, mailing and filing fees, charges of our escrow holder and transfer agent, reimbursement of bona fide, itemized and detailed due diligence expenses of our dealer manager.	$30,000/$2,250,000
Acquisition and Operational Stage		
Acquisition Fees	Fees payable to our manager in the amount of 1.0% of the gross contract purchase price of the property, loan or other real estate-related asset purchased, for services in connection with selecting, evaluating and acquiring such asset. For purposes of this prospectus, gross contract purchase price means the amount actually paid or allocated in respect of the purchase of a property or the amount actually paid or allocated in respect of the purchase of loans or other real-estate related assets, in each case inclusive of acquisition expenses and any indebtedness assumed or incurred in respect of such investment but exclusive of acquisition fees.	$16,700/$1,252,500 (assuming no debt) $47,714/$3,548,571 (assuming we incur our expected leverage of 65% of acquisition cost) $66,800/$5,010,000 (assuming we incur our maximum leverage of 75% of acquisition cost)

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units) / Maximum Offering (150,000 Units)
Acquisition Expenses[(1)]	We will reimburse our manager for expenses actually incurred (including personnel costs) related to selecting, evaluating and acquiring assets on our behalf, regardless of whether we actually acquire the related assets. Personnel costs associated with providing such services will be determined based on the amount of time incurred by the applicable employee of our manager and the corresponding payroll and payroll related costs incurred by our manager. In addition, we also will pay third parties, or reimburse our manager or its affiliates, for any investment-related expenses due to third parties, including, but not limited to, legal fees and expenses, travel and communications expenses, costs of appraisals, accounting fees and expenses, third-party brokerage or finder s fees, title insurance expenses, survey expenses, property inspection expenses and other closing costs, regardless of whether we acquire the related assets.	Not determinable at this time.
Asset Management Fee[(2)]	We will pay our manager a monthly fee equal to one-twelfth of 0.50% of the total value of our assets (including cash or cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization, impairment charges and cumulative acquisition costs charged to expense in accordance with generally accepted accounting principles, or GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs). This fee will be payable monthly in arrears, based on assets held by us on the last date of the prior month, adjusted for appropriate closing dates for individual property acquisitions.	Not determinable at this time.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units) / Maximum Offering (150,000 Units)
Property Management and Leasing Fee[2]	We will pay our manager a monthly fee equal to 4% of the monthly gross revenues of our properties managed, for services in connection with the rental, leasing, operation and management of our properties and the supervision of any third parties that are engaged by our manager to provide such services. Our manager may subcontract the performance of its property management and leasing services duties to third parties or affiliates and pay all or a portion of its property management fee to such persons with whom it contracts for these services. Our manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted property management and leasing duties. The property management and leasing fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.	Not determinable at this time.
General and Administrative Expenses Fee[1][2][3]	We will pay our manager a monthly fee equal to 2% of our monthly gross revenues.	Not determinable at this time.
Disposition Fee on Sale of Assets	We may pay our manager a commission upon the sale of one or more of our properties or other assets in an amount equal to the lesser of (a) one-half of the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset, and (b) 1% of the sale price of the asset. Payment of such fee may be made only if the manager provides a substantial amount of services in connection with the sale of the asset as determined by a majority of our independent directors. In addition, the amount paid when added to all other commissions paid to unaffiliated parties in connection with such sale shall not exceed the lesser of (1) the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset and (2) an amount equal to 6% of the sale price of such asset.	Not determinable at this time because actual amounts are dependent upon the sale price of specific assets and what would be reasonable, customary and competitive at the time of sale.
Construction Fee, Development Fee and Landscaping Fee	We will pay our manager a construction fee, development fee and landscaping fee at market rates customary and competitive in light of the	Not determinable at this time because actual amounts are dependent

	size, type and location of the asset in connection with the construction, development or landscaping of a property, or for management and oversight of expansion projects and other capital improvements.	upon market rates in light of the size, type and location of the asset.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units) / Maximum Offering (150,000 Units)
Accrued Fees Upon Termination	If the management agreement is terminated by reason of a change of control, by us without cause in connection with the expiration of a renewal term, by the manager for good reason or upon our liquidation, the manager will be entitled to receive payment of any earned but unpaid compensation and expense reimbursements accrued as of the date of termination.	Not determinable at this time.
Awards Under Our Stock Incentive Plan	We have adopted a stock incentive plan pursuant to which our directors, officers and employees (if we ever have employees), employees of our manager and its affiliates, employees of entities that provide services to us, directors of our manager or of entities that provide services to us, certain of our consultants and certain consultants to our manager and its affiliates or entities of such consultants that provide services to us may be granted equity incentive awards in the form of stock options, stock appreciation rights, restricted stock, performance shares or other stock-based awards. Our compensation committee will determine all awards under our stock incentive plan and the vesting schedule for the grants.	The total number of shares that may be made subject to awards under our stock incentive plan will not exceed 567,500 shares of our common stock.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units) / Maximum Offering (150,000 Units)
Compensation to Independent Directors	We pay to each of our independent directors a retainer of $50,000 per year. We also pay an annual retainer of $10,000 to the chair of our audit committee. In addition, each independent director will be paid a fee of $2,000 for each board committee meeting the director attends in person and reasonable out-of-pocket expenses incurred in connection with attendance of meetings of our board or board committees. We may issue shares of our common stock pursuant to our stock incentive plan in lieu of paying an independent director his or her annual fees and/or meeting fees in cash. To date, we have issued shares of our common stock in lieu of paying cash as compensation to our independent directors and currently expect to continue paying such compensation in shares of common stock. Any fees owed to our independent directors will be paid in shares of restricted common stock through April 2013. After such date, any such fees may be paid in cash or stock. Our independent directors also may receive awards under our stock incentive plan. Our compensation committee will determine all awards to our independent directors under our stock incentive plan and the vesting schedule for such awards.	The independent directors, as a group, will receive for a full fiscal year estimated aggregate compensation of approximately $350,000, payable in cash or shares of our common stock.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units) / Maximum Offering (150,000 Units)
Liquidation Stage		
Special Limited Partnership Interest	Our manager has a special limited partnership interest in our operating partnership entitling it to distributions from our operating partnership equal to 15% of any net sale proceeds from an asset (which equals the proceeds actually received by us from the sale of such asset after paying off outstanding debt related to the sold asset and paying any seller related closing costs, including any commission paid to our manager in connection with the sale of the asset, less expenses allocable to the sold asset) remaining after the payment of (i) the capital and expenses allocable to all realized investments (including the sold asset), and (ii) a 7% priority annual return on such capital and expenses; *provided, however,* that all accrued and unpaid dividends on our preferred stock have been paid in full. This distribution with respect to the special limited partnership interest is payable upon the sale of an asset even if holders of our preferred stock have not received a return of their capital, but only after the holders of our preferred stock have received payment in full of all accrued and unpaid dividends on our preferred stock. It is also possible that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital. The special limited partner shall be entitled to tax distributions, at our sole discretion as the general partner, provided such distributions do not prevent us from satisfying the requirements for qualification as a REIT. Any tax distributions shall offset future distributions to which the special limited partner is entitled.	Not determinable at this time

(1) Amounts paid in respect of acquisition expenses and the general and administrative expenses fee include our portion of any expenses incurred by our manager on behalf of joint ventures in which we are a participant.

(2) The total amount of the asset management, property management and leasing and general and administrative fees and expenses paid or reimbursed to our manager will be capped at 1.50% of total value of our assets (including cash and cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization,

impairment charges and cumulative acquisition costs charged to expense in accordance with GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs).

(3) In addition to the general and administrative expenses fee, we may reimburse our manager for certain costs and expenses it incurs in connection with the services it provides to us, including, but not limited

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to, personnel costs. See the section entitled Our Manager and Management Agreement Management Agreement included elsewhere in this prospectus for details relating to these additional costs and expenses.

Conflicts of Interest

NELL Partners, an entity controlled by Messrs. Williams and Silverstein and the sole member of our manager, owns 36,666 shares of common stock. Conflicts of interest may exist between us and our sponsor, our manager and some of their respective affiliates, including NELL Partners and other affiliates of our manager. Some of these potential conflicts include:

- The possibility that our manager s affiliates may own and operate properties that meet our investment profile or in markets in which we own investments and will compete for tenants and sales opportunities;
- Competition for the time and services of personnel that work for us and our manager s affiliates;
- Substantial compensation payable by us to our manager and its affiliates for their various services, which may not be on market terms and is payable, in many cases, whether or not our stockholders receive distributions;
- The possibility that we may acquire or consolidate with our manager to internalize our management on terms that are other than arm s length;
- The possibility that we may do business with entities that have pre-existing relationships with our manager s affiliates, which may result in a conflict between our business and the ongoing business relationships our manager s affiliates have with each other and other entities;
- The possibility that our manager, its officers and their respective affiliates will face conflicts of interest relating to the purchase, leasing and disposition of properties and the acquisition of real estate-related debt and securities, and that such conflicts may not be resolved in our favor, thus potentially limiting our investment opportunities, impairing our ability to make distributions and reducing the value of our common stock, our Series A Redeemable Preferred Stock and the Warrants;
- The possibility that our manager and its affiliates may make recommendations to us that we buy, hold or sell property or other investments that may result in payments to them;
- The possibility that, if we acquire properties from or make investments in entities owned or sponsored by affiliates of our manager, the price may be higher than we would pay if the transaction were the result of arm s-length negotiations with a third party, but we would do so only if our board of directors, including a majority of our independent directors, approves the investment and only if there is justification for such excess price;
- The possibility that our manager, its officers and their respective affiliates, some of whom are also our officers (and our directors), will face conflicts of interest caused by their ownership or control of our manager and their roles with other programs and other entities, resulting in actions that are not in the long-term best interests of our stockholders;
- Conflicts of interest also may arise in connection with the potential sale or refinancing of our properties or the enforcement of agreements with our manager and its affiliates; and
- The possibility that, if our manager and its affiliates provide services in connection with the management of a particular property, we may retain assets which are not as profitable and sell assets which provide a greater return.

See the section entitled Certain Relationships and Related Transactions Conflicts of Interest included elsewhere in this prospectus for details on these and other conflicts of interest.

Operating and Regulatory Structure

REIT Qualification

We intend to elect and qualify to be taxed as a REIT, commencing with our tax year ending December 31, 2011. In addition, we may hold certain of our assets through taxable REIT subsidiaries, or

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TRSs, which may be subject to corporate-level income tax at regular rates. Our qualification as a REIT depends on our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Code, relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our shares of capital stock. We believe that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT.

So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income we distribute currently to our stockholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. If we fail to qualify for taxation as a REIT in any taxable year, and the statutory relief provisions of the Code do not apply, we will be subject to U.S. federal income tax at regular corporate rates and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Distributions to stockholders in any year in which we are not a REIT would not be deductible by us, nor would they be required to be made. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income or property and to U.S. federal income and excise taxes on our undistributed income.

Investment Company Act of 1940 Considerations

We intend to conduct our operations so that our company and each of its subsidiaries are exempt from registration as an investment company under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is an investment company if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an investment company if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis, or the 40% test. Investment securities exclude U.S. Government securities and securities of majority owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We intend to acquire real estate and real-estate related assets directly, for example, by acquiring fee interests in real property, or by purchasing interests, including controlling interests, in REITs or other real estate operating companies, such as real estate management companies and real estate development companies, that own real property. We also may acquire real estate assets through investments in joint venture entities, including joint venture entities in which we may not own a controlling interest. We anticipate that our assets generally will be held in direct or indirect wholly owned and majority owned subsidiaries of the company, each formed to hold a particular asset.

We intend to conduct our operations so that our company and most, if not all, of its wholly owned and majority owned subsidiaries will comply with the 40% test. We will continuously monitor our holdings on an ongoing basis to determine the compliance of our company and each wholly owned and majority owned subsidiary with this test. Because we expect that most of our assets will be real estate investments, we expect that most, if not all, of the company s wholly owned and majority owned subsidiaries will not be relying on exemptions under either Section 3(c)(1) or 3(c)(7) of the Investment Company Act. Consequently, interests in these subsidiaries (which are expected to constitute most, if not all, of our assets) generally will not constitute investment securities. Accordingly, we believe that our company and most, if not all, of its wholly owned and majority owned subsidiaries will not be considered investment companies under Section 3(a)(1)(C) of the Investment Company Act.

In addition, we believe that neither our company nor any of its wholly owned or majority owned subsidiaries will be considered investment companies under Section 3(a)(1)(A) of the Investment Company Act because they will not engage primarily, or propose to engage primarily, or hold themselves out as being

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engaged primarily in the business of investing, reinvesting or trading in securities. Rather, our company and its subsidiaries will be primarily engaged in non-investment company businesses related to real estate. Consequently, the company and its subsidiaries expect to be able to conduct their respective operations such that none of them will be required to register as an investment company under the Investment Company Act.

The determination of whether an entity is a majority owned subsidiary of our company is made by us. The Investment Company Act defines a majority owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority owned subsidiary of such person. The Investment Company Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We treat companies in which we own at least a majority of the outstanding voting securities as majority owned subsidiaries for purposes of the 40% test. We have not requested that the staff of the Securities and Exchange Commission, or SEC, approve our treatment of any entity as a majority owned subsidiary and the SEC staff has not done so. If the SEC staff were to disagree with our treatment of one or more companies as majority owned subsidiaries, we would need to adjust our strategy and our assets in order to comply with the 40% test. Any such adjustment in our strategy could have a material adverse effect on us.

We intend to conduct our operations so that neither we nor any of our wholly owned or majority owned subsidiaries fall within the definition of investment company under the Investment Company Act. If our company or any of its wholly owned or majority owned subsidiaries inadvertently falls within one of the definitions of investment company, we intend to rely on the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act, which is available for entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. In addition to prohibiting the issuance of certain types of securities, this exclusion generally requires that at least 55% of an entity s assets must be comprised of mortgages and other liens on and interests in real estate, also known as qualifying assets, and at least 80% of the entity s assets must be comprised of qualifying assets and a broader category of assets that we refer to as real estate related assets under the Investment Company Act. Additionally, no more than 20% of the entity s assets may be comprised of miscellaneous assets.

Qualification for exemption from the definition of investment company under the Investment Company Act will limit our ability to make certain investments. For example, these restrictions may limit the ability of our company and its subsidiaries to invest directly in mortgage-related securities that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations and certain asset-backed securities, distressed debt, subordinated debt and real estate companies or in assets not related to real estate. Although we intend to monitor our portfolio, there can be no assurance that we will be able to maintain this exemption from registration for our company or each of our subsidiaries.

To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon the definition of investment company and the exceptions to that definition, we may be required to adjust our investment strategy accordingly. Additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the investment strategy we have chosen.

Restrictions on Ownership and Transfer of our Securities

To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Code, among other purposes, our charter prohibits, with certain exceptions, any stockholder from beneficially or constructively owning, applying certain attribution rules under the Code, more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of our shares of stock. Our board of directors may, in its sole discretion, waive the 9.8% ownership limit with respect to a particular stockholder if it is presented with certain representations and undertakings required by our charter and other evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT. Our board of directors agreed to waive the 9.8% ownership limit with respect to the holdings by: (1) NELL Partners of 36,666 shares of common stock; (2) WOF of 1,000,000 shares of common stock; and (3) WRF of 690,000 shares of common stock.

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Our charter also prohibits any person from, among other things:

beneficially or constructively owning shares of our capital stock that would result in our being closely held under Section 856(h) of the Code, or otherwise cause us to fail to qualify as a REIT; or

transferring shares of our capital stock if such transfer would result in our capital stock being beneficially owned by fewer than 100 persons.

In addition, our charter provides that any ownership or purported transfer of our capital stock in violation of the foregoing restrictions will result in the shares so owned or transferred being automatically transferred to a charitable trust for the benefit of a charitable beneficiary (or, in the case of a transfer that would result in our capital stock being beneficially owned by fewer than 100 persons, be void), and the purported owner or transferee acquiring no rights in such shares. If a transfer to a charitable trust would be ineffective for any reason to prevent a violation of the restriction, the transfer resulting in such violation will be void from the time of such purported transfer.

Distribution Policy

We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We generally intend to pay, over time, quarterly dividends in an amount equal to 100% of our net taxable income. On May 5, 2011, we declared a quarterly cash dividend to our common stockholders of record as of June 30, 2011, that was paid on July 15, 2011, in the amount of $0.125 per share of common stock, totaling approximately $646,487. On August 4, 2011, we declared a quarterly cash dividend of $0.125 per share, which will be paid on October 17, 2011 to all common stockholders of record as of September 30, 2011. As expected, cash available for distribution was not sufficient to fully fund the second quarter dividend and approximately $227,000 from our working capital and dividend reserve, designed for this purpose, was used to cover this shortfall. For the remainder of 2011, we currently expect to maintain a quarterly dividend payment to common stockholders of $0.125 per share. To the extent we continue to pay dividends at this rate, we currently expect that cash available for distribution will be sufficient to fund the dividend payments to common stockholders for the third and fourth quarters of 2011. Although not currently anticipated, if our board of directors determines to authorize distributions in excess of the income or cash flow generated from our target assets, we may make such distributions from the proceeds of this or future offerings of equity or debt securities or other forms of debt financing or the sale of our assets.

Holders of Series A Redeemable Preferred Stock are entitled to receive, when, and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the initial stated value of $1,000 per share, or the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on the date of issuance. We expect to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day), beginning no later than the month following the first full month after we receive and accept aggregate subscriptions in excess of the minimum offering. Once we begin paying such dividends, we expect to pay them monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our board of directors, in its sole discretion, and may vary from time to time.

Any distributions we make will be at the discretion of our board of directors and will depend upon, among other things, our actual results of operations. These results and our ability to pay distributions will be affected by various factors, including the net income from our portfolio of investments, our operating expenses and any other expenditures. For more information, see the section entitled Distribution Policy included elsewhere in this prospectus.

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We cannot assure you that we will make any distributions to our stockholders.

Ratio of Earnings to Fixed Charges

The computation of our ratio of earnings to fixed charges indicates that earnings were inadequate to cover fixed charges by approximately $4.4 million for the six months ended June 30, 2011. Since we commenced revenue-generating operations in April 2011, the ratio of earnings to fixed charges is not a meaningful measure for any period prior to 2011.

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The Offering

Series A Redeemable Preferred Stock offered by us

A minimum of 2,000 shares of Series A Redeemable Preferred Stock and a maximum of 150,000 shares of Series A Redeemable Preferred Stock will be offered as part of the Units through our dealer manager in the offering on a reasonable best efforts basis.

Ranking. The Series A Redeemable Preferred Stock will rank senior to the our common stock with respect to payment of dividends and rights upon liquidation, dissolution or winding up. Investors in the Series A Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital.

Stated Value. Each share of Series A Redeemable Preferred Stock will have an initial Stated Value of $1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our Series A Redeemable Preferred Stock, as set forth in the articles supplementary setting forth the rights, preferences and limitations of the Series A Redeemable Preferred Stock (the Articles Supplementary).

Dividends. Holders of Series A Redeemable Preferred Stock are entitled to receive, when and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on the date of issuance. We expect to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared beginning no later than the month following the first full month after we receive and accept aggregate subscriptions in excess of the minimum offering. Once we begin paying such dividends, we expect to pay them monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our board of directors, in its sole discretion, and may vary from time to time.

Redemption at the Option of a Holder. Beginning two years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 10% redemption fee, plus any accrued but unpaid dividends.

Beginning three years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 5% redemption fee, plus any accrued but unpaid dividends.

Beginning four years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable

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Preferred Stock at a redemption price equal to the Stated Value, less a 3% redemption fee, plus any accrued but unpaid dividends.

Beginning five years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, plus any accrued but unpaid dividends.

If a holder of Series A Redeemable Preferred Stock causes the Company to redeem such shares of Series A Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

In addition, subject to restrictions, beginning on the date of original issuance and ending two years thereafter, we will redeem such shares of Series A Redeemable Preferred Stock of a holder who is a natural person upon his or her death at the written request of the holder s estate at a cash redemption price equal to the Stated Value, plus accrued and unpaid dividends thereon through and including the date of redemption.

Optional Redemption by the Company. After ten years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, we will have the right (but not the obligation) to redeem such shares of Series A Redeemable Preferred Stock at 100% of the Stated Value, plus any accrued but unpaid dividends. If we choose to redeem any shares of Series A Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

Our obligation to redeem any of the shares of Series A Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption.

Liquidation. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Series A Redeemable Preferred Stock, the holders of shares of Series A Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per share, plus accrued but unpaid dividends.

Voting Rights. The Series A Redeemable Preferred Stock has no voting rights.

Warrants offered by us

A minimum offering of Warrants to purchase up to 40,000 shares of common stock and a maximum offering of Warrants to purchase up to 3,000,000 shares of common stock will be offered as part of the Units through our dealer manager in the offering on a reasonable best efforts basis.

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The Warrants will be exercisable beginning one year from the date of original issuance and ending four years from the date of such issuance.
The initial exercise price will equal 120% of the current market price per share of our common stock on the date of issuance of the Warrant, subject to a minimum exercise price of $9.00 per share. The current market price will be determined using the weighted average price of the previous 20 days of trading volume.

Capital stock to be outstanding after the offering

2,000 shares of Series A Redeemable Preferred Stock, assuming the minimum offering of 2,000 Units, or
150,000 shares of Series A Redeemable Preferred Stock, assuming the maximum offering of 150,000 Units, and
5,173,399 shares of common stock(1)

Estimated use of proceeds

Assuming we sell all the Units offered for sale, we estimate that we will receive net proceeds from the sale of Units in this offering of approximately $132.8 million after deducting estimated offering expenses, including selling commissions and the dealer manager fee, payable by us of approximately $17.2 million. We intend to invest the net proceeds of the offering in connection with the acquisition of multifamily properties. If all the net proceeds of the offering are used to directly acquire multifamily properties, we estimate that these properties would have an aggregate gross value (inclusive of mortgage indebtedness) of approximately $357.9 million. We intend to acquire such properties through the incurrence of indebtedness (secured and unsecured) of approximately 65% of the value of our tangible assets on a portfolio basis, with the balance of the acquisition cost thereof funded through the use of the net proceeds of this offering. Until appropriate assets can be identified, our manager may invest the net proceeds of the offering in interest-bearing short-term investments that are consistent with our intention to qualify as a REIT. Any interest-bearing short-term investment we make likely will provide a lower net return than we will seek to achieve from our target assets. See the section entitled Estimated Use of Proceeds included elsewhere in this prospectus.

AMEX symbol for common stock

Our common stock is listed on the AMEX under the trading symbol APTS. **There is no established public trading market for the offered shares of Series A Redeemable Preferred Stock or the Warrants and we do not expect a market to develop. We do not intend to apply for a listing of the Series A Redeemable Preferred Stock or the Warrants on any national securities exchange.**

(1) The number of shares of common stock to be outstanding immediately after this offering as shown above reflects the 5,173,399 shares of common stock outstanding as of August 5, 2011. This number excludes (a) shares of common stock that may be issued upon redemption of the Series A Redeemable Preferred Stock, offered hereby, and (b) the minimum of 40,000 and the maximum of 3,000,000 shares of common stock issuable upon the exercise of the Warrants offered hereby. This number also excludes (i) approximately 538,128 shares of common stock reserved for future issuance under our equity incentive plan; and (ii) 150,000 shares of our common stock issuable upon exercise of the outstanding warrant to purchase up to 150,000 shares of our common stock issued to International Assets Advisory, LLC, in it capacity as financial advisor in the IPO (the IPO Warrant). The IPO Warrant has an exercise price of $12.50 per share.

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Capital Structure

Following this offering, the Series A Redeemable Preferred Stock will rank senior to our common stock and to the Class A Limited Partnership Units and Class B Limited Partnership Units issued by our operating partnership and on parity with the Series A Redeemable Preferred Limited Partnership Units issued by our operating partnership with respect to both payment of dividends and distribution of amounts upon liquidation. Our board of directors has the authority to issue shares of additional series of preferred stock that could be senior in priority to the Series A Redeemable Preferred Stock.

Covered Security

The term covered security applies to securities exempt from state registration because of their oversight by federal authorities and national-level regulatory bodies pursuant to Section 18 of the Securities Act. Generally, securities listed on national exchanges are the most common type of covered security exempt from state registration. A non-traded security can also be a covered security if it has a seniority greater than or equal to other securities from the same issuer that are listed on a national exchange such as the AMEX. Our Series A Redeemable Preferred Stock is a covered security because it is senior to our common stock and therefore is exempt from state registration. Typically, securities issued by non-traded REITs do not meet the requirements necessary to be classified as covered securities, and therefore they are subject to state registration. Although the Warrants are not covered securities, most states include an exemption for Warrants that are exercisable into a listed security. Therefore, the Warrants are subject to state registration in any state that does not provide such an exemption and the offering must be declared effective in order to sell the Warrants in these states.

There are several advantages to both issuers and investors of a security being deemed a covered security. These include:

More Investors Covered securities can be purchased by a broader range of investors than can non-covered securities. The common stock of a non-traded REIT is not a covered security and is subject to suitability requirements that vary from state to state. These so-called Blue Sky regulations often prohibit the sale of securities to certain investors and may prohibit the sale of securities altogether until a specific volume of sales have been achieved in other states.

Issuance Costs Covered securities may have lower issuance costs since they avoid the expense of dealing with the various regulations of each of the 50 states and Washington, D.C. This could save time and money and allows issuers of covered securities the flexibility to enter the real estate markets at a time of their choosing. All investors of the issuer would benefit from any lower issuance costs that may be achieved.

There are several disadvantages to investors of a security being deemed a covered security. These include:

Lack of Suitability Standards Since there are no investor eligibility requirements, there is no prohibition on the sale of the securities to certain investors, including investors that may not be suitable to purchase the securities.

No State Review Investors will not receive an additional level of review and possible protection afforded by the various state regulators.

Our Corporate Information

Our principal executive offices are located at 3625 Cumberland Boulevard, Suite 400, Atlanta, Georgia 30339. Our telephone number is (770) 818-4100. Our website is *www.pacapts.com*. The contents of our website are not part of this prospectus. The information on our website is not intended to form a part of or be incorporated by reference into this prospectus.

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RISK FACTORS

The purchase of our securities involves a number of risks. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before making an investment in our securities. The risks discussed in this prospectus could adversely affect our business, operating results, prospects and financial condition. This could cause the value of our securities to decline and/or you to lose part or all of your investment. The risks and uncertainties described below are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that, as of the date of this prospectus, we deem immaterial also may harm our business.

Risks Related to this Offering

There is no public market for our Series A Redeemable Preferred Stock or Warrants and we do not expect one to develop.

There is no public market for our Series A Redeemable Preferred Stock or Warrants offered in this offering, and we currently have no plan to list these securities on a securities exchange or to include these shares for quotation on any national securities market. Additionally, our charter contains restrictions on the ownership and transfer of our securities, and these restrictions may inhibit your ability to sell the Series A Redeemable Preferred Stock or Warrants promptly or at all. Furthermore, the Warrants will expire four years from the date of issuance. If you are able to sell the Series A Redeemable Preferred Stock or Warrants, you may only be able to sell them at a substantial discount from the price you paid. Therefore, you should purchase the Units only as a long-term investment. After one year from the date of issuance, the Warrants will be exercisable at your option for shares of our common stock, which currently are publicly traded on the AMEX. Beginning two years from the date of original issuance, the holder of shares of Series A Redeemable Preferred Stock may require us to redeem such shares, with the redemption price payable, in our sole discretion, in cash or in equal value of common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption. If we opt to pay the redemption price in shares of common stock, you may receive publicly traded shares as we currently expect to continue listing our common stock on the AMEX.

We will be required to terminate this offering if our common stock is no longer listed on the AMEX or another national securities exchange.

The Series A Redeemable Preferred Stock is a covered security and therefore is not subject to registration in the various states in which it may be sold due to its seniority to our common stock, which is listed on the AMEX. If our common stock is no longer listed on the AMEX or another appropriate exchange, we will be required to register the offering of our Units in any state in which we subsequently offer the Units. This would require the termination of this offering and could result in our raising an amount of gross proceeds that is substantially less than the amount of the gross proceeds we expect to raise if the maximum offering is sold. This would reduce our ability to purchase additional properties and limit the diversification of our portfolio.

Although the Warrants are not covered securities, most states include an exemption for Warrants that are exercisable into a listed security. Therefore, the Warrants are subject to state registration in any state that does not provide such an exemption and the offering must be declared effective in order to sell the Warrants in these states.

There may not be a broad market for our common stock, which may cause our common stock to trade at a discount and make it difficult for you to sell the common stock for which your Warrants are exercisable and for which your Series A Redeemable Preferred Stock may be redeemable at our option.

Our common stock for which the Warrants are exercisable trades on the AMEX under the symbol APTS. Listing on the AMEX or another national securities exchange does not ensure an actual market for our common stock. Accordingly, an actual market for our common stock may not be maintained, the market for our common stock may not be liquid, the holders of our common stock may be unable to sell their shares of our common stock, and the prices that may be obtained following the sale of our common stock upon the exercise of your Warrants or the redemption of your Series A Redeemable Preferred Stock may not reflect the underlying value of our assets and business.

The Series A Redeemable Preferred Stock is a senior security, and ranks prior to our common stock with respect to dividends and payments upon liquidation.

The rights of the holders of shares of our Series A Redeemable Preferred Stock rank senior to the rights of the holders of shares of our common stock as to dividends and payments upon liquidation. Unless full cumulative dividends on our shares of Series A Redeemable Preferred Stock for all past dividend periods have been declared and paid (or set apart for payment), we will not declare or pay dividends with respect to any shares of our common stock for any period. Upon liquidation, dissolution or winding up of our company, the holders of shares of our Series A Redeemable Preferred Stock are entitled to receive a liquidation preference of $1,000 per share, plus all accrued but unpaid dividends at the rate of 6% per annum, prior and in preference to any distribution to the holders of shares of our common stock or any other class of our equity securities.

We will be able to call your shares of Series A Redeemable Preferred Stock for redemption under certain circumstances without your consent.

We will have the ability to call the outstanding shares of Series A Redeemable Preferred Stock after ten years from the date of original issuance of such shares of Series A Redeemable Preferred Stock. At that time, we will have the right to redeem, at our option, the outstanding shares of Series A Redeemable Preferred Stock, in whole or in part, at 100% of the Stated Value per share, plus any accrued and unpaid dividends.

Risks Related to an Investment in Our Company

Our limited operating history makes it difficult for you to evaluate our likely performance and this investment.

We were incorporated on September 18, 2009, and our manager was organized on May 18, 2010. Thus, we and our manager are both recently formed entities with limited operating histories and we both may be unable to successfully operate our businesses or achieve our investment objectives. The past performance of other real estate investment programs sponsored by our sponsor, John A. Williams, or his affiliates may not be indicative of the performance we may achieve. We have limited income, cash flow, funds from operations and funds from which we can make distributions to you. We may not be able to conduct our business as planned and/or successfully carry out our business as planned.

You should consider our prospects in light of the risks, uncertainties and difficulties frequently encountered by companies like ours that do not have a substantial operating history, many of which may be beyond our control. Therefore to be successful in this market, we must among other things:

- identify and acquire investments that further our investment strategy;
- attract, integrate, motivate and retain qualified personnel to manage our day-to-day operations;
- respond to competition both for investment opportunities and potential investors in our company; and
- build and expand our operations structure to support our business.

We cannot guarantee that we will succeed in achieving these goals, and our failure to do so could cause you to lose all or a portion of your investment.

We differ from prior programs sponsored by our sponsor in a number of respects, and therefore, the past performance of those programs may not be indicative of our future results.

The past performance of prior investment programs sponsored by our sponsor, John A. Williams, is not indicative of our future results and you should not rely on such past performance to predict our future results. Our business is different in a number of respects from the operations of prior programs and our portfolio is unlikely to mirror the portfolios of the prior programs, resulting in returns to our stockholders that vary from

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those generated by those prior programs. The prior programs of our sponsor, which were generally conducted through privately held entities, were not subject to the up-front commissions, fees and expenses associated with public offerings, the limitations on leverage associated with a public program, or to many of the laws and regulations to which we are and will be subject. Further, Post Properties, Inc., a publicly held REIT founded by our sponsor, operated under substantially different investment guidelines and economic conditions than we will face in our business. As a result of all these and other factors, you should not assume that your investment will generate returns, if any, comparable to those experienced by investors in the prior programs sponsored by our sponsor or his affiliates.

We may suffer from delays in locating suitable investments, which could adversely affect the return on your investment.

Our ability to achieve our investment objectives and to make distributions to our stockholders is dependent upon our manager s performance in the acquisition of, and arranging of financing for, investments, as well as our property manager s performance in the selection of residents and the negotiation of leases. The current market for properties that meet our investment objectives is highly competitive, as is the leasing market for such properties. The more proceeds we raise in this offering, the greater our challenge will be to invest all the net offering proceeds on attractive terms. You will not have the opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the oversight of our board of directors, the management ability of our manager and the performance of our manager and property manager. We cannot be sure that our manager will be successful in obtaining suitable investments on financially attractive terms.

Additionally, as a public company, we are subject to ongoing reporting requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Pursuant to the Exchange Act, we may be required to file with the SEC financial statements of properties we acquire and investments we make in real estate-related assets. To the extent any required financial statements are not available or cannot be obtained, we will not be able to acquire the investment. As a result, we may be unable to acquire certain properties or real estate-related assets that otherwise would be a suitable investment. We could suffer delays in our investment acquisitions due to these reporting requirements.

Furthermore, if we acquire properties prior to, during, or upon completion of construction, it will typically take several months following completion of construction to rent available space. Therefore, you could suffer delays in the receipt of distributions attributable to those particular properties.

Delays we encounter in the selection and acquisition of investments could adversely affect your returns. In addition, if we are unable to invest our offering proceeds in real properties and real estate-related assets in a timely manner, we will hold the proceeds of this offering in an interest-bearing account, invest the proceeds in short-term, investment-grade investments, which generate lower returns than we anticipate with our target assets, or, ultimately, liquidate. In such an event, our ability to make distributions to our stockholders and the returns to our stockholders would be adversely affected.

We face competition from other apartment communities and housing alternatives for tenants, and we face competition from other acquirers of apartment communities for investment opportunities, both of which may limit our profitability and returns to you.

The residential apartment community industry is highly competitive. This competition could reduce occupancy levels and revenues at our apartment communities, which would adversely affect our operations. We face competition from many sources, including from other apartment communities both in the immediate vicinity and the geographic market where our apartment communities are and will be located. Overbuilding of apartment communities may occur. If overbuilding does occur, this would increase the number of apartment units available and may decrease occupancy and unit rental rates.

Furthermore, apartment communities we acquire most likely compete, or will compete, with numerous housing alternatives in attracting tenants, including owner occupied single- and multi-family homes available to rent or purchase. Competitive housing in a particular area and the increasing affordability of owner occupied single- and multi-family homes available to rent or buy caused by declining mortgage interest rates

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and government programs to promote home ownership could adversely affect our ability to retain our tenants, lease apartment units and increase or maintain rental rates.

The competition for apartment communities may significantly increase the price we must pay for assets we seek to acquire, and our competitors may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger apartment REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in comparison with portfolio acquisitions. If we pay higher prices for our properties, our business, financial condition and results of operations and our ability to pay distributions to you may be materially and adversely affected.

The cash distributions you receive may be less frequent or lower in amount than you expect.

Our board of directors will determine the amount and timing of distributions. In making this determination, our directors will consider all relevant factors, the amount of cash available for distribution, capital expenditure and reserve requirements and general operational requirements. We cannot assure you how long it may take to generate sufficient available cash flow to fund distributions nor can we assure you that sufficient cash will be available to make distributions to you. With limited prior operations, we cannot predict the amount of distributions you may receive and we may be unable to pay, maintain or increase distributions over time. Our inability to acquire properties or real estate-related investments may have a negative effect on our ability to generate sufficient cash flow from operations to pay distributions.

Further, if the aggregate amount of our distributions in any given year exceeds our earnings and profits (as determined for U.S. federal income tax purposes), the excess amount will be either (i) a return of capital, or (ii) a gain from the sale or exchange of property to the extent that a stockholder s tax basis in our common stock equals or is reduced to zero as the result of our current or prior year distributions, in each case for U.S. federal income tax purposes. For further information regarding the tax consequences if we make distributions other than from funds from operations, please see the section entitled Material U.S. Federal Income Tax Considerations included elsewhere in this prospectus.

Upon the sale of any individual property, holders of Series A Preferred Stock do not have a priority over holders of our common stock regarding return of capital.

Holders of our Series A Preferred Stock do not have a right to receive a return of capital prior to holders of our common stock upon the individual sale of a property. Depending on the price at which such property is sold, it is possible that holders of our common stock will receive a return of capital prior to the holders of our Series A Preferred Stock, provided that any accrued but unpaid dividends have been paid in full to holders of Series A Preferred Stock. It is also possible that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital.

There is no clawback for distributions with respect to the special limited partnership interest (except in limited circumstances), and such distributions are payable upon the sale of an asset even if investors have not received a return of their entire investment.

Our manager has a special limited partnership interest in our operating partnership entitling it to distributions from our operating partnership equal to 15% of any net sale proceeds from an asset (which equals the proceeds actually received by us from the sale of such asset after paying off outstanding debt related to the sold asset and paying any seller related closing costs, including any commission paid to our manager in connection with the sale of the asset, less expenses allocable to the sold asset) remaining after the payment of (i) the capital and expenses allocable to all realized investments (including the sold asset), and (ii) a 7% priority annual return on such capital and expenses; *provided, however,* that all accrued and unpaid dividends on our preferred stock have been paid in full. This distribution with respect to the special limited partnership interest is payable upon the sale of an asset even if holders of our preferred stock have not received a return of their capital, but only after the holders of our preferred stock have received payment in full of all accrued and unpaid dividends on our preferred stock. There is no clawback for distributions with respect to the special limited partnership interest except in limited circumstances. As a result, distributions

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with respect to the special limited partnership interest may be payable upon the sale of an asset even if the holders of preferred stock and holders of common stock have not received a return of their entire investment, provided that any accrued but unpaid dividends have been paid to holders of Series A Preferred Stock.

Distributions paid from sources other than our cash flow from operations, particularly from proceeds of this offering, will result in us having fewer funds available for the acquisition of properties and other real estate-related investments, which may adversely affect our ability to fund future distributions with cash flow from operations and may adversely affect your overall return.

Holders of Series A Redeemable Preferred Stock are entitled to receive, when, and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on shares of the Series A Redeemable Preferred Stock will begin accruing on the date of their issuance. We expect to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared beginning no later than the month following the first full month after we receive and accept aggregate subscriptions in excess of the minimum offering. Once we begin paying such dividends, we expect to pay them monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our board of directors, in its sole discretion, and may vary from time to time.

On May 5, 2011, we declared a quarterly cash dividend to our common stockholders of record as of June 30, 2011, that was paid on July 15, 2011, in the amount of $0.125 per share of common stock, totaling approximately $646,487. On August 4, 2011, we declared a quarterly cash dividend of $0.125 per share, which will be paid on October 17, 2011 to all common stockholders of record as of September 30, 2011. As expected, cash available for distribution was not sufficient to fully fund the second quarter dividend and approximately $227,000 from our working capital and dividend reserve, designed for this purpose, was used to cover this shortfall. For the remainder of 2011, we currently expect to maintain a quarterly dividend payment to common stockholders of $0.125 per share. To the extent we continue to pay dividends at this rate, we currently expect that cash available for distribution will be sufficient to fund the dividend payments to common stockholders for the third and fourth quarters of 2011.

As mentioned above, we have paid distributions from sources other than from our cash flow from operations. Until we acquire additional properties or other real estate-related investments, we may not generate sufficient cash flow from operations to pay distributions. Our inability to acquire additional properties or other real estate-related investments may result in a lower return on your investment than you expect. If we have not generated sufficient cash flow from our operations and other sources, such as from borrowings, the sale of additional securities, advances from our manager, our manager s deferral, suspension and/or waiver of its fees and expense reimbursements, to fund distributions, we may use the proceeds from this offering. Moreover, our board of directors may change our distribution policy, in its sole discretion, at any time. Distributions made from offering proceeds are a return of capital to stockholders, from which we will have already paid offering expenses in connection with this offering. We have not established any limit on the amount of proceeds from this offering that may be used to fund distributions, except that, in accordance with our organizational documents and Maryland law, we may not make distributions that would: (1) cause us to be unable to pay our debts as they become due in the usual course of business; (2) cause our total assets to be less than the sum of our total liabilities plus senior liquidation preferences, if any; or (3) jeopardize our ability to qualify as a REIT.

If we fund distributions from the proceeds of this offering, we will have less funds available for acquiring properties or real estate-related investments. As a result, the return you realize on your investment may be reduced. Funding distributions from borrowings could restrict the amount we can borrow for investments, which may affect our profitability. Funding distributions with the sale of assets or the proceeds of this offering may affect our ability to generate cash flows. Funding distributions from the sale of additional securities could dilute your interest in us if we sell shares of our common stock or securities convertible or exercisable into shares of our common stock to third party investors. Payment of distributions from the mentioned sources could restrict our ability to generate sufficient cash flow from operations, affect our profitability and/or affect the distributions payable to you upon a liquidity event, any or all of which may have an adverse effect on your investment.

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We do not have agreements or letters of intent in place for any financing sources and our ability to obtain financing on reasonable terms would be impacted by negative market conditions.

Currently, we do not have any agreements or letters of intent in place for any financing sources. Our strategy depends, in part, on our ability to obtain financing on reasonable terms. Recently, domestic and international financial markets have experienced unusual volatility and uncertainty. Liquidity has tightened in overall financial markets, including the debt and equity capital markets. The dislocation in the credit markets has had a negative effect on the ability of purchasers of real estate to obtain financing. Consequently, there is greater uncertainty regarding our ability to access the credit markets in order to attract financing on reasonable terms. Returns on our assets and our ability to make acquisitions could be adversely affected by our inability to secure financing on reasonable terms, if at all.

We established the offering price for the Units pursuant to negotiations among us and our dealer manager; as a result, the actual value of your investment may be substantially less than what you pay.

The selling price of the Units has been determined pursuant to negotiations among us and the dealer manager, based upon the following primary factors: the economic conditions in and future prospects for the industry in which we compete; our prospects for future earnings; an assessment of our management; the present state of our development; the prevailing conditions of the equity securities markets at the time of the offering; the present state of the market for non-traded REIT securities; and current market valuations of public companies considered comparable to our company. Because the offering price is not based upon any independent valuation, the offering price is not indicative of the proceeds that you would receive upon liquidation.

Your percentage of ownership may become diluted if we issue new shares of stock or other securities, and issuances of additional preferred stock or other securities by us may further subordinate the rights of the holders of our common stock.

We may make redemption payments under the terms of the Series A Redeemable Preferred Stock in shares of our common stock. Although the dollar amounts of such payments are unknown, the number of shares to be issued in connection with such payments may fluctuate based on the price of our common stock. Any sales or perceived sales in the public market of shares of our common stock issuable upon such redemption payments could adversely affect prevailing market prices of shares of our common stock. The issuance of common stock upon such redemption payments also may have the effect of reducing our net income per share (or increasing our net loss per share). In addition, the existence of Series A Redeemable Preferred Stock may encourage short selling by market participants because the existence of redemption payments could depress the market price of shares of our common stock.

Our board of directors is authorized, without stockholder approval, to cause us to issue additional shares of our common stock or to raise capital through the issuance of additional preferred stock (including equity or debt securities convertible into preferred stock), options, warrants and other rights, on such terms and for such consideration as our board of directors in its sole discretion may determine. Any such issuance could result in dilution of the equity of our stockholders. Our board of directors may, in its sole discretion, authorize us to issue common stock or other equity or debt securities (a) to persons from whom we purchase apartment communities, as part or all of the purchase price of the community, or (b) to our manager in lieu of cash payments required under the management agreement or other contract or obligation. Our board of directors, in its sole discretion, may determine the value of any common stock or other equity or debt securities issued in consideration of apartment communities or services provided, or to be provided, to us.

Our charter also authorizes our board of directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock in addition to the Series A Redeemable Preferred Stock offered in this offering (including equity or debt securities convertible into preferred stock) and to set or change the voting, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class or series of shares so issued. If any additional preferred stock is publicly offered, the terms and conditions of such preferred stock (including any equity or debt securities convertible into preferred stock) will be set forth in a registration statement registering the issuance of such preferred stock or equity or debt securities convertible into preferred

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stock. Because our board of directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of common stock or the Series A Redeemable Preferred Stock. If we ever create and issue additional preferred stock or equity or debt securities convertible into preferred stock with a distribution preference over common stock or the Series A Redeemable Preferred Stock, payment of any distribution preferences of such new outstanding preferred stock would reduce the amount of funds available for the payment of distributions on our common stock and our Series A Redeemable Preferred Stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage a merger, tender offer, or proxy contest, the assumption of control by a holder of a large block of our securities, or the removal of incumbent management.

Stockholders have no rights to buy additional shares of stock or other securities if we issue new shares of stock or other securities. We may issue common stock, convertible debt or preferred stock pursuant to a subsequent public offering or a private placement, or to sellers of properties we directly or indirectly acquire instead of, or in addition to, cash consideration. Investors purchasing Units in this offering who do not participate in any future stock issuances will experience dilution in the percentage of the issued and outstanding stock they own. In addition, depending on the terms and pricing of any additional offerings and the value of our investments, you also may experience dilution in the book value and fair market value of, and the amount of distributions paid on, your shares of our common stock or Series A Redeemable Preferred Stock.

If certain communications we made after filing our registration statement in connection with our initial public offering are found to have violated the Securities Act, we could be required to repurchase securities sold in the initial public offering or pay damages to persons who purchased shares of our common stock in our initial public offering.

On March 14, 2011, we sent letters to potential investors who may have invested in our initial public offering through our directed share program. These letters were distributed to a limited number of people, with all of whom we had a pre-existing personal or business relationship. Each letter included a copy of our preliminary prospectus filed on March 10, 2011. In addition, our recorded electronic road show presentation was temporarily posted on a website, together with an electronic link to our preliminary prospectus. We believe that these communications were free writing prospectuses permitted under SEC rules, and that our dissemination of or making available these materials did not violate the Securities Act. There nevertheless is a risk that one or both of these communications may be deemed to be a prospectus not meeting the requirements of the Securities Act, which would result in a violation of Section 5 of the Securities Act.

If the communications were ultimately determined to have violated Section 5 of the Securities Act, then purchasers in our initial public offering that received the directed share program letters and/or viewed the electronic road show, and potentially all purchasers of shares of our common stock in our initial public offering, would have the right under the Securities Act for a period of one year from the date of the violation to seek recovery of the consideration paid in connection with their purchases, with interest thereon but less any income received from shares, or, if they had already sold the shares of our common stock, sue for damages resulting from their purchases. The total amount of these damages could equal the gross proceeds of the initial public offering, plus interest and the purchasers attorneys fees. We could be directly or indirectly responsible for these payments or damages. We also could be subject to enforcement actions by the SEC, which could result in injunctive relief or the imposition of fines. There can be no guarantee that we would be successful in refuting any of or all such claims. If any such claims were to succeed, we may not have sufficient funds to pay the resulting damages or to finance a repurchase of our shares of common stock and our business could be materially and adversely affected.

If certain communications we made after filing our registration statement in connection with our initial public offering

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The properties we acquire may not produce the cash flow required to meet our REIT minimum distribution requirements, and we may decide to borrow funds to satisfy such requirements, which could adversely affect our overall financial performance.

We may decide to borrow funds in order to meet the REIT minimum distribution requirements even if our management believes that the then prevailing market conditions generally are not favorable for such borrowings or that such borrowings would not be advisable in the absence of certain tax considerations. If we borrow money to meet the REIT minimum distribution requirement or for other working capital needs, our expenses will increase, our net income will be reduced by the amount of interest we pay on the money we borrow and we will be obligated to repay the money we borrow from future earnings or by selling assets, any or all of which may decrease future distributions to stockholders.

To qualify as a REIT and to maintain REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and may reduce your overall return.

To qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, the nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of your investment.

Risks Related to Our Organization, Structure and Management

The ownership by NELL Partners, Inc. of 36,666 shares of our common stock, the ownership by Williams Opportunity Fund, LLC of 1,000,000 shares of our common stock, the ownership by Williams Realty Fund I, LLC of 690,000 shares of our common stock, and the ownership by other affiliates of our sponsor of additional shares of our common stock will limit the ability of holders of shares of our common stock not affiliated with our sponsor to influence corporate matters.

Currently, NELL Partners, Inc., which is controlled by Messrs. Williams and Silverstein, is the owner of 36,666 shares of our common stock, Williams Opportunity Fund, LLC, an affiliate of our sponsor, owns 1,000,000 shares of our common stock and Williams Realty Fund I, LLC, an affiliate of our sponsor, owns 690,000 shares of our common stock. These entities collectively own and control a significant portion of our common stock. Pursuant to these holdings, our sponsor and its affiliates have significant influence over our management and affairs and over all matters requiring stockholder approval, including significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control limits the ability of the other holders of shares of our common stock to influence corporate matters and, as a result, we may take actions that the common stockholders not affiliated with us or our sponsor do not view as beneficial, including transactions with our manager or affiliates of our manager. Additionally, the market price of our common stock could be adversely affected because of the imbalance of control among the stockholders.

We are dependent upon our sponsor, our manager and their affiliates to conduct our operations, and therefore, any adverse changes in the financial health of our sponsor, our manager or their affiliates, or our relationship with any of them, could hinder our operating performance and the return on your investment.

We are an externally advised REIT, which means that our manager provides our management team and support personnel and administers our day-to-day business operations. We are dependent on our sponsor, John A. Williams, our manager and their affiliates to manage our operations and acquire and manage our portfolio of real estate assets. Our manager will make all decisions with respect to the management of our company, subject to the oversight of our board of directors. Our manager will depend upon the fees and other compensation that it will receive from us in connection with the purchase, management and sale of our investments to conduct its operations. Any adverse changes in the financial condition of, or our relationship with, our sponsor, our manager or their affiliates could hinder their ability to successfully manage our operations and our portfolio of investments.

In February 2010, iStar Tara, LLC effected a non-judicial foreclosure relating to The Mansion hotel property in Atlanta, Georgia, where Mr. Williams, our sponsor, served as a guarantor to a loan related to the property. Various actions followed, culminating in a mutual settlement among the parties. Our manager, which Mr. Williams controls together with Mr. Silverstein, was not a party to this dispute, and it has informed us that the terms of the settlement are not expected to have a material impact on its business or its operations. Mr. Williams has informed us that he believes the settlement has not and will not have a material adverse impact on his financial condition.

In June 2010, litigation was initiated when Mr. Williams and Leonard Silverstein, our Executive Vice President, General Counsel and Secretary and a Director of our company, among others, filed a lawsuit against Synovus Bank seeking judicial declaration that they have no liability under certain guarantees executed by them in favor of Synovus Bank (as successor-in-interest to Bank of North Georgia) in connection with certain real estate loans on the basis that all such liabilities were allegedly released by Synovus Bank pursuant to a release agreement executed by Northside Guaranty, LLC, an entity wholly owned by our sponsor, and Bank of North Georgia. Synovus Bank has asserted counterclaims against, among other counterclaim defendants, Messrs. Williams and Silverstein, including counterclaims alleging that Messrs. Williams and Silverstein remain liable to Synovus Bank pursuant to the guarantees at issue. The counterclaims against Messrs. Williams and Silverstein in these legal proceedings, if adversely determined against them, would have a material adverse effect on their respective net worth. Messrs. Williams and Silverstein have informed us of their respective beliefs that they have meritorious defenses against these counterclaims and plan to pursue such defenses vigorously.

In April 2010, RBC Bank (USA) filed a lawsuit against, among others, Mr. Williams alleging that he is liable to RBC Bank (USA) for breach of certain guaranties executed by Mr. Williams in favor of RBC Bank (USA) in connection with certain real estate loans. The claims against Mr. Williams in these legal proceedings, if adversely determined against Mr. Williams, would have a material adverse effect on Mr. Williams net worth. Mr. Williams has informed us of his belief that he has meritorious defenses against these claims and plans to pursue such defenses vigorously. On October 13, 2011, Mr. Williams entered into a term sheet for a Settlement Agreement with RBC Bank (USA), pursuant to which his alleged guaranties in favor of the bank would be released, resulting in no material adverse effect to Mr. Williams.

On July 8, 2011, Caterpillar Financial Services Corporation (Caterpillar) commenced an action against Mr. Williams in the Superior Court of Fulton County, Georgia. In this action, Caterpillar seeks to recover $1,238,208.51, plus accrued interest, legal fees and costs, under a personal guaranty given by Mr. Williams in connection with a loan by Caterpillar to VMV, Ltd. Mr. Williams is the 100% indirect owner of VMV, Ltd. Mr. Williams has informed us of his belief that he has meritorious defenses to Caterpillar s claims and that he intends to vigorously contest them.

Our success is dependent on the performance of our manager.

Our manager has broad discretion over the use of proceeds from this offering, and you will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments that are not described in this prospectus or other periodic filings with the SEC. We will rely on the management ability of our manager, subject to the oversight and approval of our board of directors. Accordingly, you should not purchase our securities unless you are willing to entrust all aspects of our day-to-day management to our manager. If our manager suffers or is distracted by adverse financial or operational problems in connection with its operations or the operations of our sponsor unrelated to us, our manager may be unable to allocate time and/or resources to our operations. If our manager is unable to allocate sufficient resources to oversee and perform our operations for any reason, we may be unable to achieve our investment objectives or to pay distributions to you.

We are dependent upon our sponsor, our manager and their affiliates toconduct our operations, and therefore, any

If our manager loses or is unable to retain or replace key personnel, our ability to implement our investment strategies could be hindered, which could adversely affect our ability to make distributions and the value of your investment.

Our success depends to a significant degree upon the contributions of certain of our executive officers and other key personnel of our manager. In particular, we depend on the skills and expertise of John A. Williams, the director of our investment strategies. Neither we nor our manager has an employment agreement

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with any of our or its key personnel, including Mr. Williams, and we cannot guarantee that all, or any, of such personnel, will remain affiliated with us or our manager. If any of our key personnel were to cease their affiliation with our manager, our operating results could suffer. Further, we do not intend to maintain key person life insurance that would provide us with proceeds in the event of the death or disability of Mr. Williams or any of our key personnel.

We believe our future success depends upon our manager s ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that our manager will be successful in attracting and retaining such skilled personnel. If our manager loses or is unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered, and the value of your investment may decline.

Furthermore, our manager may retain independent contractors to provide various services for us, including administrative services, transfer agent services and professional services. Such contractors have no fiduciary duty to our manager or us and may not perform as expected or desired. Any such services provided by independent contractors will be paid for by us as an operating expense.

Payment of fees to our manager and its affiliates will reduce cash available for investment and payment of distributions.

Our manager and its affiliates will perform services for us in connection with, among other things, the offer and sale of our securities, the selection and acquisition of our investments, and the management and leasing of our properties, the servicing of our mortgage, bridge, mezzanine or other loans, the administration of our other investments and the disposition of our assets. They will be paid substantial fees for these services. These fees will reduce the amount of cash available for investment or distributions to stockholders. For a detailed discussion of these fees, see Our Manager and Management Agreement Management Compensation.

If our sponsor, our manager or their affiliates waive certain fees due to them, our results of operations and distributions may be artificially high.

From time to time, our sponsor, our manager and/or their affiliates may agree to waive or defer all or a portion of the acquisition, asset management or other fees, compensation or incentives due to them, pay general administrative expenses or otherwise supplement stockholder returns in order to increase the amount of cash available to make distributions to stockholders. If our sponsor, our manager and/or their affiliates choose to no longer waive or defer such fees, compensation and incentives or to cease paying general administrative expenses or supplementing stockholder returns, our results of operations will be lower than in previous periods and your return on your investment could be negatively affected.

The Maryland General Corporation Law prohibits certain business combinations, which may make it more difficult for us to be acquired.

Under the Maryland General Corporation Law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as: (i) any person who beneficially owns 10%

or more of the voting power of the then outstanding voting stock of the corporation; or (ii) an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

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After the expiration of the five-year period described above, any business combination between the Maryland corporation and an interested stockholder must generally be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of the then outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation, other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected, or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under the Maryland General Corporation Law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. The Maryland General Corporation Law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has adopted a resolution exempting any business combination with Preferred Apartment Advisors, LLC or any affiliate of Preferred Apartment Advisors, LLC. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and Preferred Apartment Advisors, LLC or any affiliate of Preferred Apartment Advisors, LLC. As a result, Preferred Apartment Advisors, LLC or any affiliate of Preferred Apartment Advisors, LLC may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. See the sections entitled Description of Securities Business Combinations included elsewhere in this prospectus.

Stockholders have limited control over changes in our policies and operations.

Our board of directors determines our major policies, including with regard to financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Holders of our Series A Redeemable Preferred Stock have no voting rights. Under our charter and the Maryland General Corporation Law, holders of our common stock generally have a right to vote only on the following matters:

- the election or removal of directors;
- the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
  - º change our name;
  - º change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock;
  - º increase or decrease the aggregate number of shares of stock that we have the authority to issue;
  - º increase or decrease the number of shares of any class or series of stock that we have the authority to issue; and
  - º effect certain reverse stock splits;
- our liquidation and dissolution; and
- our being a party to a merger, consolidation, sale or other disposition of all or substantially all our assets or statutory share exchange.

All other matters are subject to the discretion of our board of directors.

Our authorized but unissued shares of common and preferred stock may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock, without stockholder approval, up to 415,066,666 shares. In addition, our board of directors may, without stockholder approval, amend our charter from time to time to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of shares of common or preferred stock that could delay or prevent a merger, third party tender offer or similar transaction or a change in incumbent management that might involve a premium price for our securities or otherwise be in the best interest of our stockholders.

Because of our holding company structure, we depend on our operating subsidiary and its subsidiaries for cash flow and we will be structurally subordinated in right of payment to the obligations of such operating subsidiary and its subsidiaries.

We are a holding company with no business operations of our own. Our only significant asset is and will be the general and limited partnership interests in our operating partnership. We conduct, and intend to conduct, all our business operations through our operating partnership. Accordingly, our only source of cash to pay our obligations is distributions from our operating partnership and its subsidiaries of their net earnings and cash flows. We cannot assure you that our operating partnership or its subsidiaries will be able to, or be permitted to, make distributions to us that will enable us to make distributions to our stockholders from cash flows from operations. Each of our operating partnership s subsidiaries is or will be a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from such entities. In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be able to satisfy your claims as stockholders only after all our and our operating partnership s and its subsidiaries liabilities and obligations have been paid in full.

Our rights and the rights of our stockholders to recover on claims against our directors and officers are limited, which could reduce your and our recovery against them if they negligently cause us to incur losses.

The Maryland General Corporation Law provides that a director has no liability in such capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. A director who performs his or her duties in accordance with the foregoing standards should not be liable to us or any other person for failure to discharge his or her obligations as a director.

In addition, our charter provides that our directors and officers will not be liable to us or our stockholders for monetary damages unless the director or officer actually received an improper benefit or profit in money, property or services, or is adjudged to be liable to us or our stockholders based on a finding that his or her action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Our charter also requires us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. With the approval of our board of directors, we may provide such indemnification and advance for expenses to any individual who served a predecessor of the Company in any of the capacities described above and any employee or agent of the Company or a predecessor of the Company, including our manager and its affiliates. For details regarding the circumstances under which we are required or authorized to indemnify and to advance expenses to our directors, officers or our manager, see the section entitled Our Management Limitation of Liability and Indemnification included elsewhere in this prospectus.

We also are permitted to purchase and maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents, including our manager and its affiliates, against any liability asserted which was incurred in any such capacity with us or arising out of such status. This may result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders.

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If we internalize our management functions, the holders of our previously outstanding common stock could be diluted, and we could incur other significant costs associated with internalizing and being self-managed.

In the future, our board of directors may consider internalizing the functions performed for us by our manager by acquiring our manager s assets. The method by which we could internalize these functions could take many forms. There is no assurance that internalizing our management functions will be beneficial to us and our stockholders. Such an acquisition could also result in dilution of your interests as a stockholder and could reduce earnings per share and funds from operation per share. For example, we may not realize the perceived benefits or we may not be able to properly integrate a new staff of managers and employees or we may not be able to effectively replicate the services provided previously by our manager or its affiliates. Internalization transactions involving the acquisition of managers affiliated with entity sponsors have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced to spend significant amounts of time and money defending claims which would reduce the amount of time and funds available for us to invest in properties or other investments and to pay distributions. All these factors could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act.

We are not registered, and do not intend to register ourselves or any of our subsidiaries, as an investment company under the Investment Company Act. If we become obligated to register the company or any of our subsidiaries as an investment company, the registered entity would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things, limitations on capital structure, restrictions on specified investments, prohibitions on transactions with affiliates and compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

We intend to conduct our operations, directly and through wholly owned and majority owned subsidiaries, so that we and each of our subsidiaries are exempt from registration as an investment company under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is not deemed to be an investment company if it neither is, nor holds itself out as being, engaged primarily, nor proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is not deemed to be an investment company if it neither is engaged, nor proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and does not own or propose to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis.

We believe that we and most, if not all, of our wholly owned and majority owned subsidiaries will not be considered investment companies under either Section 3(a)(1)(A) or Section 3(a)(1)(C) of the Investment Company Act. If we or any of our wholly owned or majority owned subsidiaries would ever inadvertently fall within one of the definitions of investment company, we intend to rely on the exception provided by Section 3(c)(5)(C) of the Investment Company Act. Under Section 3(c)(5)(C), the SEC staff generally requires a company to maintain at least 55% of its assets directly in qualifying assets and at least 80% of qualifying assets in a broader category of real estate related assets to qualify for this exception. Mortgage-related securities may or may not constitute qualifying assets, depending on the characteristics of the mortgage-related securities, including the rights that we have with respect to the underlying loans. The company s ownership of mortgage-related securities, therefore, is limited by provisions of the Investment

Company Act and SEC staff interpretations. See the section entitled Business Our Investment Strategy included elsewhere in this prospectus.

The method we use to classify our assets for purposes of the Investment Company Act will be based in large measure upon no-action positions taken by the SEC staff in the past. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued more than ten years ago. No assurance can be given that the SEC staff will concur with our classification of our assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify our assets for purposes of qualifying for an

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exclusion from regulation under the Investment Company Act. If we are required to re-classify our assets, we may no longer be in compliance with the exclusion from the definition of an investment company provided by Section 3(c)(5)(C) of the Investment Company Act.

A change in the value of any of our assets could cause us or one or more of our wholly owned or majority owned subsidiaries to fall within the definition of investment company and negatively affect our ability to maintain our exemption from regulation under the Investment Company Act. To avoid being required to register us or any of our subsidiaries as an investment company under the Investment Company Act, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income- or loss-generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our investment strategy.

As part of our manager s obligations under the management agreement, our manager will agree to refrain from taking any action which, in its sole judgment made in good faith, would subject us to regulation under the Investment Company Act. Failure to maintain an exclusion from registration under the Investment Company Act would require us to significantly restructure our business plan. For example, because affiliate transactions are generally prohibited under the Investment Company Act, we would not be able to enter into transactions with any of our affiliates if we are required to register as an investment company, and we may be required to terminate our management agreement and any other agreements with affiliates, which could have a material adverse effect on our ability to operate our business and pay distributions. If we were required to register us as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Risks Related to Conflicts of Interest

Our manager, our executive officers and their affiliates may face competing demands relating to their time, and if inadequate time is devoted to our business, your investment may be negatively impacted.

We rely on our executive officers and the executive officers and employees of our manager and its affiliates for the day-to-day operation of our business. These persons also conduct or may conduct in the future day-to-day operations of other programs and entities sponsored by or affiliated with our manager or sponsor. Because these persons have or may have such interests in other real estate programs and engage in other business activities, they may experience conflicts of interest in allocating their time and resources among our business and these other activities. The amount of time that our manager and its affiliates spend on our business will vary from time to time and is expected to be more while we are raising money and acquiring investments. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. We expect that as our real estate activities expand, our manager will attempt to hire additional employees who would devote substantially all their time to our business. There is no assurance that our manager will devote adequate time to our business. If our manager, our sponsor or any of their respective affiliates suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, it may allocate less time and resources to our operations. If any of the foregoing events occur, the returns on our investments, our ability to make distributions to stockholders and the value of your investment may suffer.

Our manager, our executive officers and their affiliates may face conflicts of interest, and these conflicts may not be resolved in our favor, which could negatively impact your investment.

Our executive officers and the employees of our manager, our sponsor and their respective affiliates on which we rely could make substantial profits as a result of investment opportunities allocated to entities other than us. As a result, these individuals could pursue transactions that may not be in our best interest, which could have a material adverse effect on our operations and your investment. Our manager and its affiliates may, in the future, be engaged in other activities that could result in potential conflicts of interest with the services that they will provide to us. In addition, our sponsor or his affiliates may compete with us for the acquisition and/or refinancing of properties.

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Our manager and its affiliates will receive substantial fees from us, which could result in our manager and its affiliates taking actions that are not necessarily in the best interest of our stockholders.

Our manager and its affiliates will receive substantial fees from us, including distributions with respect to our manager s special limited partnership interest in the operating partnership, which entitles our manager to receive a participation in net sales proceeds. See the section entitled Our Manager and Management Agreement Management Compensation Special Limited Partnership Interest included elsewhere in this prospectus for information relating to the calculation of distributions with respect to the special limited partnership interest and conditions under which it may be paid. Further, our manager will receive an asset management fee based on the total value of our assets, and its affiliates will receive fees based on our revenues, which, in each case, could incent our manager to use higher levels of leverage to finance investments or accumulate assets to increase fees than would otherwise be in our best interests. These fees could influence our manager s advice to us, as well as the judgment of the affiliates of our manager who serve as our officers and directors. Among other matters, the acquisition or disposition fees and other possible fees payable to affiliates of our manager in connection with its services for the seller or buyer, could affect the judgment of our manager or its affiliates with respect to property acquisitions from, or the making of investments in, other programs sponsored by our sponsor. Therefore, considerations relating to their compensation from other programs could result in decisions that are not in the best interests of our stockholders, which could hurt our income and, as a result, our ability to make distributions to you and/or lead to a decline in the value of your investment.

Property and asset management services are being provided by our manager or its affiliates, which may impact our sale of properties and, as a result, affect your investment.

Our manager is controlled by our sponsor, and is thus subject to an inherent conflict of interest. Specifically, because the manager or its affiliates will receive significant fees for property and asset management of our properties, our manager may face a conflict of interest when determining whether we should sell properties, including under circumstances where the manager or its affiliates would no longer manage the property after the transaction. As a result of this conflict of interest, we may not dispose of properties when it would be in our best interests to do so.

If we acquire properties from affiliates of our manager, the price may be higher than we would pay if the transaction were the result of arm s-length negotiations.

The prices we pay to affiliates of our manager for our properties will be equal to the prices paid by them, plus the costs incurred by them relating to the acquisition and financing of the properties, or if the price to us is in excess of such cost, substantial justification for such excess will exist and such excess will be reasonable and consistent with current market conditions as determined by a majority of our independent directors. Substantial justification for a higher price could result from improvements to a property by the affiliate of our manager or increases in market value of the property during the period of time the property is owned by the affiliate as evidenced by an appraisal of the property. In no event will we acquire property from an affiliate at an amount in excess of its then current appraised value as determined by averaging the appraisals of two independent appraisers selected by our independent directors not otherwise interested in the transaction. An appraisal is current if obtained within six months. These prices will not be the subject of arm s-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated in an arm s-length transaction. Even though we will use independent third party appraisals to determine fair market value when acquiring properties from our manager and its affiliates, we may pay more for particular properties than we would have in an arm s-length transaction, which would reduce our cash available for other investments or distribution to our stockholders.

We may purchase real properties from persons with whom affiliates of our manager have prior business relationships, which may impact the purchase terms, and as a result, affect your investment.

If we purchase properties from third parties who have sold, or may sell, properties to our manager or its affiliates, our manager may experience a conflict between our current interests and its interest in preserving any ongoing business relationship with these sellers. As a result of this conflict, the terms of any transaction

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between us and such third parties may not reflect the terms that we could receive in the market on an arm s-length basis. If the terms we receive in a transaction are less favorable to us, our results from operations may be adversely affected.

The absence of arm s-length bargaining may mean that our agreements may not be as favorable to you as they otherwise could have been.

Any existing or future agreements between us and our sponsor, our manager or any of their respective affiliates were not and will not be reached through arm s-length negotiations. Thus, such agreements may require us to pay more than we would if we were using unaffiliated third parties. The management agreement, the operating partnership agreement and the terms of the compensation to our manager and its affiliates or distributions to our manager were not arrived at through arm s-length negotiations. The terms of the management agreement, the operating partnership agreement and similar agreements may not solely reflect your best interest and may be overly favorable to the other party to such agreements including in terms of the substantial compensation to be paid to or the potential substantial distributions to these parties under these agreements.

Our manager and its affiliates receive fees and other compensation based upon our investments, which may impact operating decisions, and as a result, affect your investment.

John A. Williams controls our manager. In addition, Mr. Williams is our President, Chief Executive Officer and Chairman of the Board of Directors and the President and Chief Executive Officer of our manager. As a result, Mr. Williams has a direct interest in all fees paid to our manager and is in a position to make decisions about our investments in ways that could maximize fees payable to our manager and its affiliates. Some compensation is payable to our manager whether or not there is cash available to make distributions to our stockholders. To the extent this occurs, our manager and its affiliates benefit from us retaining ownership and leveraging our assets, while our stockholders may be better served by the sale or disposition of, or lack of leverage on, the assets. For example, because asset management fees payable to our manager are based on total assets under management, including assets purchased using debt, our manager may have an incentive to incur a high level of leverage in order to increase the total amount of assets under management. In addition, our manager s ability to receive fees and reimbursements depends on our revenues from continued investment in real properties and real estate-related investments. Therefore, the interest of our manager and its affiliates in receiving fees may conflict with the interest of our stockholders in earning a return on their investment in our common stock.

We may compete with other entities affiliated with our sponsor for investments and tenants.

Our sponsor or his affiliates have sponsored existing programs with investment objectives and strategies similar to ours, and may sponsor other similar programs in the future. Our sponsor and his affiliates are not prohibited from engaging, directly or indirectly, in any other business or from possessing interests in any other business ventures, including ventures involved in the acquisition, development, ownership, management, leasing or sale of real estate. Our sponsor and/or one or more of his affiliates may simultaneously owe fiduciary duties to us and one or more of these business ventures. If our sponsor or his affiliates breach their fiduciary or contractual obligations to us, or do not resolve conflicts of interest, we may not meet our investment objectives, which could reduce our expected cash available for distributions to you.

Our sponsor and/or his affiliates may own and/or manage properties in the same geographical areas in which we expect to acquire real estate assets or may compete with us for acquisitions of these assets. Our properties may compete for tenants with other properties owned and/or managed by our sponsor and his affiliates. Our sponsor may face conflicts of interest when evaluating acquisitions as well as tenant opportunities for our properties and other properties owned and/or managed by our sponsor and his affiliates, and these conflicts of interest may have a negative impact on our ability to acquire suitable investments and attract and retain tenants for our properties.

If we invest in joint ventures, the objectives of our partners may conflict with our objectives.

In accordance with our acquisition strategies, we may make investments in joint ventures or other partnership arrangements between us and affiliates of our sponsor or with unaffiliated third parties. We also

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may purchase properties in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including, for example:

joint venturers may share certain approval rights over major decisions;
a co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
a co-venturer, co-owner or partner in an investment might become insolvent or bankrupt;
we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;
a co-venturer, co-owner or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT;
disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; or
under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture.

These events could result in, among other things, exposing us to liabilities of the joint venture in excess of our proportionate share of these liabilities. The partition rights of each owner in a jointly owned property could reduce the value of each portion of the divided property. Moreover, there is an additional risk neither co-venturer will have the power to control the venture, and under certain circumstances, an impasse could be reached regarding matters pertaining to the co-ownership arrangement, which might have a negative influence on the joint venture and decrease potential returns to you. In addition, the fiduciary obligation that our sponsor or our board of directors may owe to our partner in an affiliated transaction may make it more difficult for us to enforce our rights.

If we have a right of first refusal or buy/sell right to buy out a co-venturer, co-owner or partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture.

General Risks Related to Investments in Real Estate

Economic conditions may adversely affect the multifamily real estate market and our income.

A multifamily property s income and value may be adversely affected by international, national and regional economic conditions. Currently, the U.S. and international markets are experiencing increased levels of volatility due to a combination of many factors, including decreasing values of home prices and commercial real estate, limited access to credit markets, increased energy costs, increased unemployment rates, the debt crisis in the United States and Europe, and recovery from the recent national and global recession. If such conditions persist, the multifamily real estate industry may experience a significant decline in business caused by a reduction in overall renters. The current weak economy and increase in unemployment rates also may have an adverse affect on our operations if the tenants occupying the multifamily properties we acquire cease making rent payments to us.

In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, availability of for sale properties, competition from other similar properties, our ability to provide adequate maintenance, insurance and management services, increased operating costs (including real

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estate taxes), the attractiveness and location of the property and changes in market rental rates, may adversely affect a property s income and value. The continued rise in energy costs could result in higher operating costs, which may adversely affect our results from operations. In addition, local conditions in the markets in which we own or intend to own properties may significantly affect occupancy or rental rates at such properties. The risks that may adversely affect conditions in those markets include: layoffs, business closings, relocations of significant local employers and other events negatively impacting local employment rates and the local economy; an oversupply of, or a lack of demand for, apartments; a decline in household formation; the inability or unwillingness of residents to pay rent increases; and rent control, rent stabilization and other housing laws, which could prevent us from raising rents.

We cannot predict when the multifamily real estate market will recover. Therefore, to the extent that there are adverse economic conditions in the multifamily market, such conditions could result in a reduction of our income and cash available for distributions and thus affect the amount of distributions we can make to you.

Our investments in real estate-related investments will be subject to the risks typically associated with real estate, which may have a material affect on your investment.

Our loans held for investment generally will be directly or indirectly secured by a lien on real property, or the equity interests in an entity that owns real property, that, upon the occurrence of a default on the loan, could result in our acquiring ownership of the property. We will not know whether the values of the properties ultimately securing our loans will remain at the levels existing on the dates of origination of those loans. If the values of the underlying properties decline, our risk will increase because of the lower value of the security associated with such loans. In this manner, real estate values could impact the values of our loan investments. Any investments in mortgage-related securities, collateralized debt obligations and other real estate-related investments (including potential investments in real property) may be similarly affected by real estate property values. Therefore, our investments will be subject to the risks typically associated with real estate.

The value of real estate may be adversely affected by a number of risks, including:

- natural disasters, such as hurricanes, earthquakes and floods;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and real estate conditions;
- an oversupply of (or a reduction in demand for) space in the areas where particular properties are located and the attractiveness of particular properties to prospective tenants;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance therewith and the potential for liability under applicable laws;
- costs of remediation and liabilities associated with environmental conditions affecting properties; and
- the potential for uninsured or underinsured property losses.

The value of each property is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of rental or other income that can be generated net of expenses required to be incurred with respect to the property. Many expenditures associated with properties (such as operating expenses and capital expenditures) cannot be reduced when there is a reduction in income from the properties. These factors may have a material adverse effect on the ability of the borrowers to pay their loans, as well as on the value that we can realize from assets we own or acquire.

Natural disasters could significantly reduce the value of our properties and your investment.

Natural disasters, including hurricanes, tornadoes, earthquakes, wildfires and floods, could significantly reduce the value of our properties. While we will attempt to obtain adequate insurance coverage for natural disasters, insurance may be too expensive or may not properly compensate us for the long-term loss in value that a property may suffer if the area around it suffers a significant natural disaster. As a result, we may not

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be compensated for the loss in value. Any diminution in the value of our properties or properties underlying an investment that is not fully reimbursed will reduce our profitability and adversely affect the value of your investment.

Terrorist attacks and other acts of violence or war may affect the real estate industry generally and our business, financial condition and results of operations.

We cannot predict the severity of the effect that potential future terrorist attacks would have on us. We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance and the value of our real estate. The events of September 11, 2001 created significant uncertainty regarding the ability of real estate owners to obtain insurance coverage protecting against terrorist attacks at commercially reasonable rates. We may not be able to obtain insurance against the risk of terrorism because it may not be available or may not be available on terms that are economically feasible. The terrorism insurance that we obtain may not be sufficient to cover loss for damages to our properties as a result of terrorist attacks. The inability to obtain sufficient terrorism insurance or any terrorism insurance at all could limit our investment options as some mortgage lenders insist that specific coverage against terrorism be purchased by commercial owners as a condition of providing loans. We intend to obtain terrorism insurance if required by our lenders, but the terrorism insurance that we obtain may not be sufficient to cover loss for damages to our properties as a result of terrorist attacks. In addition, where insurance against the risk of terrorism is not available or is not available on terms that are economically feasible, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for such losses.

Compliance with the governmental laws, regulations and covenants that are applicable to our properties, including permit, license and zoning requirements, may adversely affect our ability to make future acquisitions or renovations, result in significant costs or delays and adversely affect our growth strategy.

Our properties are subject to various covenants and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers, may restrict our use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. We cannot assure you that existing regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs. Our growth strategy may be materially and adversely affected by our ability to obtain permits, licenses and zoning approvals. Our failure to obtain such permits, licenses and zoning approvals could have a material adverse effect on our business, financial condition and results of operations.

Our costs associated with and the risk of failing to comply with the Americans with Disabilities Act, or ADA, may affect cash available for distributions.

Our properties are generally expected to be subject to the ADA. Under the ADA, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The ADA has separate compliance requirements for public accommodations and commercial facilities that generally require that buildings and services be made accessible and available to people with disabilities. The ADA s requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We will attempt to acquire properties that comply with the ADA or place the burden on the seller or a third party to ensure compliance with such laws. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, our funds used for compliance with these laws may affect cash available for distributions and the amount of distributions to you.

The multifamily communities we acquire must comply with Title III of the ADA, to the extent that such properties are public accommodations and/or commercial facilities , as defined by the ADA. Compliance with the ADA could require removal of structural barriers to handicapped access in certain public areas of our

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multifamily communities where such removal is readily achievable. The ADA does not, however, consider residential properties, such as multifamily communities to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as the leasing office, are open to the public.

We must comply with the Fair Housing Amendments Act of 1988, or the FHAA, and failure to comply may affect cash available for distributions.

We must comply with the FHAA, which requires that apartment communities first occupied after March 13, 1991 be accessible to handicapped residents and visitors. Compliance with the FHAA could require removal of structural barriers to handicapped access in a community, including the interiors of apartment units covered under the FHAA. Recently there has been heightened scrutiny of multifamily housing communities for compliance with the requirements of the FHAA and Disabilities Act and an increasing number of substantial enforcement actions and private lawsuits have been brought against apartment communities to ensure compliance with these requirements. Noncompliance with the FHAA could result in the imposition of fines, awards of damages to private litigants, payment of attorneys fees and other costs to plaintiffs, substantial litigation costs and substantial costs of remediation.

Rising expenses could reduce cash flow and funds available for future acquisitions, which may have a material affect on your investment.

Our properties will be subject to increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance, administrative and other expenses. Some of the leases on our properties may require the tenants to pay all or a portion of utility costs; however, most of these utility costs will be borne by us. Such increased expenses could adversely affect funds available for future acquisitions or cash available for distributions.

Failure to generate sufficient cash flows from operations may reduce distributions to stockholders.

We intend to rely primarily on our cash flow from operations to make distributions to our stockholders. The cash flow from equity investments in our multifamily properties depends on the amount of revenue generated and expenses incurred in operating our properties. The revenue generated and expenses incurred in operating our properties depends on many factors, some of which are beyond our control. For instance, rents from our properties may not increase as expected or the real estate-related investments we purchase may not generate the anticipated returns. If our investments do not generate revenue sufficient to meet our operating expenses, debt service and capital expenditures, our cash flows and ability to make distributions to you will be adversely affected.

If we purchase assets at a time when the multifamily real estate market is experiencing substantial influxes of capital investment and competition for properties, the real estate we purchase may not appreciate or may decrease in value.

The multifamily real estate market may experience substantial influxes of capital from investors. This substantial flow of capital, combined with significant competition for the acquisition of real estate, may result in inflated purchase prices for such assets and compression of capitalization rates. To the extent we purchase real estate in such an environment, we are subject to the risk that, if the real estate market subsequently ceases to attract the same level of capital investment, or if the number of companies seeking to acquire such assets decreases, our returns will be lower and the value of our assets may not appreciate or may decrease significantly below the amount we paid for such assets.

We may be unable to sell a property if or when we decide to do so, which could adversely impact our ability to make distributions to our stockholders.

In connection with the acquisition of a property, we may agree on restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. Even absent such restrictions, the real estate market is affected by many factors that are beyond our control, including general economic conditions, availability of financing, interest rates and supply and demand. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or real estate-related asset. If we are unable to sell a property or real estate-related asset when we determine to do so, it could have a significant adverse effect on our cash flow and results of operations. As a result, we may not have funds to make distributions to our stockholders.

We may have difficulty selling real estate investments, and our ability to distribute all or a portion of the net proceeds from such sale to our stockholders may be limited.

Real estate investments are relatively illiquid, and as a result, we will have a limited ability to vary our portfolio in response to changes in economic or other conditions. We also will have a limited ability to sell assets in order to fund working capital and similar capital needs. When we sell any of our properties, we may not realize a gain on such sale. We may elect not to distribute any proceeds from the sale of properties to our stockholders; for example, we may use such proceeds to:

purchase additional properties;
repay debt, if any;
buy out interests of any co-venturers or other partners in any joint venture in which we are a party;
create working capital reserves; or
make repairs, maintenance, tenant improvements or other capital improvements or expenditures to our remaining properties.

We may not make a profit if we sell a property, which could adversely impact our ability to make cash distributions to our stockholders.

The prices that we can obtain when we determine to sell a property will depend on many factors that are presently unknown, including the operating history, tax treatment of real estate investments, demographic trends in the area and available financing. There is a risk that we will not realize any significant appreciation on our investment in a property. Accordingly, your ability to recover all or any portion of your investment under such circumstances will depend on the amount of funds so realized and claims to be satisfied therefrom.

Our ability to sell our properties also may be limited by our need to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. In order to ensure that we avoid such characterization we may be required to hold our properties for a minimum period of time and comply with certain other requirements in the Code, or possibly hold some properties through TRSs that must pay full corporate-level income taxes.

We may incur liabilities in connection with properties we acquire.

Our anticipated acquisition activities are subject to many risks. We may acquire properties 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, 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. However, some of these liabilities may be covered by insurance. In addition, we intend to perform customary due diligence regarding each property or entity we acquire. We also will attempt to obtain appropriate representations and undertakings from the sellers of the properties or entities we acquire, although it is possible that the sellers may not have the resources to satisfy their indemnification obligations if a liability arises. Unknown liabilities to third parties with respect to properties or entities acquired might include, without limitation:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by tenants 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.

Such liabilities could cause losses that adversely affect our ability to make distributions to our stockholders.

The costs of compliance with environmental laws and other governmental laws and regulations may adversely affect our income and the cash available for any distributions.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Examples of Federal laws include: National Environmental Policy Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Solid Waste Disposal Act as amended by the Resource Conservation and Recovery Act, the Federal Water Pollution Control Act, the Federal Clean Air Act, the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act and the Hazard Communication Act. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on residents, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent the property or to use the property as collateral for future borrowing.

There also may be potential liability associated with lead-based paint arising from lawsuits alleging personal injury and related claims. The existence of lead paint is especially a concern in residential units. A structure built prior to 1978 may contain lead-based paint and may present a potential for exposure to lead, however, structures built after 1978 are not likely to contain lead-based paint.

Property values also may be affected by their proximity to electric transmission lines. Electric transmission lines are one of many sources of electro-magnetic fields, or EMFs, to which people may be exposed. Research completed regarding potential health concerns associated with exposure to EMFs has produced inconclusive results. Notwithstanding the lack of conclusive scientific evidence, some states now regulate the strength of electric and magnetic fields emanating from electric transmission lines, and other states have required transmission facilities to measure for levels of EMFs. On occasion, lawsuits have been filed (primarily against electric utilities) that allege personal injuries from exposure to transmission lines and EMFs, as well as from fear of adverse health effects due to such exposure. This fear of adverse health effects from transmission lines has been considered both when property values have been determined to obtain financing and in condemnation proceedings. We may not, in certain circumstances, search for electric transmission lines near our properties, but are aware of the potential exposure to damage claims by persons exposed to EMFs.

Recently, indoor air quality issues, including mold, have been highlighted in the media and the industry is seeing mold claims from lessees rising. Due to such recent increase in mold claims and given that the law relating to mold is unsettled and subject to change, we could incur losses from claims relating to the presence of, or exposure to, mold or other microbial organisms, particularly if we are unable to maintain adequate insurance to cover such losses. We also may incur unexpected expenses relating to the abatement of mold on properties that we acquire.

Limited quantities of asbestos-containing materials are present in various building materials such as floor coverings, ceiling texture material, acoustical tiles and decorative treatment. Environmental laws govern the presence, maintenance and removal of asbestos. These laws could be used to impose liability for release of, and exposure to, hazardous substances, including asbestos-containing materials, into the air. Such laws require that owners or operators of buildings containing asbestos (i) properly manage and maintain the asbestos, (ii) notify and train those who may come into contact with asbestos, and (iii) undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building. These laws may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to asbestos fibers. As the owner of our properties, we may be liable for any such costs.

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Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We cannot assure you that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of residents, existing conditions of the land, operations in the vicinity of the properties, or the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations that we may be required to comply with. Failure to comply with applicable laws and regulations could result in fines and/or damages, suspension of personnel of our manager and/or other sanctions.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. The costs of removal or remediation could be substantial. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles govern the presence, maintenance, removal and disposal of certain building materials, including asbestos and lead-based paint (which are both discussed above).

The cost of defending against such claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to you.

We cannot assure you that properties which we acquire will not have any material environmental conditions, liabilities or compliance concerns. Accordingly, we have no way of determining at this time the magnitude of any potential liability to which we may be subject arising out of environmental conditions or violations with respect to the properties we own.

We may suffer losses that are not covered by insurance.

If we suffer losses that are not covered by insurance or that are in excess of insurance coverage, we could lose invested capital and anticipated profits. We intend to obtain comprehensive insurance for our properties, including casualty, liability, fire, extended coverage and rental loss customarily obtained for similar properties in amounts which our manager determines are sufficient to cover reasonably foreseeable losses, and with policy specifications and insured limits that we believe are adequate and appropriate under the circumstances. Material losses may occur in excess of insurance proceeds with respect to any property as insurance proceeds may not provide sufficient resources to fund the losses. However, there are types of losses, generally of a catastrophic nature, such as losses due to wars, earthquakes, floods, hurricanes, pollution, environmental matters, mold or terrorism which are either uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments.

In addition, many insurance carriers exclude asbestos-related claims from standard policies, price asbestos endorsements at prohibitively high rates or add significant restrictions to such coverage.

Because of our inability to obtain specialized coverage at rates that correspond to our perceived level of risk, we may not obtain insurance for acts of terrorism or asbestos-related claims. We will continue to evaluate the availability and cost of additional insurance coverage from the insurance market. If we decide in the future to purchase insurance for terrorism or asbestos, 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 is recourse to us, would remain obligated for any mortgage debt or other financial obligations

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related to the property. Any loss of this nature would adversely affect us. Although we intend to adequately insure our properties, we cannot assure that we will successfully do so.

We may be unable to secure funds for future capital improvements, which could adversely impact our ability to make distributions to our stockholders.

When residents do not renew their leases or otherwise vacate their space, in order to attract replacement residents, we may be required to expend funds for capital improvements to the vacated apartment units and common areas. In addition, we may require substantial funds to renovate a multifamily community in order to sell it, upgrade it or reposition it in the market. If we have insufficient capital reserves, we will have to obtain financing from other sources. We intend to establish capital reserves in an amount we, in our discretion, believe is necessary. A lender also may require escrow of capital reserves in excess of any established reserves. If these reserves or any reserves otherwise established are designated for other uses or are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Moreover, certain reserves required by lenders may be designated for specific uses and may not be available for capital purposes such as future capital improvements. Additional borrowing will increase our interest expense, therefore, our financial condition and our ability to make distributions to our stockholders may be adversely affected.

We may not have control over costs arising from rehabilitation of properties.

We may elect to acquire properties which require rehabilitation. In particular, we may acquire affordable properties that we will rehabilitate and convert to market rate properties. Consequently, we may retain independent general contractors to perform the actual physical rehabilitation work and will be subject to risks in connection with a contractor s ability to control the rehabilitation costs, the timing of completion of rehabilitation, and a contractor s ability to build and rehabilitate in conformity with plans and specifications.

Short-term apartment leases expose us to the effects of declining market rent, which could adversely impact our ability to make distributions to our stockholders.

We expect that most of our apartment leases will be for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without any penalty, our rental revenues may be impacted by declines in market rents more quickly than if our leases were for longer terms.

The profitability of our acquisitions is uncertain.

We intend to acquire properties selectively. Acquisition of properties entails risks that investments will fail to perform in accordance with expectations. In undertaking these acquisitions, we will incur certain risks, including the expenditure of funds on, and the devotion of management s time to, transactions that may not come to fruition. Additional risks inherent in acquisitions include risks that the properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired property up to our standards may prove inaccurate.

Competition with third parties in acquiring properties and other assets may reduce our profitability and the return on your investment.

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities. Many of these entities have significant financial and other resources, including operating experience, allowing them to compete effectively with us. Competitors with substantially greater financial resources than us may be able to accept more risk than we can effectively manage. In addition, those competitors that are not REITs may be at an advantage to the extent they can utilize working capital to finance projects, while we (and our competitors that are REITs) will be required by the annual distribution provisions under the Code to distribute significant amounts of cash from operations to our stockholders.

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We will face competition from other apartment communities and the affordability of single-family homes, which may limit our profitability and the returns to our stockholders.

The multifamily apartment industry is highly competitive. This competition could reduce occupancy levels and revenues at our multifamily communities, which would adversely affect our operations. Our competitors include those in other apartment communities both in the immediate vicinity where our multifamily communities will be located and the broader geographic market. Such competition also may result in overbuilding of apartment communities, causing an increase in the number of apartment units available and potentially decreasing our occupancy and apartment rental rates. We also may be required to expend substantial sums to attract new residents. The resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property. In addition, increases in operating costs due to inflation may not be offset by increased apartment rental rates. Further, costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced when circumstances cause a reduction in income from the investment. These events would cause a significant decrease in revenues and could cause us to reduce the amount of distributions to our stockholders.

Moreover, the residential apartment community industry is highly competitive. This competition could reduce occupancy levels and revenues at our apartment communities, which would adversely affect our operations. We expect to face competition from many sources, including from other apartment communities both in the immediate vicinity and the broader geographic market where our apartment communities will be located. Overbuilding of apartment communities may occur. If so, this will increase the number of apartment units available and may decrease occupancy and apartment rental rates. In addition, increases in operating costs due to inflation may not be offset by increased apartment rental rates. We may be required to expend substantial sums to attract new residents.

Additionally, the large amount of foreclosed homes available at very attractive prices, along with the low residential mortgage interest rates currently available and government sponsored programs to promote home ownership, has resulted in a record high level on the National Association of Realtor s Housing Affordability Index, an index used to measure whether or not a typical family could qualify for a mortgage loan on a typical home. The foregoing factors may encourage potential renters to purchase residences rather than renting an apartment, thereby causing a decline in the pool of available renters for our properties.

Some or all of our properties have incurred, and will incur, vacancies, which may result in reduced revenue and resale value, a reduction in cash available for distribution and a diminished return on your investment.

Some or all of our properties have incurred, and will incur, vacancies. If vacancies of a significant level continue for a long period of time, we may suffer reduced revenues resulting in lower cash distributions to you. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We are dependent on our investment in a single asset class, making our profitability more vulnerable to a downturn or slowdown in the sector or other economic factors.

We expect to concentrate our investments in the multifamily sector. As a result, we will be subject to risks inherent in investments in a single type of property. A downturn or slowdown in the demand for multifamily housing may have more pronounced effects on the cash available for distribution or on the value of our assets than if we had more fully diversified our investments. See the section entitled Business Market Opportunities included elsewhere in this prospectus.

Failure to succeed in new markets may have adverse consequences on our performance.

We may make acquisitions outside of our existing market areas if appropriate opportunities arise. Our sponsor s, our manager s or any of their affiliates historical experience in their existing markets does not ensure that we will be able to operate successfully in new markets, should we choose to enter them. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local market conditions, to identify appropriate acquisition opportunities, to hire and retain key

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personnel, and a lack of familiarity with local governmental and permitting procedures. In addition, we may abandon opportunities to enter new markets that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred.

Acquiring or attempting to acquire multiple properties in a single transaction may adversely affect our operations.

We are likely to acquire multiple properties in a single transaction. Such portfolio acquisitions are more complex and expensive than single-property acquisitions, and the risk that a multiple-property acquisition does not close may be greater than in a single-property acquisition. Portfolio acquisitions also may result in us owning investments in geographically dispersed markets, placing additional demands on our ability to manage the properties in the portfolio. In addition, a seller may require that a group of properties be purchased as a package even though we may not want to purchase one or more properties in the portfolio. In these situations, if we are unable to identify another person or entity to acquire the unwanted properties, we may be required to operate, or attempt to dispose of, these properties. To acquire multiple properties in a single transaction we may be required to accumulate a large amount of cash. We would expect that the returns that we can earn on such cash will be less than the ultimate returns on real property, and therefore, accumulating such cash could reduce the funds available for distributions. Any of the foregoing events may have an adverse effect on our operations.

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser.

If we decide to sell any of our properties, we intend to use our commercially reasonable efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk of default by the purchaser and will be subject to remedies provided by law, which could negatively impact distributions to our stockholders. There are no limitations or restrictions on our ability to take such purchase money obligations. We may, therefore, take a purchase money obligation secured by a mortgage as full or partial payment for the purchase price of a property. The terms of payment to us generally will be affected by custom in the area where the property being sold is located and the then-prevailing economic conditions. If we receive promissory notes or other property in lieu of cash from property sales, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property are actually paid, sold or refinanced or we have otherwise disposed of such promissory notes or other property. In some cases, we may receive initial down payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. If any purchaser defaults under a financing arrangement with us, it could negatively impact our ability to make distributions to our stockholders.

Our revenue and net income may vary significantly from one period to another due to investments in opportunity-oriented properties and portfolio acquisitions, which could increase the variability of our cash available for distributions.

We may make investments in opportunity-oriented properties in various phases of development, redevelopment or repositioning and portfolio acquisitions, which may cause our revenues and net income to fluctuate significantly from one period to another. Projects do not produce revenue while in development or redevelopment. During any period when our projects in development or redevelopment or those with significant capital requirements increase without a corresponding increase in stable revenue-producing properties, our revenues and net income likely will decrease.

Many factors may have a negative impact on the level of revenues or net income produced by our portfolio of investments, including higher than expected construction costs, failure to complete projects on a timely basis, failure of the properties to perform at expected levels upon completion of development or redevelopment, and increased borrowings necessary to fund higher than expected construction or other costs related to the project. Further, our net income and stockholders equity could be negatively affected during periods with large portfolio acquisitions, which generally require large cash outlays and may require the incurrence of additional financing. Any such reduction in our revenues and net income during such periods could cause a resulting decrease in our cash available for distributions during the same periods.

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We may obtain properties with lock-out provisions, or agree to such provisions in connection with obtaining financing, which may prohibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.

We may agree to obtain certain properties from contributors who contribute their direct or indirect interest in such properties to our operating partnership in exchange for operating partnership units and agree to restrictions on sales or refinancing, called lock-out provisions, that are intended to preserve favorable tax treatment for the contributors of such properties and otherwise agree to provide the indemnities to contributions. Additionally, we may agree to lock-out provisions in connection with obtaining financing for the acquisition of properties. Furthermore, we may agree to make a certain amount of debt available for these contributors to guarantee in order to preserve their favorable tax treatment. Lock-out provisions and the consequences of related tax indemnities could materially restrict us from selling, conveying, transferring otherwise disposing of all or any portion of the interest in these properties in a taxable transaction or from refinancing properties. This would affect our ability to turn our investments into cash and thus affect cash available to return capital to you. Lock-out provisions could impair our ability to take actions during the lock-out period that would otherwise be in the best interests of our stockholders, and therefore, might have an adverse impact on the value of our shares. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

Risks Associated with Debt Financing

We plan to incur mortgage indebtedness and other borrowings, which may increase our business risks.

We intend to acquire properties subject to existing financing or by borrowing new funds. In addition, we may incur or increase our mortgage debt by obtaining loans secured by selected, or by all of our, real properties to obtain funds to acquire additional real properties and/or make capital improvements to properties. We also may borrow funds, if necessary, to satisfy the requirement that we generally distribute to stockholders as dividends at least 90% of our annual REIT taxable income (excluding net capital gain), or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT.

We intend to incur mortgage debt on a particular property only if we believe the property s projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow requiring us to use cash from other sources to make the mortgage payments on the property, then the amount available for distributions to stockholders may be affected. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and our loss of the property securing the loan which is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may, in some circumstances, give a guaranty on behalf of an entity that owns one or more of our properties. In these cases, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one property may be affected by a default.

Any mortgage debt which we place on properties may contain clauses providing for prepayment penalties. If a lender invokes these penalties upon the sale of a property or the prepayment of a mortgage on a property, the cost to us to sell the property could increase substantially, and may even be prohibitive. This could lead to a reduction in our income, which would reduce cash available for distribution to stockholders and may prevent us from borrowing more money.

Interest-only indebtedness may increase our risk of default and ultimately may reduce our funds available for distributions to our stockholders.

We also may finance our property acquisitions using interest-only mortgage indebtedness. During the interest-only period, the amount of each scheduled payment will be less than that of a traditional amortizing mortgage loan. The principal balance of the mortgage loan will not be reduced (except in the case of prepayments) because there are no scheduled monthly payments of principal during this period. After the

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interest-only period, we will be required either to make scheduled payments of amortized principal and interest or to make a lump-sum or balloon payment at maturity. These required principal or balloon payments will increase the amount of our scheduled payments and may increase our risk of default under the related mortgage loan. If the mortgage loan has an adjustable interest rate, the amount of our scheduled payments also may increase at a time of rising interest rates. Increased payments and substantial principal or balloon maturity payments or prepayment penalties will reduce the funds available for distribution to our stockholders because cash otherwise available for distribution will be required to pay principal and interest associated with these mortgage loans.

There is no limitation on the amount we may invest in any single property or other asset.

Our investment guidelines limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. Subject to these limitations on overall leverage in our investment guidelines, which can be amended by our board of directors without stockholder approval, there is no limitation in our charter or our by-laws on the amount we can borrow for the purchase of any individual property or other investment. Use of excessive leverage could result in our loss of investment in one or more properties, which could adversely affect your shares of common stock.

If mortgage debt is unavailable at reasonable rates, it may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our cash flows from operations and the amount of cash distributions we can make.

If we are unable to borrow monies on terms and conditions that we find acceptable, we likely will have to reduce the number of properties we can purchase, and the return on the properties we do purchase may be lower. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the debt becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. As such, we may find it difficult, costly or impossible to refinance indebtedness which is maturing. If any of these events occur, our interest cost would increase as a result, which would reduce our cash flow. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise capital by issuing more stock or borrowing more money. If we are unable to refinance maturing indebtedness with respect to a particular property and are unable to pay the same, then the lender may foreclose on such property.

Financial and real estate market disruptions during 2007 and lasting into 2011 could adversely affect the multifamily property sector s ability to obtain financing from the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae), which could adversely impact us.

Fannie Mae and Freddie Mac are major sources of financing for the multifamily sector and both experienced significant losses beginning in 2008 and continuing into 2011 due to credit-related expenses, securities impairments and fair value losses. If new U.S. government regulations (i) heighten Fannie Mae s and Freddie Mac s underwriting standards, (ii) adversely affect interest rates, or (iii) reduce the amount of capital they can make available to the multifamily sector, it could reduce or remove entirely a vital resource for multifamily financing. Any potential reduction in loans, guarantees and credit-enhancement arrangements from Fannie Mae and Freddie Mac could jeopardize the effectiveness of the multifamily sector s available financing and decrease the amount of available liquidity and credit that could be used to acquire and diversify our portfolio of multifamily assets.

The conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. federal government, may adversely affect our business.

Due to increased market concerns about Fannie Mae and Freddie Mac s ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, without the direct support of the U.S. federal government, on July 30, 2008, the government passed the Housing and Economic Recovery Act of 2008, or the HERA. On September 7, 2008, the Federal Housing Finance Agency, or the FHFA, placed Fannie Mae and Freddie Mac into conservatorship and, together with the U.S. Treasury, established a program designed to boost investor confidence in Fannie Mae s and Freddie Mac s debt and mortgage-related securities. As the conservator of Fannie Mae and Freddie Mac, the FHFA controls and directs the operations of Fannie Mae and Freddie Mac and may (i) take over the assets of and operate Fannie Mae and Freddie Mac with all the powers of the stockholders, the directors and the officers of Fannie Mae and Freddie Mac and conduct all business of Fannie Mae and Freddie Mac; (ii) collect all obligations and money due to Fannie Mae and Freddie Mac; (iii) perform all functions of Fannie Mae and Freddie Mac which are consistent with the conservator s appointment; (iv) preserve and conserve the assets and property of Fannie Mae and Freddie Mac; and (v) contract for assistance in fulfilling any function, activity, action or duty of the conservator.

In addition to the FHFA becoming the conservator of Fannie Mae and Freddie Mac, the U.S. Treasury has taken three additional actions: (i) the U.S. Treasury and the FHFA have entered into preferred stock purchase agreements between the U.S. Treasury and Fannie Mae and Freddie Mac pursuant to which the U.S. Treasury will ensure that each of Fannie Mae and Freddie Mac maintains a positive net worth; (ii) the U.S. Treasury has established a new secured lending credit facility which will be available to Fannie Mae, Freddie Mac and the Federal Home Loan Banks, which is intended to serve as a liquidity backstop, which was indefinitely extended; and (iii) the U.S. Treasury has initiated a temporary program to purchase U.S. government agency Residential Mortgage-Backed Securities, or RMBS, issued by Fannie Mae and Freddie Mac.

Although the U.S. Treasury has committed capital to Fannie Mae and Freddie Mac, there can be no assurance that these actions will be adequate for their needs. If these actions are inadequate, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honor their guarantees and other obligations. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes a U.S. government agency RMBS and could have broad adverse market implications. Such market implications could negatively affect the performance and market value of our investments.

The potential reduction or winding down of the role Fannie Mae and Freddie Mac play in the mortgage market may materially adversely affect the multifamily sector and our business, operations and financial condition.

On February 11, 2011, the U.S. Treasury and the U.S. Department of Housing & Urban Development issued a report to the U.S. Congress entitled Reforming America s Housing Finance Market that lays out, among other things, three options for long-term reform, which would reduce or wind down the role that Fannie Mae and Freddie Mac play in the mortgage market. These proposals are: (a) a privatized system of housing finance with the government insurance role limited to the Federal Housing Administration (the FHA), the United States Department of Agriculture (the USDA) and the Department of Veterans Affairs (the VA) assistance for narrowly targeted groups of borrowers; (b) a privatized system of housing finance with assistance from the FHA, USDA and VA for narrowly targeted groups of borrowers and a guarantee mechanism to scale up during times of crisis; and (c) a privatized system of housing finance with FHA, USDA and VA assistance for low- and moderate-income borrowers and catastrophic reinsurance behind significant private capital. Any such proposals, if enacted, may have broad and material adverse implications for the multifamily sector and our business, operations and financial condition. We expect such proposals to be the subject of significant discussion and it is not yet possible to determine whether or when any of such proposals may be enacted, what form any final legislation or policies might take and how proposals, legislation or policies emanating from this report may impact the multifamily sector and our business, operations and financial condition. We are evaluating, and will continue to evaluate, the potential impact of the proposals set forth in this report.

Our ability to obtain financing on reasonable terms could be impacted by negative capital market conditions.

Recently, domestic financial markets have experienced unusual volatility, uncertainty and a tightening of liquidity in both the investment grade debt and equity capital markets. The commercial real estate debt markets are also experiencing volatility as a result of certain factors including the tightening of underwriting

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standards by lenders and credit rating agencies and the lack of an efficient securitization market. Credit spreads for major sources of capital widened significantly during the U.S. credit crisis as investors demanded a higher risk premium. Should the overall cost of borrowings increase, either by increases in the index rates or by increases in lender spreads, we will need to factor such increases into the economics of our acquisitions. This may result in our acquisitions generating lower overall economic returns and potentially reducing cash flow available for distribution.

The recent dislocations in the debt markets have reduced the amount of capital that is available to finance real estate, which, in turn, (a) may no longer allow real estate investors to rely on capitalization rate compression to generate returns, and (b) has slowed real estate transaction activity, all of which may reasonably be expected to have a material adverse impact on revenues and income from the acquisition and operations of real properties and mortgage loans. Investors will need to focus on market-specific growth dynamics, operating performance, asset management and the long-term quality of the underlying real estate asset.

In addition, the state of the debt markets could have an impact on the overall amount of capital investing in real estate which may result in price or value decreases of real estate assets.

Consequently, there is greater uncertainty regarding our ability to access the credit market in order to attract financing on reasonable terms. Investment returns on our assets and our ability to make acquisitions could be adversely affected by our inability to secure financing on reasonable terms, if at all.

High levels of debt or increases in interest rates could increase the amount of our loan payments, which could reduce the cash available for distribution to stockholders.

As mentioned above, we incur and expect to continue to incur debt. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. Interest we pay could reduce cash available for distribution to stockholders. Additionally, if we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flow and our ability to make distributions to you. If we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments and could result in a loss.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

In providing financing to us, a lender may impose restrictions on us that affect our ability to incur additional debt, make certain investments, reduce liquidity below certain levels, make distributions to our stockholders and otherwise affect our distribution and operating policies. In general, we expect our loan agreements to restrict our ability to encumber or otherwise transfer our interest in the respective property without the prior consent of the lender. Such loan documents may contain other negative covenants that may limit our ability to discontinue insurance coverage, replace our manager or impose other limitations. Any such restriction or limitation may have an adverse effect on our operations and our ability to make distributions to you. Further, such restrictions could make it difficult for us to satisfy the requirements necessary to qualify as a REIT and, once qualified, to maintain our qualification as a REIT.

Some of our mortgage loans may have due on sale provisions, which may impact the manner in which we acquire, sell and/or finance our properties.

In purchasing properties subject to financing, we may obtain financing with due-on-sale and/or due-on-encumbrance clauses. Due-on-sale clauses in mortgages allow a mortgage lender to demand full repayment of the mortgage loan if the borrower sells the mortgaged property. Similarly, due-on-encumbrance clauses allow a mortgage lender to demand full repayment if the borrower uses the real estate securing the mortgage loan as security for another loan. These clauses may cause the maturity date of such mortgage loans to be accelerated and such financing to become due. In such event, we may be required to sell our properties on an all-cash basis, to acquire new financing in connection with the sale, or to provide seller financing. It is not our intent to provide seller financing, although it may be necessary or advisable for us to do so in order to facilitate the sale of a property. It is unknown whether the holders of mortgages encumbering our properties

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will require such acceleration or whether other mortgage financing will be available. Such factors will depend on the mortgage market and on financial and economic conditions existing at the time of such sale or refinancing.

Lenders may be able to recover against our other properties under our mortgage loans.

In financing our property acquisitions, we will seek to obtain secured nonrecourse loans. However, only recourse financing may be available, in which event, in addition to the property securing the loan, the lender may look to our other assets for satisfaction of the debt. Therefore, should we be unable to repay a recourse loan with the proceeds from the sale or other disposition of the property securing the loan, the lender could look to one or more of our other properties for repayment. Also, in order to facilitate the sale of a property, we may allow the buyer to purchase the property subject to an existing loan whereby we remain responsible for the debt.

The derivative financial instruments that we may use may be costly and ineffective and may reduce the overall returns on your investment.

To the extent that we use derivative financial instruments in connection with our floating interest rate debt, we will be exposed to credit, basis and legal enforceability risks. Derivative financial instruments may include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options or repurchase agreements. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. Basis risk occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. Finally, legal enforceability risks encompass general contractual risks, including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. If we are unable to manage these risks effectively, our results of operations, financial condition and ability to make distributions to you will be adversely affected.

Risks Related to Our Real Estate-Related Investments

Our investments in senior debt, mezzanine debt and membership or partnership interests in entities that own multifamily properties will be subject to the specific risks relating to the particular company and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.

We may invest in senior debt, mezzanine debt and membership or partnership interests in entities that own multifamily properties. These investments will involve special risks relating to the particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities may not be collateralized and also may be subordinated to the entity s other obligations. We are likely to invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

These investments also will subject us to the risks inherent with real estate investments referred to in this prospectus, including the risks described with respect to commercial properties and similar risks, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;
- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property.

These risks may adversely affect the value of our investments in entities that own multifamily properties and the ability of our borrowers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

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Our mezzanine loan assets will involve greater risks of loss than senior loans secured by income-producing properties.

We may originate (in connection with a forward purchase or option to purchase contract) or acquire mezzanine loans in entities that own multifamily properties, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender and because it is in second position and there may not be adequate equity in the property. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some of or all our initial expenditure. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Material U.S. Federal Income Tax Considerations

If we fail to qualify as a REIT, we will be subjected to tax on our income and the amount of distributions we make to our stockholders will be less.

We intend to qualify as a REIT under the Code, commencing with our tax year ending December 31, 2011. A REIT generally is not taxed at the corporate level on income and gains it distributes to its stockholders on a timely basis. Although we do not intend to request a ruling from the Internal Revenue Service, or IRS, as to our REIT status, we have received the opinion of our tax counsel, Proskauer Rose LLP with respect to our qualification as a REIT. This opinion has been issued in connection with the offering. Investors should be aware, however, that opinions of counsel are not binding on the IRS or on any court. The opinion of Proskauer Rose LLP represents only the view of our counsel based on our counsel s review and analysis of existing law and on certain representations as to factual matters and covenants made by us, including representations relating to the values of our assets and the sources of our income and representations related to our future conduct. Proskauer Rose LLP has no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed in its opinion or of any subsequent change in applicable law. Qualification as a REIT involves the application of highly technical and complex rules 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 continue to qualify as a REIT. In addition, future legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or the U.S. federal income tax consequences of such qualification, including changes with retroactive effect.

If we elect to be taxed as a REIT and then were to fail to qualify as a REIT in any taxable year:

we would not be allowed to deduct our distributions to our stockholders when computing our taxable income;
we would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and possibly increased state and local taxes;

we could be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;

we would have less cash to make distributions to our stockholders; and

we might be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations we may incur as a result of our disqualification.

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Although we intend to operate in a manner intended to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our board of directors to determine to delay or revoke our REIT election. Even if we qualify as a REIT, we expect to incur some taxes, such as state and local taxes, taxes imposed on certain subsidiaries and potential U.S. federal excise taxes.

While we are relying upon opinion of counsel that we have met the asset tests for the calendar quarter ending March 31, 2011, we may not have met such requirements, in which case we would rely upon the reasonable cause exception to such requirement provided in Code Section 856(c)(7)(A) and seek relief from the IRS to such effect, which we believe we satisfy. However, there is no assurance the IRS will agree with our position and grant such relief.

We encourage you to read the Material U.S. Federal Income Tax Considerations section below for further discussion of the tax issues related to the offering.

Even if we qualify as a REIT, in certain circumstances, we may incur tax liabilities that would reduce our cash available for distribution to you.

Even if we qualify as a REIT, we may be subject to U.S. federal, state and local income taxes. For example, net income from the sale of properties that are dealer properties sold by a REIT (a prohibited transaction under the Code) will be subject to a 100% tax. We may not make sufficient distributions to avoid excise taxes applicable to REITs. We also may decide to retain net capital gain we earn from the sale or other disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability unless they file U.S. federal income tax returns and thereon seek a refund of such tax. We also may be subject to state and local taxes on our income or property, including franchise, payroll and transfer taxes, either directly or at the level of our operating partnership or at the level of the other companies through which we indirectly own our assets, such as our TRSs, which are subject to full U.S. federal, state, local and foreign corporate-level income taxes. Any taxes we pay directly or indirectly will reduce our cash available for distribution to you.

To qualify as a REIT we must meet annual distribution requirements, which may force us to forgo otherwise attractive opportunities or borrow funds during unfavorable market conditions. This could delay or hinder our ability to meet our investment objectives and reduce your overall return.

In order to qualify and maintain our status as a REIT, we must distribute to our stockholders each year at least 90% of our annual REIT taxable income (excluding net capital gain), determined without regard to the deduction for distributions paid. We will be subject to U.S. federal income tax on our undistributed taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (i) 85% of our ordinary income, (ii) 95% of our capital gain net income, and (iii) 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on investments in real estate assets and it is possible that we might be required to borrow funds, possibly at unfavorable rates, or sell assets to fund these distributions. Although we intend to make distributions sufficient to meet the annual distribution requirements and to avoid U.S. federal income and excise taxes on our earnings while we qualify as a REIT, it is possible that we might not always be able to do so. See the section entitled Material U.S. Federal Income Tax Considerations included in this prospectus.

Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.

Our ability to dispose of property during the first few years following acquisition is restricted to a substantial extent as a result of our REIT qualification. Under applicable provisions of the Code regarding prohibited transactions by REITs, we will be subject to a 100% penalty tax on any gain recognized on the sale or other disposition of any property (other than foreclosure property) that we own, directly or through any subsidiary entity, including our operating partnership, but generally excluding our TRSs, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of trade or business. Whether

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property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property. While we qualify as a REIT, we intend to avoid the 100% prohibited transaction tax by (1) conducting activities that may otherwise be considered prohibited transactions through a TRS (but such TRS will incur income taxes), (2) conducting our operations in such a manner so that no sale or other disposition of an asset we own, directly or through any subsidiary, will be treated as a prohibited transaction or (3) structuring certain dispositions of our properties to comply with a prohibited transaction safe harbor available under the Code for properties held for at least two years. However, despite our present intention, no assurance can be given that any particular property we own, directly or through any subsidiary entity, including our operating partnership, but excluding our TRSs, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

The use of TRSs would increase our overall tax liability.

Some of our assets may need to be owned or sold, or operations conducted, by TRSs. Any of our TRSs will be subject to U.S. federal and state income tax on their taxable income. The after-tax net income of our TRSs would be available for distribution to us. Further, we will incur a 100% excise tax on transactions with our TRSs that are not conducted on an arm s-length basis. For example, to the extent that the rent paid by one of our TRSs exceeds an arm s-length rental amount, such amount is potentially subject to the excise tax. We intend that all transactions between us and our TRSs will be conducted on an arm s-length basis, and therefore, any amounts paid by our TRSs to us will not be subject to the excise tax; *provided*, *however, that* no assurance can be given that no excise tax would arise from such transactions.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the market price of our common stock.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to investments similar to an investment in shares of our common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your own tax adviser with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. You also should note that our counsel s tax opinion was based upon existing law and Treasury Regulations, applicable as of the date of its opinion, all of which will be subject to change, either prospectively or retroactively.

Although REITs generally receive better tax treatment than entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

If the operating partnership fails to maintain its status as a partnership, its income may be subject to taxation.

We intend to maintain the status of the operating partnership as a partnership for U.S. federal income tax purposes. However, if the IRS were to successfully challenge the status of the operating partnership as a partnership for such purposes, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that the operating partnership could make to us. This would also result in our losing REIT status, and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the yield on your investment. In addition, if any of the partnerships or limited liability companies through which the operating partnership owns its properties, in whole or in part, loses its characterization as a partnership and is not otherwise disregarded for U.S. federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to the operating partnership. Such a recharacterization of an underlying property owner could also threaten our ability to maintain our REIT qualification.

Our investments in certain debt instruments may cause us to recognize phantom income for U.S. federal income tax purposes even though no cash payments have been received on the debt instruments, and certain modifications of such debt by us could cause the modified debt to not qualify as a good REIT asset, thereby jeopardizing our REIT qualification.

Our taxable income may substantially exceed our net income as determined based on GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may acquire assets, including debt securities requiring us to accrue original issue discount, or OID, or recognize market discount income, that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets referred to as phantom income. In addition, in the event a borrower with respect to a particular debt instrument encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income. We may also be required under the terms of the indebtedness that we incur to use cash received from interest payments to make principal payment on that indebtedness, with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders.

As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, we may be required to (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms, (3) distribute amounts that would otherwise be used for future acquisitions or used to repay debt, or (4) make a taxable distribution of our shares of common stock as part of a distribution in which stockholders may elect to receive shares of common stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements.

The failure of a mezzanine loan to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.

In general, in order for a loan to be treated as a qualifying real estate asset producing qualifying income for purposes of the REIT asset and income tests, the loan must be secured by real property. We may originate (in connection with a forward purchase or option to purchase contract) or acquire mezzanine loans that are not directly secured by real property but instead secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan that is not secured by real estate would, if it meets each of the requirements contained in the Revenue Procedure, be treated by the IRS as a qualifying real estate asset. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law and in many cases it may not be possible for us to meet all the requirements of the safe harbor. We cannot provide assurance that any mezzanine loan in which we invest would be treated as a qualifying asset producing qualifying income for REIT qualification purposes. If any such loan fails either the REIT income or asset tests, we may be disqualified as a REIT.

Furthermore, if we participate in any appreciation in value of real property securing a mortgage loan and the IRS characterizes such shared appreciation mortgage as equity rather than debt, for example, because of a large interest in cash flow of the borrower, we may be required to recognize income, gains, and other items with respect to the real property for U.S. federal income tax purposes. This could affect our ability to qualify as a REIT.

The allocation of the purchase price for the Units between the shares of Series A Redeemable Preferred Stock and the Warrants that make up the Units may cause you to recognize phantom income with respect to the Series A Redeemable Preferred Stock for U.S. federal income tax purposes, even though you will not receive any cash payments corresponding to such income.

If the allocation of the purchase price for the Units between the shares of Series A Redeemable Preferred Stock and the Warrants that comprise the Units results in an issue price for the Series A Redeemable

Preferred Stock that is lower than the price at which the Series A Redeemable Preferred Stock may be redeemed under certain circumstances, this difference in price (the redemption premium) will be treated as a constructive distribution of additional stock on preferred stock under Section 305(c) of the Code, unless the redemption premium is less than a statutory de minimis amount. Any such constructive distribution may need to be taken into account under principles similar to the principles governing the inclusion of accrued original issue discount under Section 1272(a) of the Code.

We intend to take a position, through an appropriate valuation methodology, on an allocation of the purchase price for the Units between the shares of Series A Redeemable Preferred Stock and the Warrants that make up the Units. If the allocation results in a value for the Warrant in excess of the statutory de minimis amount, we will report the premium in gross income of U.S. holders as it accrues under a constant yield method and include the amount on the annual dividend reporting form, Form 1099-DIV. However, our position on the allocation of the purchase price to the Warrants is not binding on the IRS. If the IRS were to take a different position regarding such allocation, U.S. holders would be required to include a different amount of redemption premium in gross income as it accrues under a constant yield method and may be required to treat any gain recognized on the disposition of the Series A Redeemable Preferred Stock as ordinary income rather than as capital gain. In addition, a non-U.S.-holder s receipt of such constructive dividend may be subject to U.S. federal withholding tax to the same extent as an actual distribution. See the section entitled Material U.S. Federal Income Tax Considerations for a more detailed discussion.

We may choose to make distributions in our own stock, in which case you may be required to pay income taxes in excess of the cash dividends you receive.

In connection with our qualification as a REIT, we are required to distribute at least 90% of our taxable income (excluding net capital gains) to our stockholders. In order to satisfy this requirement, we may distribute taxable dividends to our common stockholders that are payable in cash and shares of our common stock at the election of each stockholder. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend with respect to the taxable years ending on or before December 31, 2011 could be payable in our common stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current or accumulated earnings and profits for U.S. federal income tax purposes. As a result, U.S. stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. Accordingly, U.S. stockholders receiving a distribution of our shares may be required to sell shares received in such distribution or may be required to sell other stock or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock, by withholding or disposing of part of the shares in such distribution and using the proceeds of such disposition to satisfy the withholding tax imposed. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, such sale may put downward pressure on the trading price of our common stock.

Further, while Revenue Procedure 2010-12 applies only to taxable dividends payable by us in a combination of cash and stock with respect to the taxable years ending on or before December 31, 2011, and it is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock in later years. Moreover, various tax aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

Dividends payable by REITs generally do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to qualified dividend income payable to U.S. stockholders that are individuals, trusts and estates has been reduced by legislation to 15% for tax years beginning before January 1, 2013. Dividends payable by REITs, however, generally are not eligible for the reduced rates.

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Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

Complying with REIT requirements may limit our ability to hedge our liabilities effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code may limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets, if properly identified under applicable Treasury Regulations, does not constitute gross income for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions will likely be treated as non-qualifying income for purposes of both of the gross income tests. See the section entitled Certain Material U.S. Federal Income Tax Considerations Gross Income Tests Hedging Transactions included elsewhere in this prospectus. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in a TRS will generally not provide any tax benefit, except for being carried forward against future taxable income of such TRS.

Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and certain kinds of mortgage-related securities. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total securities can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate assets from our portfolio or not make otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

The share ownership restrictions of the Code for REITs and the 9.8% share ownership limit in our charter may inhibit market activity in our shares of stock and restrict our business combination opportunities.

In order to qualify as a REIT, five or fewer individuals, as defined in the Code, may not own, actually or constructively, more than 50% in value of our issued and outstanding shares of stock at any time during the last half of a taxable year, other than the first year for which a REIT election is made. Attribution rules in the Code determine if any individual or entity actually or constructively owns our shares of stock under this requirement. Additionally, at least 100 persons must beneficially own our shares of stock during at least 335 days of a taxable year for each taxable year after 2011. To help insure that we meet these tests, among other purposes, our charter restricts the acquisition and ownership of our shares of stock.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT while we so qualify. Unless exempted by our board of directors, as long as we qualify as a REIT, our charter prohibits, among other limitations on ownership and transfer of shares of our stock, any person from beneficially or constructively owning (applying certain attribution rules under the Code) more than 9.8% in value of the aggregate of our outstanding shares of stock

The share ownership restrictions of the Code for REITs and the 9.8% shareownership limit in our charter may inhibi

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or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of our shares of stock. Our board of directors may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of 9.8% of the value of our outstanding shares would result in the termination of our qualification as a REIT. These restrictions on transferability and ownership will not apply, however, if our board of directors determines that it is no longer in our best interest to continue to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to qualify as a REIT.

These ownership limits could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of the stockholders.

Non-U.S. stockholders may be subject to U.S. federal income tax on distributions received from us and may be subject to tax upon the disposition of our shares.

Subject to certain exceptions, distributions received from us will be treated as dividends of ordinary income to the extent of our current or accumulated earnings and profits. Such dividends (including any deemed dividend) ordinarily will be subject to U.S. withholding tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty, unless the distributions are treated as effectively connected with the conduct by the non-U.S. stockholder of a U.S. trade or business. Capital gain distributions attributable sales or exchanges of U.S. real property generally will be taxed to a non-U.S. stockholder as if such gain were effectively connected with a U.S. trade or business. See the section entitled Material U.S. Federal Income Tax Considerations Taxation of Non-U.S. Stockholders included elsewhere in this prospectus.

Gain recognized by a non-U.S. stockholder upon the sale or exchange of our common stock generally will not be subject to U.S. federal income taxation unless such stock constitutes a U.S. real property interest within the meaning of the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA. Our common stock will not constitute a U.S. real property interest so long as we are a domestically-controlled qualified investment entity. A domestically-controlled qualified investment entity includes a REIT if at all times during a specified testing period, less than 50% in value of such REIT s stock is held directly or indirectly by non-U.S. stockholders. We believe, but cannot assure you, that we have been a domestically-controlled qualified investment entity, and because our common stock will be publicly traded, no assurance can be given that we will continue to be a domestically-controlled qualified investment entity.

Even if we do not qualify as a domestically-controlled qualified investment entity at the time a non-U.S. stockholder sells or exchanges our common stock, gain arising from such a sale or exchange would not be subject to U.S. taxation under FIRPTA as a sale of a U.S. real property interest if: (1) our common stock is regularly traded, as defined by applicable Treasury regulations, on an established securities market, and (2) such non-U.S. stockholder owned, actually and constructively, 5% or less of our common stock throughout the applicable testing period. See the section entitled Material U.S. Federal Income Tax Considerations Special Tax Considerations for Non-U.S. Stockholders Sale of our Shares by a Non-U.S. Stockholder included elsewhere in this prospectus. We encourage you to consult your own tax advisor to determine the tax consequences applicable to you if you are a non-U.S. stockholder.

Potential characterization of distributions or gain on sale may be treated as unrelated business taxable income to tax-exempt investors.

If (1) we are a pension-held REIT, (2) a tax-exempt stockholder has incurred debt to purchase or hold our common stock or (3) a holder of common stock is a certain type of tax-exempt stockholder, dividends on, and gains recognized on the sale of, common stock by such tax-exempt stockholder may be subject to U.S. federal income tax as unrelated business taxable income under the Code.

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Employee Benefit Plan Risks

If you fail to meet the fiduciary and other standards under ERISA or the Code as a result of an investment in our stock, you could be subject to liability and penalties.

Special considerations apply to the purchase of stock or holding of Warrants by employee benefit plans subject to the fiduciary rules of Title I of ERISA, including pension or profit sharing plans and entities that hold assets of such ERISA Plans, and plans and accounts that are not subject to ERISA, but are subject to the prohibited transaction rules of Section 4975 of the Code, including IRAs, Keogh Plans, and medical savings accounts (collectively, we refer to ERISA Plans and plans subject to Section 4975 of the Code as Benefit Plans). If you are investing the assets of any Benefit Plan, you should satisfy yourself that:

- your investment is consistent with your fiduciary obligations under ERISA and the Code;
- your investment is made in accordance with the documents and instruments governing the Benefit Plan, including the Benefit Plan s investment policy;
- your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA, if applicable, and other applicable provisions of ERISA and the Code;
- your investment will not impair the liquidity of the Benefit Plan;
- your investment will not produce UBTI for the Benefit Plan;
- you will be able to value the assets of the plan annually in accordance with ERISA requirements and applicable provisions of the Benefit Plan; and
- your investment will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Fiduciaries may be held personally liable under ERISA for losses as a result of failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA. In addition, if an investment in our stock or holding of Warrants constitutes a non-exempt prohibited transaction under ERISA or the Code, the fiduciary of the plan who authorized or directed the investment may be subject to imposition of excise taxes with respect to the amount invested and an IRA investing in the stock may lose its tax exempt status.

Plans that are not subject to ERISA or the prohibited transactions of the Code, such as government plans or church plans, may be subject to similar requirements under state law. Such plans should satisfy themselves that the investment satisfies applicable law. We have not, and will not, evaluate whether an investment in our stock or holding of Warrants is suitable for any particular plan.

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RESTRICTIONS IMPOSED BY THE USA PATRIOT ACT AND RELATED ACTS

In accordance with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as amended, or the USA PATRIOT Act, the shares of Series A Redeemable Preferred Stock and Warrants offered hereby may not be offered, sold, transferred or delivered, directly or indirectly, to any unacceptable investor, which means anyone who is:

a designated national, specially designated national, specially designated terrorist, specially designated global terrorist, foreign terrorist organization, or blocked person within the definitions set forth in the Foreign Assets Control Regulations of the U.S. Treasury Department;

acting on behalf of, or an entity owned or controlled by, any government against whom the U.S. maintains economic sanctions or embargoes under the Regulations of the U.S. Treasury Department;

within the scope of Executive Order 13224 Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism, effective September 24, 2001;

subject to additional restrictions imposed by the following statutes or regulations, and executive orders issued thereunder: the Trading with the Enemy Act, the Iraq Sanctions Act, the National Emergencies Act, the Antiterrorism and Effective Death Penalty Act of 1996, the International Emergency Economic Powers Act, the United Nations Participation Act, the International Security and Development Cooperation Act, the Nuclear Proliferation Prevention Act of 1994, the Foreign Narcotics Kingpin Designation Act, the Iran and Libya Sanctions Act of 1996, the Cuban Democracy Act, the Cuban Liberty and Democratic Solidarity Act and the Foreign Operations, Export Financing and Related Programs Appropriation Act or any other law of similar import as to any non-U.S. country, as each such act or law has been or may be amended, adjusted, modified or reviewed from time to time; or

designated or blocked, associated or involved in terrorism, or subject to restrictions under laws, regulations, or executive orders as may apply in the future similar to those set forth above.

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words believe, expect, anticipate, estimate, plan, continue, intend, should, could, may or similar expressions, we intend to identify forwar statements. Statements regarding the following subjects, among others, may be forward-looking:

- use of proceeds of the offering;
- our business and investment strategy;
- our projected operating results;
- actions and initiatives of the U.S. government and changes to U.S. government policies and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic areas;
- economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements, including through Fannie Mae and Freddie Mac;
- financing and advance rates for our target assets;
- our expected leverage;
- general volatility of the securities markets in which we invest;
- changes in the values of our assets;
- our expected portfolio of assets;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;
- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to qualify as a REIT and, once qualified, maintain our qualification as a REIT for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future;
- our understanding of our competition; and

market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described in this prospectus under the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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ESTIMATED USE OF PROCEEDS

The table below sets forth our estimated use of proceeds from the offering. The first scenario assumes we sell the minimum number of 2,000 Units in this offering, and the second scenario assumes we sell the maximum of 150,000 Units in the offering, with both scenarios contemplating a public offering price of $1,000 per Unit.

The Series A Redeemable Preferred Stock and Warrants will be sold in Units, with each Unit consisting of (i) one share of Series A Redeemable Preferred Stock with an initial Stated Value of $1,000 per share, and (ii) one Warrant to purchase 20 shares of common stock, exercisable by the holder at an exercise price of 120% of the current market price per share of our common stock determined using the volume weighted average price of our common stock for the 20 trading days prior to the date of issuance of such Warrant, subject to a minimum exercise price of $9.00 per share (subject to adjustment). Each Unit will be sold at a public offering price of $1,000 per Unit. Units will not be issued or certificated. The shares of Series A Redeemable Preferred Stock and Warrants are immediately separable and will be issued separately.

Estimated Application of Proceeds of the Offering

	Minimum Offering		Maximum Offering	
	Amount	Percent	Amount	Percent
Gross offering proceeds	$2,000,000	100.00 %	$150,000,000	100.00 %
Offering expenses:				
Selling commissions(1)	$140,000	7.00 %	$10,500,000	7.00 %
Dealer manager fee(1)	$60,000	3.00 %	$4,500,000	3.00 %
Other offering expenses(2)	$30,000	1.50 %	$2,250,000	1.50 %
Amount available for investment(3)	$1,770,000	88.50 %	$132,750,000	88.50 %
Cash down payment (equity)	$1,622,286	81.11 %	$121,671,429	81.11 %
Acquisition fees (real estate commissions)(4)	$47,714	2.39 %	$3,578,571	2.39 %
Working capital reserve	$100,000	5.00 %	$7,500,000	5.00 %
Proceeds invested	$1,770,000	88.50 %	$132,750,000	88.50 %
Offering expenses	$230,000	11.50 %	$17,250,000	11.50 %
Total application of proceeds	$2,000,000	100.00 %	$150,000,000	100.00 %

(1) Assumes selling commissions equal to 7.0% of gross offering proceeds and a dealer manager fee of 3.0% of gross offering proceeds. See the Plan of Distribution section of this prospectus for a description of these provisions.

(2) Includes all expenses (other than selling commissions and the dealer manager fee) to be paid by us or on our behalf in connection with the qualification and registration of the offering and the marketing and distribution of the Units, including, without limitation, expenses for printing and amending registration statements or supplementing prospectuses, mailing and distributing costs, all advertising and marketing expenses, charges of transfer agents, registrars and experts and fees, expenses and taxes related to the filing, registration and qualification, as necessary, of the sale of the Units under federal and state laws, including taxes and fees and accountants and attorneys fees. We will reimburse our manager and its affiliates for such offering expenses in an amount up to 1.5% of gross offering proceeds to the extent such offering expenses have not been paid directly by us. Our manager and its affiliates will be responsible for any such offering expenses that exceed 1.5% of gross offering proceeds, without recourse against or reimbursement by us. All organization and offering expenses, including selling commissions

and the dealer manager fee, will be capped at 11.5% of the gross proceeds of this offering.

(3) Although the net proceeds are expected to be used in connection with the acquisition of multifamily properties and the payment of fees and expenses related thereto, the proceeds are available for our other capital needs, whether related to the repayment of debt or otherwise. For purposes of this table, however, we have assumed that we will use all the net proceeds for acquisitions of real property and the payment of related fees and expenses. Until required in connection with the acquisition of real property, other real estate-related investments or other capital needs, we intend to invest the net proceeds of the offering in a

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manner which will not adversely affect our ability to qualify, or maintain our qualification, as a REIT for federal tax purposes. Net proceeds do not include any amounts received by us in connection with any exercise of the Warrants.

(4) Real estate commissions are defined as the total of all fees and commissions paid by any person to any person, including our manager or affiliates, in connection with the selection, purchase, construction or development of any property by us, whether designated as real estate commission, acquisition fees, finders' fees, selection fees, development fees, construction fees, non-recurring management fees, consulting fees or any other similar fees or commissions howsoever designated and howsoever treated for tax or accounting purposes. No real estate commissions are being paid by us in connection with the purchase of the acquired properties other than the acquisition fee that will be paid to our manager pursuant to our management agreement with our manager. See the section entitled Our Manager and Management Agreement Management Compensation included elsewhere in this prospectus for a detailed discussion of the acquisition fees that may be paid by us.

Assuming the maximum offering, we estimate that the net proceeds we will receive from selling our Units in the offering will be approximately $132.8 million in the aggregate, after deducting estimated offering expenses, including selling commissions and the dealer manager fee, of approximately $17.2 million. Net proceeds do not include any amounts received by us in connection with any exercise of the Warrants.

We intend to invest substantially all the net proceeds of the offering in connection with the acquisition of multifamily properties. If all the net proceeds of the offering are used to directly acquire multifamily properties, we estimate that these properties would have an aggregate gross value (inclusive of mortgage indebtedness) of approximately $357.9 million. We intend to acquire such properties through the incurrence of indebtedness (secured and unsecured) of approximately 65% of the value of our tangible assets on a portfolio basis, with the balance of the acquisition cost thereof funded through the use of the net proceeds of this offering. Until appropriate assets can be identified, our manager may invest the net proceeds of the offering in interest-bearing short-term investments that are consistent with our intention to qualify as a REIT.

Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our board without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. In addition, we intend to have no long-term corporate level debt.

Our manager may invest net proceeds of the offering in interest-bearing short-term investments that are consistent with our intention to qualify as a REIT, pending investment in our target assets. These initial investments are expected to provide a lower net return than we will seek to achieve from our target assets.

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RATIO OF EARNINGS TO FIXED CHARGES

The computation of our ratio of earnings to fixed charges indicates that earnings were inadequate to cover fixed charges by approximately $4.4 million for the six months ended June 30, 2011. Since we commenced revenue-generating operations in April 2011, the ratio of earnings to fixed charges is not a meaningful measure for any period prior to 2011.

Our ratio of earnings to fixed charges is computed by dividing earnings by fixed charges. Our ratio of earnings to fixed charges and preferred dividends is not presented as we do not currently have any shares of preferred stock outstanding. For these purposes, earnings consists of net loss plus fixed charges, less the value of unamortized deferred loan costs. Net loss is computed in accordance with GAAP and includes such non-cash items as real estate depreciation, amortization of the value of customer relationships, leases in place and above (below) market rents, amortization of deferred loan costs. Net loss also includes one-time transactional costs relating to our IPO and organizational costs. Fixed charges consist of interest expense on mortgage debt secured by our three multifamily communities, and capitalization and amortization of deferred loan costs. Interest income is not included in this computation.

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DISTRIBUTION POLICY

Holders of Series A Redeemable Preferred Stock are entitled to receive, when and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on the date of issuance. We expect to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day), beginning no later than the month following the first full month after we receive and accept aggregate subscriptions in excess of the minimum offering. Once we begin paying such dividends, we expect to pay them monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our board of directors, in its sole discretion, and may vary from time to time.

We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gain, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We generally intend to pay over time regular quarterly dividends in an amount equal to the remainder of our net taxable income to holders of our common stock. On May 5, 2011, we declared a quarterly cash dividend to our common stockholders of record as of June 30, 2011, that was paid on July 15, 2011, in the amount of $0.125 per share of common stock, totaling approximately $646,487. On August 4, 2011, we declared a quarterly cash dividend of $0.125 per share, which will be paid on October 17, 2011 to all common stockholders of record as of September 30, 2011. As expected, cash available for distribution was not sufficient to fully fund the second quarter dividend and approximately $227,000 from our working capital and dividend reserve was used to cover this shortfall. For the remainder of 2011, we currently expect to maintain a quarterly dividend payment to common stockholders of $0.125 per share. To the extent we continue to pay dividends at this rate, we currently expect that cash available for distribution will be sufficient to fund the dividend payments to common stockholders for the third and fourth quarters of 2011. Although not currently anticipated, if our board of directors determines to make distributions in excess of the income or cash flow generated from our target assets, we may make such distributions from the proceeds of this or future offerings of equity or debt securities or other forms of debt financing or the sale of assets.

To the extent that in respect of any calendar year, cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions or make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We generally will not be required to make distributions with respect to activities conducted through any TRS that we form following the completion of the offering. For more information, see the section entitled Material U.S. Federal Income Tax Considerations General included elsewhere in this prospectus.

To satisfy the requirements to qualify as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions of all or substantially all the remainder of our REIT taxable income to holders of our common stock out of assets legally available therefor. The amount of cash available for distribution will be decreased by any fees or expenses payable by us to our manager under the management agreement. Any distributions we make to our stockholders will be at the discretion of our board of directors and will depend upon our earnings, financial condition, liquidity, debt covenants, funding or margin requirements under credit facilities, repurchase agreements or other secured and unsecured borrowing agreements, maintenance of our REIT qualification, applicable provisions of the Maryland General Corporation Law, or the MGCL, and such other factors as our board of directors deems relevant. Our earnings, financial condition and liquidity will be affected by various factors, including the net income from our portfolio, our operating expenses and any other expenditures. See the section entitled Risk Factors included elsewhere in this prospectus.

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We anticipate that our distributions generally will be taxable as ordinary income to our stockholders, although a portion of the distributions may be designated by us as qualified dividend income or capital gain or may constitute a return of capital. In addition, a portion of such distributions may be taxable stock dividends payable in our shares. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain. For more information, see the section entitled Material U.S. Federal Income Tax Considerations Taxation of U.S. Stockholders included elsewhere in this prospectus.

MARKET PRICE RANGE OF OUR COMMON STOCK

Our common stock is traded on the AMEX under the symbol APTS. There currently is no market for our shares of Series A Redeemable Preferred Stock and we do not currently intend to list our shares of Series A Redeemable Preferred Stock on any securities exchange in the future. Please see Risk Factors Risks Related to this Offering There is no public market for our Series A Redeemable Preferred Stock or Warrants and we do not expect one to develop.

Our common stock began trading on the AMEX on April 1, 2011 with the closing of our initial public offering. The high and low sales prices for our common stock for the third quarter of 2011 as reported by the AMEX was $9.01 and $5.68, respectively. The last reported sales price of our common stock on October 31, 2011 was $6.50.

As of November 1, 2011, our common stock was held by 13 stockholders of record. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we were unable to estimate the total number of beneficial owners represented by these stockholders of record.

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CAPITALIZATION

The following table sets forth (a) our actual capitalization at June 30, 2011, and (b) our capitalization as adjusted to reflect the effect of the issuance of (i) 2,000 shares of Series A Redeemable Preferred Stock in the offering, assuming the sale of the minimum offering, and (ii) 150,000 shares of Series A Redeemable Preferred Stock, assuming the sale of the maximum offering, each after deducting estimated offering expenses, including selling commissions and the dealer manager fee, payable by us. You should read this table together with the section entitled Estimated Use of Proceeds included elsewhere in this prospectus.

	June 30, 2011		
	Actual	As Adjusted Minimum Offering	As Adjusted Maximum Offering
	(unaudited)		
Stockholders' equity:			
Series A Redeemable Preferred Stock, par value $0.01 per share; 150,000 shares authorized and 2,000 or 150,000 issued and outstanding	$	$20	$1,500
Common Stock, par value $0.01 per share; 400,066,666 shares authorized and 5,145,899 issued and outstanding	$51,459	$51,459	$51,459
Additional paid-in capital(1)	$51,027,974	$53,027,954	$201,026,474
Syndication and offering costs	$(6,038,515)	$(6,268,515)	$(23,288,515)
Accumulated deficit	$(5,180,047)	$(5,180,047)	$(5,180,047)
Non-controlling interest	$1	$1	$1
Total equity (deficit)	$39,860,872	$41,630,872	$172,609,372

(1) Included in the as adjusted additional paid in capital for the as adjusted minimum offering and maximum offering columns is the fair value of the Warrants that are included in the Units sold in this offering, which Warrants are immediately separable from our Series A Preferred Stock and which Warrants have aggregate estimated fair values of $42,668 and $3,200,088, respectively. Each Warrant is potentially exercisable into 20 shares of our common stock, beginning one year after the date of issuance and expires four years after the date of issuance. The fair value of each Warrant included in each Unit is $21.33 (or $1.07 on a per underlying share common stock basis) and was calculated utilizing the Black-Scholes-Merton model with valuation assumptions as of September 30, 2011.

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SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial and operating data for the company on a historical basis.

The following selected financial and operating data should be read in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and notes thereto, appearing elsewhere in this prospectus.

	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2011	For the Year Ended December 31, 2010
Statement of operations data:			
Revenue:			
Rental Revenues	**$ 1,691,663**	**$ 1,691,663**	**$**
Other property revenues	**185,275**	**185,275**	
Interest income on real estate loan	**1,333**	**1,333**	
Total revenue	**1,878,271**	**1,878,271**	
Expenses:			
Total expenses	**5,858,886**	**6,292,119**	**766,199**
Net income (loss)	**$ (3,980,615)**	**$ (4,413,848)**	**$ (766,199)**
Net income (loss) per share of common stock	**$ (0.81)**	**$ (1.78)**	**$ (20.90)**
Cash dividends declared per share of common stock	**$ 0.125**	**$ 0.125**	**$**
Balance sheet data (end of period):			
Assets:			
Total assets	**$ 97,245,235**	**$ 97,245,235**	**$ 829,812**
Liabilities:			
Mortgage notes payable (long-term)	**$ 55,637,000**	**$ 55,637,000**	**$**
Note payable (short-term)			**1,470,948**
Accrued interest	**168,056**	**168,056**	**15,064**
Dividends payable	**646,487**	**646,487**	
Security deposits and prepaid rents	**148,180**	**148,180**	
Deferred real estate loan income	**74,333**	**74,333**	
Total liabilities	**$ 57,384,363**	**$ 57,384,363**	**$ 1,486,012**
Total equity (deficit)	**$ 39,860,872**	**$ 39,860,872**	**$ (656,200)**

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the sections entitled Risk Factors, Forward-Looking Statements, Business and our audited financial statements as of and for the period ended December 31, 2010 and our unaudited financial statements as of and for the three and six months ended June 30, 2011 and the related notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements reflecting current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled Risk Factors and elsewhere in this prospectus.

Overview

We are an externally managed Maryland corporation incorporated on September 18, 2009 formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As a secondary strategy, we also may acquire senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily assets as determined by Preferred Apartment Advisors, LLC, our manager, as appropriate for us. We collectively refer to these asset classes as our target assets.

In addition, while we currently do not anticipate investing in unimproved property, developing new construction properties or acquiring new construction, as part of our property acquisition strategy we plan to consider forward purchase contracts on, or options to purchase, to-be-built multifamily assets with appropriate provisions that may include minimum occupancy, income thresholds, due diligence requirements and, if necessary or appropriate, financing. In connection with entering into a forward purchase contract or purchase option, we may make mezzanine loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate in connection with the construction of these properties.

We expect to seek to generate returns for our stockholders by taking advantage of the current environment in the real estate market created by the recent United States financial crisis and downturn in the United States economy to acquire multifamily assets that have seen a dramatic drop in value due to, among other factors, downward pressure on renter incomes. As the real estate market and economy stabilize, we intend to employ efficient management techniques to grow income and create asset value.

As market conditions change over time, we intend to adjust our investment strategy to adapt to such changes as appropriate. We continue to believe there are abundant opportunities among our target assets that currently present attractive risk-return profiles. However, in order to capitalize on the investment opportunities that may be present in the various other points of an economic cycle, we may expand or change our investment strategy and target assets. We believe that the diversification of the portfolio of assets that we intend to acquire, our ability to acquire and manage our target assets, and the flexibility of our strategy will position us to generate attractive total returns for our stockholders in a variety of market conditions.

We intend to elect and qualify to be taxed as a REIT, commencing with our tax year ending December 31, 2011. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act. We conduct substantially all our operations through our operating partnership, Preferred Apartment Communities Operating Partnership, L.P.

We commenced revenue-generating operations in April 2011.

Industry Outlook

We believe gradually improving conditions in the United States economy, as evidenced by stabilized unemployment figures and improved public company earnings reports, especially during the second quarter of 2011, should eventually translate into overall job growth and resulting improvements in consumer confidence, creating upward movement of rents. We expect current high occupancy rates to improve as net absorption of available unit inventory continues over the near term. The pipeline of new multifamily construction is currently small, due to a difficult construction financing environment. The recent downgrade of the U.S. credit rating by Standard & Poor s and the subsequent downgrade of Freddie Mac and Fannie Mae could result in higher near-term borrowing costs that could reduce further the amount of new multifamily construction. We expect the supply of multifamily housing units to eventually grow as market rent increases overcome financing, commodity, and other cost challenges, boosting revenue projections and making more construction projects viable for builders and developers.

We believe the combination of a more sustainable, but restrained, current and future lending approach from the banking industry, coupled with continued hesitance and reluctance among prospective homebuyers about the net benefits of home ownership versus renting, will continue to work in the industry s favor, resulting in gradual increases in market rents, low concessions and opportunities for increases in ancillary fee income. In addition, we believe immigration rates to the U.S. will be lower than in recent years, driven by fewer available jobs due to the economic downturn and recently enacted legislation in certain states aiming to curb illegal immigration. As new residents of the United States are believed to be primarily renters rather than home buyers, we expect a softening of market rents due to this factor. More than offsetting this effect, we believe will be a firming effect upon market rents by the ongoing migration of the domestic echo-boomer generation into the workforce, resulting in a net increase in demand for rental housing.

Critical Accounting Policies

Below is a discussion of the accounting policies that management believes are critical. We consider these policies critical because they involve significant management judgments, assumptions, and estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Real Estate

Cost Capitalization. Investments in real estate properties will be carried at cost and depreciated using the straight-line method over the estimated useful lives of 40 years for buildings, 5 10 years for building and land improvements and 5 to 10 years for computers, furniture, fixtures and equipment. Third-party acquisition costs will generally be expensed as incurred. Repairs, maintenance and tenant turnover costs will be charged to expense as incurred and significant replacements and betterments will be capitalized. Repairs, maintenance and tenant turnover costs include all costs that do not extend the useful life of the real estate property. We will consider the period of future benefit of an asset to determine its appropriate useful life.

Real Estate Acquisition Valuation. We generally will record the acquisition of income-producing real estate as a business combination. All assets acquired and liabilities assumed in a business combination will be measured at their acquisition-date fair values. Acquisition costs generally will be expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date will be expensed in periods subsequent to the acquisition date. In addition, changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will be recorded to income tax expense.

We will assess the acquisition-date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis)and that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

We will record above-market and below-market in-place lease values for acquired properties based on 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 average non-cancelable term of the leases. We will amortize any recorded above-market or below-market lease values as a reduction or increase, respectively, to rental income over the remaining average non-cancelable term of the respective leases.

Intangible assets include the value of in-place leases, which represents the estimated value of the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. These estimates will include estimated carrying costs, such as real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the hypothetical expected lease-up periods. Acquired in-place lease value will be amortized to operating expense over the average remaining non-cancelable term of the respective in-place leases.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities will require us to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, the number of years the property will be held for investment and market interest rates. The use of inappropriate assumptions would result in an incorrect valuation of our acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of our net income.

Impairment of Real Estate, Loans and Related Intangible Assets. We will monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate, loans and related intangible assets may not be recoverable or realized. When conditions suggest that our tangible and intangible assets may be impaired, we will compare their carrying value to their estimated undiscounted future cash flows, including proceeds from their eventual disposition. If, based on this analysis, we do not believe that we will be able to recover the carrying value of our tangible and intangible assets, we would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of the real estate and related intangible assets. Fair market value will be determined based on a discounted cash flow analysis. This analysis will require management to use future estimates of net operating income, expected hold period, capitalization rates and discount rates. The use of inappropriate assumptions would result in an incorrect valuation of the assets which would impact the amount of our net income and our assets on our balance sheet.

Rents and Other Receivables

We will periodically evaluate the collectability of amounts due from tenants and will maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments then due under lease agreements. We will write off the balance of amounts due from tenants when we deem the amounts to be uncollectible.

Revenue Recognition

We expect to lease apartment units under operating leases with terms generally of 13 months or less. Generally, credit investigations will be performed for prospective residents and security deposits will be obtained. Rental revenue, net of concessions, will be recognized on a straight-line basis over the term of the lease. However, if the difference between the straight-line basis and recognition as earned is not material, we will recognize rental revenue as it is earned.

We will recognize gains on sales of real estate either in total or deferred for a period of time, depending on whether a sale has been consummated, the extent of the buyer s investment in the property being sold, whether our receivable, if any, is subject to future subordination, and the degree of our continuing involvement with the property after the sale, if any. If the criteria for profit recognition under the full-accrual method are not met, we will defer gain recognition and account for the continued operations of the property by applying the percentage-of-completion, reduced profit, deposit, installment or cost recovery method, as appropriate, until the appropriate criteria are met.

Other income, including interest earned on our cash, will be recognized as it is earned. We will recognize interest income on real estate loans on an accrual basis over the life of the loan using the effective interest method. Direct loan origination fees and origination or acquisition costs, will be amortized over the life of the loan as an adjustment to interest income. We will stop accruing interest on loans when there is concern as to the ultimate collection of principal or interest of the loan.

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Income Taxes

We intend to elect to be taxed as a REIT, commencing with our tax year ending December 31, 2011. We expect to have little or no taxable income prior to December 31, 2011. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to our stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to U.S. federal income tax to the extent we distribute qualifying dividends to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for the four taxable years following the year during which qualification is lost unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we intend to operate in such a manner as to qualify for treatment as a REIT.

Equity Compensation

We calculate the fair value of equity compensation instruments at the date of grant based upon estimates of their expected term, the expected volatility of and dividend yield on our common stock over this expected term period and the market risk-free rate of return. When appropriate, we will also estimate forfeitures of these instruments and accrue the compensation expense, net of estimated forfeitures, over the vesting period(s).We record the fair value of restricted stock awards as the product of the trailing 5-day volume-weighted average price and the number of shares of stock granted.

Recent Adoption of Accounting Pronouncements

In December 2010, the FASB issued ASU 2010-29, *Business Combination (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*. This new guidance requires pro forma disclosure of revenue and earnings for the combined entity as though all business combinations that occurred during the period had occurred as of the beginning of the first annual reporting period presented. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. This new guidance was effective for the first annual reporting period beginning after December 15, 2010. Adoption had no effect on our financial position or results of operations.

Results of Operations

Overview

We commenced business operations in the second quarter of 2011 with the acquisitions of the Stone Rise, Summit Crossing, and Trail Creek multifamily communities on April 15, 21 and 29, 2011, respectively. The sources of financing were approximately $34.0 million (including approximately $2.3 million of closing costs) from the proceeds of our initial public offering, which closed on April 5, 2011, and secured first mortgage financing of approximately $55.6 million. On June 30, 2011, we made a mezzanine loan investment of $6.0 million to partially finance the construction of a 96-unit multifamily community that is located adjacent to our existing Trail Creek multifamily community in Hampton, Virginia and, in connection therewith, received an option to purchase the community.

We recorded a net loss of approximately $4.0 million and $4.4 million for the three-month and six-month periods ended June 30, 2011, respectively. Adjusted Funds from Operations, or AFFO, were $429,857 for the quarterly period ended June 30, 2011 and Cash Available for Distribution, or CAD, was $419,917 at June 30, 2011. See the Adjusted Funds From Operations and Cash Available for Distribution sections within this Management s Discussion and Analysis of Financial Condition and Results of Operations for definitions of these non-GAAP measures and a reconciliation to net loss attributable to the Company, which we believe is the most comparable GAAP measure. On July 15, 2011 we paid our first quarterly dividend of $.125 per share, for a total of $646,487. As expected, since we did not own the Stone Rise, Summit Crossing, and Trail Creek communities for the full quarter ended June 30, 2011, CAD was not sufficient to fully fund the second quarter dividend and approximately $227,000 from our working capital and dividend reserve, designed for this purpose, was used to cover this shortfall. We expect, however, that CAD will be sufficient to fund our projected dividend distributions for the remaining quarters of 2011.

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Acquired properties

On April 15, 2011, we acquired 100% of the membership interests in Stone Rise Apartments, LLC, a Delaware limited liability company (f/k/a Oxford Rise JV LLC), the fee-simple owner of a multifamily community located in suburban Philadelphia, Pennsylvania, or Stone Rise. WOF owned the membership interests in Stone Rise Apartments, LLC. See the section entitled Certain Relationships and Related Transactions for information on our relationship with WOF.

On April 21, 2011, we acquired 100% of the membership interests in PAC Summit Crossing, LLC, a Georgia limited liability company (f/k/a Oxford Summit Partners, LLC), the fee-simple owner of a multifamily community located in suburban Atlanta, Georgia, or Summit Crossing. WRF owned a majority of the membership interests in PAC Summit Crossing, LLC. See the section entitled Certain Relationships and Related Transactions for information on our relationship with WRF.

On April 29, 2011, we acquired Oxford Trail, a multifamily community located in Hampton, Virginia from Oxford Trail JV LLC, or Trail Creek. WRF owned an approximately 10% membership interest in Oxford Trail JV LLC. See the section entitled Certain Relationships and Related Transactions for information on our relationship with WRF.

Community	Purchase Price (millions)	Mortgage Debt at June 30, 2011 (millions)	Mortgage Debt at June 30, 2011/ Purchase Price	Number of Units
Summit Crossing	$ 33.20	$ 20.86	62.8 %	345
Trail Creek	23.50	15.28	65.0 %	204
Stone Rise	30.15	19.50	64.7 %	216
Total	$ 86.85	$ 55.64	64.1 %	765

Community	Year Completed	Number of Units	Average Unit Size (sq. ft.)	At June 30, 2011 Physical Occupancy(1)	Three months ended June 30, 2011 Average Economic Occupancy(2)
Summit Crossing	2007	345	1,034	95.4 %	82.3 %
Trail Creek	2006	204	988	94.6 %	86.6 %
Stone Rise	2008	216	1,078	94.4 %	77.4 %
Total		765	1,033	94.9 %	82.0 %

(1) Count of occupied units (including models) divided by total units at reporting date.

(2) Gross potential rent less vacancy losses, model expenses, bad debt expenses and concessions divided by gross potential rent.

Real estate loan investment

On June 30, 2011, we made a mezzanine loan investment of $6.0 million to Oxford Hampton Partners LLC (Hampton Partners), a Georgia limited liability company and a related party, to partially finance the construction of a 96-unit multifamily community located adjacent to the Company s existing Trail Creek multifamily community in Hampton, Virginia. Hampton Partners was required to fully draw down the mezzanine loan on the closing date. WRF has contributed 100% of the cash equity in Oxford Hampton Partners LLC to date.

The mezzanine loan matures on June 29, 2016, with no option to extend and pays interest at a fixed rate of 8.0% per annum. Interest will be paid monthly with principal and any accrued but unpaid interest (including the exit fee) due at maturity. Under the terms of a purchase option agreement entered into in connection with the closing of the mezzanine loan, we have an option (but not an obligation) to purchase the property between and including April 1, 2014 and June 30, 2014 for $17,825,600, which is the amount of the aggregate project costs as set forth in the approved construction budget on the closing date. If the property is

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sold to, or refinanced by, a third party before July 1, 2014, we will be entitled to receive an exit fee equal to the amount required to provide it with a 14% cumulative internal rate of return on the loan. If the property is sold to, or refinanced by, a third party on or after July 1, 2014, then we will be entitled to receive an exit fee equal to the amount required to provide it with a 12% cumulative internal rate of return on the loan. The calculation of the cumulative internal rate of return will include the loan s fees received at closing. Since the minimum exit fee, assuming the purchase option is not exercised, is the amount needed to provide a 12% cumulative internal rate of return, we will accrue each period the additional exit fee earned based on the 12% rate assuming the loan was paid off at period end. The accrued exit fee will be recorded as interest income in the consolidated statements of operations. As of June 30, 2011, no additional exit fee was earned by us.

If we exercise the purchase option and acquire the property, any accrued and unpaid exit fee will be treated as additional basis in the acquired project.

The mezzanine loan is secured by a pledge of 100% of the membership interests of Hampton Partners. Partial prepayment of the mezzanine loan is not permitted without our consent. The mezzanine loan is subordinate to a senior loan of up to an aggregate amount of $10 million that is held by an unrelated third party. W. Daniel Faulk, Jr. and Richard A. Denny, both unaffiliated third parties, have guaranteed to us the completion of the project in accordance with the plans and specifications. This guaranty is subject to the rights held by the senior lender pursuant to a standard intercreditor agreement with the senior lender.

In connection with the closing of the mezzanine loan, we received a loan fee of 2% of the loan amount, or $120,000, and a loan commitment fee of $14,333. We paid an acquisition fee of $60,000 to our manager out of these funds. The net fees received by us will be recognized as an adjustment of yield over the term of the loan using the effective interest method.

Revenues

We recorded total revenue of approximately $1.9 million for the three-month and six-month periods ended June 30, 2011 as we commenced operations with the acquisitions of three multifamily communities in April 2011. Rental revenue from tenants of the multifamily communities comprised approximately 90% of total revenues for the three-month and six-month periods ended June 30, 2011 and began with the dates of acquisition. Occupancy rates and rent growth are the primary drivers of increases in rental revenue from acquired multifamily communities. At June 30, 2011, the combined properties had physical occupancy rates of 94.9% of the total units available for rent, including model units. Average economic occupancy rates, defined as gross potential rent less vacancy losses, model expenses, bad debt expenses and concessions divided by gross potential rent were approximately 82.0% for the period beginning with the dates of acquisition through June 30, 2011. At acquisition, we recorded an intangible liability for below market leases in place at the Stone Rise community of $181,671, which is to be amortized into income over the average remaining lease term, which is approximately six months. We expect to receive accretive results to revenue in future periods as these lower-priced leases are renewed at higher expected market rates.

Factors which we believe affect market rents include vacant unit inventory in local markets, local and national economic growth and resultant employment stability, income levels and growth, the ease of obtaining credit for home purchases, and changes in demand due to consumer confidence in the above factors.

We also collect revenue from tenants for items such as utilities, application fees, lease termination fees, and late charges. Other property revenues were approximately 9.9% of total revenues for the three-month and six-month periods ended June 30, 2011.

We recorded one day of interest income, totaling $1,333, from the mezzanine loan investment which closed on June 30, 2011. The $6.0 million loan accrues interest at 8.0% per annum.

Property operating and maintenance expense

We recorded expenses for the operations and maintenance of our multifamily communities of $436,801, or 8.4% and 7.9% of total operating expenses for the three-month and six-month periods ended June 30, 2011, respectively. The primary components of operating and maintenance expense are salary and benefits expense of property personnel, utilities, property repairs, and landscaping costs. The number of employees assigned by our property manager to our three multifamily communities was 17 at June 30, 2011 and is not expected to change materially over the foreseeable future. The expenses incurred for property repairs and, to a lesser

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extent, utilities could generally be expected to increase gradually over time as the buildings and properties age and become worn. Utility costs may generally be expected to increase in future periods as rate increases from providing carriers are passed on to users, at the rate of inflation or slightly higher.

Management fees

We pay a fee for property management services to our manager in an amount of 4% of gross property revenues as compensation for services such as rental, leasing, operation and management of our communities and the supervision of any subcontractors. For the period beginning with the dates of acquisition through June 30, 2011, these costs totaled $75,053. We also paid general and administrative expense fees and asset management fees to our manager which totaled $145,266 for the period beginning with the dates of acquisition through June 30, 2011. The percentage of these costs charged is governed by the Third Amended and Restated Management Agreement with our manager.

Real estate taxes

We are liable for property taxes due to the various counties and municipalities that levy such taxes on real property for each of our three multifamily communities. The assessed values of our communities, the estimated annual effective tax rates and expected total property taxes for 2011, as of June 30, 2011, were:

Community	Assessed Value	Estimated Annual Effective Tax Rate	Expected Property Taxes 2011
Stone Rise	$ 11,130,000	3.22 %	$ 358,581
Summit Crossing	5,763,576	2.66 %	153,449
Trail Creek	20,795,600	1.05 %	218,494
Total	$ 37,689,176	1.94 %	730,524

We generally expect the assessed values of our multifamily properties to rise over time, owing to our expectation of improving market conditions, pressure on municipalities to raise revenues and increased activity in the transactional market. However, we have some insurance against any potential rise in assessments at Stone Rise because its assessed value is frozen for the years 2011   2015, unless there is a county wide reassessment.

Depreciation and amortization

We recorded expenses for depreciation and amortization of tangible and identifiable intangible assets of approximately $2.8 million, or 54.0% of total operating expenses, for the three-month and six-month periods ended June 30, 2011.

Acquisition costs

We recorded acquisition costs for our three multifamily communities of approximately $1.4 million and $1.7 million, or 27.8% and 30.0% of total operating expenses, for the three-month and six-month periods ended June 30, 2011, respectively. These costs include fees paid to reimburse our manager for expenses incurred such as due diligence, purchase negotiation, appraisals, and other related costs related to acquiring real estate assets. Included in our acquisition costs for our three multifamily communities are $868,500 in acquisition fees that we paid to our manager. The acquisition fees paid to our manager are calculated as 1% of the gross purchase price of the apartment complex or of the principal amount of the real estate loan. The amount of the acquisition fees is governed by the Third Amended and Restated Management Agreement with our manager. These costs also include similar expenditures for services provided by third parties.

Professional fees

We recorded professional fee expenses of $187,239 and $231,750 for the three-month and six-month periods ended June 30, 2011, respectively. These costs consist principally of fees for audit, tax and legal work performed.

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Interest expense

We recorded interest expense of $418,733 and $434,642 for the three-month and six-month periods ended June 30, 2011, respectively. Interest expense on mortgage indebtedness from the three acquired properties was approximately $396,000 beginning with the dates of acquisition (April 15, 21, and 29, 2011 for Stone Rise, Summit Crossing, and Trail Creek, respectively) through June 30, 2011. The remainder was interest expense from a note payable and two lines of credit due to WOF, which were paid and retired in April 2011 with proceeds from the private placement transaction.

Funds From Operations (FFO)

Analysts, managers, and investors have, since the first real estate investment trusts were created, made certain adjustments to reported net income amounts under GAAP in order to better assess these vehicles liquidity and cash flows. FFO is one of the most commonly utilized Non-GAAP measures currently in practice. In its 2002 *White Paper on Funds From Operations* , the National Association of Real Estate Investment Trusts, or NAREIT, standardized the definition of how net income/loss should be adjusted to arrive at FFO, in the interests of uniformity and comparability. The NAREIT definition of FFO (and the one we report) is:

Net income/loss:

- Excluding impairment charges and gains/losses from sales of property;
- Plus depreciation and amortization of real estate assets; and
- After adjustments for unconsolidated partnerships and joint ventures

Not all companies necessarily utilize the standardized NAREIT definition of FFO, and so caution should be taken in comparing our reported FFO results to those of other companies. Our FFO results are comparable to other companies that follow the NAREIT definition of FFO and report these figures on that basis. FFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, which we believe is net loss attributable to the Company.

Adjusted Funds From Operations (AFFO)

AFFO makes further adjustments to FFO results in order to arrive at a more refined measure of operating and financial performance. There is no industry standard definition of AFFO and practice is divergent across the industry. We calculate AFFO as:

FFO plus:

- Acquisition costs;
- Organization costs;
- Directors fees and expenses paid in stock;
- Amortization of loan closing costs;
- REIT establishment costs; and
- Net mezzanine loan fees received

Less:

- Recurring capital expenditures

AFFO figures we report are not necessarily comparable to those reported by other companies. AFFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, which the Company believes is net loss attributable to the Company.

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Cash Available for Distribution (CAD)

We calculate CAD by reversing the AFFO adjustment for REIT establishment costs. These costs include one-time exchange listing fees and other miscellaneous expenses. CAD is a non-GAAP measure that is reconciled to its most comparable GAAP measure, which the Company believes is net loss attributable to the Company.

Reconciliation of Funds From Operations, Adjusted Funds From Operations, and Cash Available for Distribution to Net Loss Attributable to the Company

	Three months ended June 30, 2011	Six months ended June 30, 2011
Net loss attributable to the Company	**$ (3,980,615)**	$ (4,413,848)
Add: Depreciation of real estate assets	754,995	754,995
Amortization of acquired intangible assets	2,041,823	2,041,823
Funds from operations (FFO)	**$ (1,183,797)**	**$ (1,617,030)**
FFO per share of common stock basic and diluted (a)	**$ (0.24)**	**$ (0.65)**
Add: Acquisition costs	1,442,444	1,662,160
Organization costs	7,072	94,372
Directors fees and expenses paid in stock	79,982	79,982
Amortization of loan closing costs	21,541	21,541
REIT establishment costs	9,940	25,849
Depreciation/amortization on non-real estate assets	5,290	5,290
Net mezzanine loan fees received	74,333	74,333
Less: Recurring capital expenditures	(26,948)	(26,948)
Adjusted funds from operations (AFFO)	**$ 429,857**	**$ 319,549**
AFFO per share of common stock basic and diluted (a)	**$ 0.09**	**$ 0.13**
Less: REIT establishment costs	(9,940)	(25,849)
Cash available for distribution (CAD)	**$ 419,917**	**$ 293,700**
CAD per share basic and diluted (a)	**$ 0.09**	**$ 0.12**
Dividends:		
Declared	$ 646,487	$ 646,487
Per share of common stock	$ 0.125	$ 0.125
(a) Calculated based upon weighted average shares of common stock outstanding basic and diluted	4,886,486	2,474,973
Actual shares outstanding at June 30, 2011, including 26,000 unvested shares of restricted common stock	5,171,899	5,171,899

Liquidity and Capital Resources

Short-Term Liquidity

We believe our principal short-term liquidity needs are to fund:

operating expenses directly related to our portfolio of multifamily communities (including regular maintenance items);

capital expenditures incurred to lease our multifamily communities;

interest expense on our outstanding property level debt; and

quarterly distributions that we pay to the Company s stockholders.

Our net cash used by operating activities for the six months ended June 30, 2011 was $819,808. We had net cash used in operating activities, rather than net cash generated by operating activities, primarily due to less than three months of operations for all three of our multifamily communities and our mezzanine loan investment, one-time expenses related to the acquisition of our three multifamily communities of approximately $1.7 million, and organizational costs we incurred in the period of $94,372. While we did not generate net cash from operating activities in the six months ended June 30, 2011, we believe that we will generate net cash from operating activities, on a per quarter basis, for the remainder of 2011 because we will have our multifamily communities and our mezzanine loan investment operating for the full quarters. In addition, we currently do not anticipate any additional organizational expenses or acquisition expenses related to the three acquired communities.

Net cash flows used in investing activities for the six months ended June 30, 2011 was approximately $93.3 million. We used approximately $87.5 million to acquire our three multifamily communities in the second quarter of 2011 and we used $6.0 million to make a mezzanine loan investment related to the construction of a multifamily property adjacent to our Trail Creek community in Hampton, Virginia and, in connection therewith, received an option to purchase the community.

Net cash provided by financing activities was approximately $99.7 million for the six months ended June 30, 2011. During the six months ended June 30, 2011, we received gross proceeds of approximately $55.6 million from the incurrence of long-term property level debt in connection with the acquisition of our three multifamily communities. In addition, we received approximately $46.1 million in net proceeds from the sale of our common stock in the IPO, including from the underwriters exercise of the over-allotment option, and the concurrent private placement transaction with WOF. We used all the proceeds from our long-term property level debt financing activities to partially fund our acquisitions during the six months ended June 30, 2011. We used approximately $34.0 million of the proceeds from the sale of our common stock to partially fund our acquisitions during the six months ended June 30, 2011. We used approximately $1.9 million of the proceeds from the sale of our common stock to pay off all our short-term debt on April 5, 2011.

The majority of our revenue is derived from residents under existing leases at our multifamily communities. Therefore, our operating cash flow is principally dependent on: (1) the number of multifamily communities in our portfolio; (2) rental rates; (3) occupancy rates; (4) operating expenses associated with these multifamily communities; and (5) the ability of our residents to make their rental payments. We believe we are well positioned to take advantage of the recent improvements in multifamily fundamentals, such as higher occupancy rates, positive new and renewal rates over expiring leases, a declining home ownership rate and a decline in turnover, which we believe are all positive developments in the multifamily industry.

We intend to elect to be taxed as a REIT, commencing with our tax year ending December 31, 20 11. As a REIT, we are subject to a number of organizational and operating requirements, including a requirement to distribute 90% of its annual REIT taxable income to its stockholders. As a REIT, the Company generally will not be subject to federal income taxes on the taxable income it distributes to its stockholders. Generally, our objective is to meet its short-term liquidity requirement of funding the payment of its current level of quarterly common stock dividends to stockholders through net cash generated from its operating results.

Dividends

Holders of Series A Redeemable Preferred Stock are entitled to receive, when and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock shall be cumulative from the date of issuance. We expect to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day), beginning no later than the month following the first full month after we receive and accept aggregate subscriptions in excess of the minimum offering. Once we begin paying such dividends, we expect to pay them monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our board of directors, in its sole discretion, and may vary from time to time.

On May 5, 2011, we declared a quarterly cash dividend to our common stockholders of record as of June 30, 2011, that was paid on July 15, 2011, in the amount of $0.125 per share of common stock, totaling approximately $646,487. On August 4, 2011, we declared a quarterly cash dividend of $0.125 per share,

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which will be paid on October 17, 2011 to all common stockholders of record as of September 30, 2011. As expected, cash available for distribution was not sufficient to fully fund the second quarter dividend and approximately $227,000 from our working capital and dividend reserve, designed for this purpose, was used to cover this shortfall. For the remainder of 2011, we currently expect to maintain a quarterly dividend payment to common stockholders of $0.125 per share of common stock. To the extent we continue to pay dividends at this rate, we currently expect that cash available for distribution will be sufficient to fund the dividend payments to common stockholders for the third and fourth quarters of 2011. If cash available for distribution is not sufficient to meet its anticipated dividend payment rate, we would need to use our working capital and dividend reserve to fund dividend payments. Our board of directors will review the dividend quarterly, and there can be no assurance that the current dividend level will be maintained. Our dividends on our common stock can be paid as a combination of cash and stock in order to satisfy the annual distribution requirements applicable to REITs. We expect that net cash flow from operations will be sufficient to meet the dividend requirements necessary to maintain its REIT status under the Internal Revenue Code of 1986, as amended. In addition, we expect cash available for distribution to be sufficient to fund our projected dividend distributions for the remaining quarters of 2011.

Long-Term Liquidity Needs

We believe our principal long-term liquidity needs are to fund:

- the principal amount of our long-term debt as it becomes due or matures;
- capital expenditures needed for our multifamily communities;
- costs associated with future capital raising activities; and
- costs associated with future multifamily community acquisition and lending opportunities.

Initially, the sources to fulfill our long-term liquidity needs will consist of the net proceeds from the IPO and the private placement transaction with WOF, payments of principal and interest we receive on our mezzanine loan investment, cash generated from our operating results and the net proceeds from this offering. In the future, we may use leverage to finance our long-term cash needs through borrowings from a number of sources, including repurchase agreements, resecuritizations, securitizations, warehouse facilities and credit facilities (including term loans and revolving facilities). In addition, we intend to finance our investments with the net proceeds from additional issuances of our securities, including common stock, preferred stock, units of limited partnership interest in our operating partnership, and/or borrowings. The success of our acquisition strategy may depend, in part, on our ability to access further capital through issuances of additional securities. If we are unsuccessful in raising additional funds, we may not be able to obtain any assets in addition to those we have acquired.

Our ability to raise funds through the issuance of our securities is dependent on, among other things, general market conditions for REIT s, market perceptions about us, and the current trading price of our common stock. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but the equity and credit markets may not consistently be available on terms that are attractive to us or at all.

We have utilized, and we intend to continue to utilize, leverage in making our investments in multifamily communities. The number of different multifamily communities we will acquire will be affected by numerous factors, including the amount of funds available to us. By operating on a leveraged basis, we will have more funds available for our investments. This will allow us to make more investments than would otherwise be possible, resulting in a larger and more diversified portfolio. See the section entitled Risk Factors beginning on page 24 for more information about the risks related to operating on a leveraged basis.

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the value of our tangible assets (including our real estate assets, real estate loan investments, accounts receivable and cash and cash equivalents) on a portfolio basis based on fair market value. As of June 30, 2011, our outstanding debt (both secured and unsecured) was approximately 56.5% of the value of our tangible assets on a portfolio basis based on fair market value. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our board without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. These targets, however, will not apply to individual real estate assets or investments. At the date of acquisition of each asset, we anticipate that the cost of investment for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. In addition, we have acquired, and we intend to acquire, all our multifamily communities through separate special purpose entities and we have financed, and we intend to finance, each of these multifamily communities using financing techniques for that property alone without any cross-collateralization to our other multifamily communities or guarantees by the Company or our operating partnership. Finally, we intend to have no long-term corporate level debt.

Our secured and unsecured aggregate borrowings are intended by us to be reasonable in relation to our tangible assets and will be reviewed by our board of directors at least quarterly. In determining whether our borrowings are reasonable in relation to our tangible assets, we expect that our board of directors will consider many factors, including without limitation the lending standards of government-sponsored enterprises, such as Fannie Mae and Freddie Mac, for loans in connection with the financing of multifamily properties, the leverage ratios of publicly traded and non-traded REITs with similar investment strategies, and general market conditions. There is no limitation on the amount that we may borrow for any single investment.

Our ability to incur additional debt is dependent on a number of factors, including our credit ratings, the value of our assets, our degree of leverage and borrowing restrictions imposed by lenders. We will continue to monitor the debt markets, including Fannie Mae and/or Freddie Mac (from both of whom we have obtained single asset secured financing on all our multifamily communities in 2011), and as market conditions permit, access borrowings that are advantageous to us.

If we are unable to obtain financing on favorable terms or at all, we may have to curtail our investment activities, including acquisitions and improvements to real properties, which could limit our growth prospects. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise capital by issuing more securities or borrowing more money. We may be forced to dispose of assets at inopportune times in order to maintain our REIT qualification and Investment Company Act exemption. Our ability to generate cash from asset sales is limited by market conditions and certain rules applicable to REITs. We may not be able to sell a property or properties as quickly as we would like or on terms as favorable as we would like.

Furthermore, if interest rates or other factors at the time of financing result in higher interest rates upon financing, then the interest expense relating to that financed indebtedness would be higher. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could adversely affect our transaction and development activity, financial condition, results of operations, cash flow, our ability to pay principal and interest on our debt and our ability to pay distributions to our stockholders. Finally, sellers may be less inclined to negotiate with us if they believe we may be unable to obtain financing.

As of June 30, 2011, we had outstanding borrowings of approximately $55.6 million, all of which we incurred in the three months ended June 30, 2011 in connection with the acquisition of our three multifamily communities. The outstanding balance includes fixed-rate debt of approximately $20.9 million, or 37.5% of the total debt balance, and floating-rate debt of approximately $34.8 million, or 62.5% of the total debt balance.

As of June 30, 2011, we had approximately $5.6 million in cash and cash equivalents available to meet its short-term and long-term liquidity needs. As of June 30, 2011, we held $2.5 million of the cash and cash equivalents as a working capital and dividend reserve and approximately $700,000 for planned non-recurring capital expenditures for our recently acquired multifamily communities.

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Contractual Obligations

The following is a summary of our contractual obligations as of June 30, 2011:

	Payments due by period				
Contractual Obligations	Total	Less than one year	1 3 years	3 5 years	More than five years
Long-term debt obligations	$69,265,750	$1,008,261	$4,035,808	$5,668,479	$58,553,202

The table of contractual obligations above includes our long-term debt obligations consisting of payments due on mortgage obligations securing the three acquired multifamily communities. The payment stream consists of interest-only payments through May 1, 2014, followed by principal and interest payments on a 30-year amortization schedule, culminating in balloon principal payments of approximately $17.0 million, $18.1 million, and $13.3 million for Stone Rise, Summit Crossing, and Trail Creek, respectively, each due on May 1, 2018.

Payments due to our manager by us for various property-related management and acquisition services pursuant to the management agreement are not included in the table of contractual obligations. These services are to be performed for indeterminable periods of time or are calculated based upon future operating results. See the section entitled Our Manager and Management Agreement Management Compensation located elsewhere in this prospectus for further details on these arrangements.

Off-Balance Sheet Arrangements

As of the date of this prospectus, the only off-balance sheet arrangement we have is the IPO Warrant. For a description, and our financial treatment, of the IPO Warrant, see the section entitled Plan of Distribution IPO Warrant included elsewhere in this prospectus and the Notes to Consolidated Financial Statements dated June 30, 2011 (unaudited), Note 9, in the financial statements contained in this prospectus.

Inflation

Virtually all our assets and liabilities will be interest rate sensitive in nature. As a result, interest rates and other factors may influence our performance more so than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Furthermore, our financial statements will be prepared in accordance with GAAP and any distributions we may make to our stockholders will be determined by our board of directors primarily based on our taxable income and, in each case, our activities and balance sheet will be measured with reference to historical cost and/or fair market value without considering inflation.

Quantitative and Qualitative Disclosures About Market Risk

We will seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from the past experience of our sponsor, our manager and their respective affiliates and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

In addition, our current primary market risk exposure is interest rate risk. We have approximately $34.8 million of floating-rate debt tied to the 30-day London Interbank Offered Rate, or LIBOR. Approximately $19.5 million of our floating-rate debt has LIBOR effectively capped at 4.48% and approximately $15.3 million of our floating rate debt has LIBOR effectively capped at 4.05%, both through caps on the maximum interest rate on our debt under Freddie Mac's capped adjustable-rate mortgage program. We have limited market risk associated with debt maturity as all our debt was incurred in April 2011 and does not mature until May 2018.

We have and will continue to manage interest rate risk as follows:

maintain a reasonable ratio of fixed-rate, long-term debt to total debt so that floating-rate exposure is kept at an acceptable level;

- place interest rate caps on floating-rate debt; and
- take advantage of favorable market conditions for long-term debt or equity.

We use various financial models and advisors to achieve our objectives.

If interest rates under our floating-rate LIBOR-based indebtedness fluctuated by 1.0%, interest costs to us, based on outstanding borrowings at June 30, 2011, would increase by $347,850 on an annualized basis, or decrease by approximately $66,000 on an annualized basis. The difference between the interest expense amounts related to an increase or decrease in our floating-rate interest cost is because LIBOR was 0.19% at June 30, 2011, and we have limited the estimate of how much our interest costs may decrease because we use a floor of 0% for LIBOR.

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PRIOR PERFORMANCE SUMMARY

Prior Performance of Affiliates of Our Sponsor

The information presented in this section represents information on prior programs organized by our sponsor, John A. Williams, and his affiliates to invest in real estate. Prospective investors should not assume they will experience returns comparable to those experienced by investors in past real estate programs sponsored by affiliates of our sponsor. Further, by purchasing our securities, investors will not acquire an ownership interest in any partnerships or corporations to which the following information relates. The private funds discussed in this section were conducted through privately held entities that were not subject to the up-front commissions, fees and expenses associated with this offering or the laws and regulations that apply to us as a public company.

The information contained herein is included solely to provide prospective investors with background to be used to evaluate the real estate experience of our sponsor and his affiliates. The information summarized below is set forth in greater detail in the Prior Performance Tables included in this prospectus. Investors should direct their attention to the Prior Performance Tables for further information regarding the prior performance of the sponsor and his affiliates. In addition, as part of our registration statement, we have filed certain tables with the Securities and Exchange Commission which report detailed information regarding program property acquisitions by prior programs. Investors can obtain copies of such tables, without charge, by requesting Table VI Acquisition of Properties by Programs from Part II of this registration statement from us.

THE INFORMATION IN THIS SECTION AND THE TABLES REFERENCED HEREIN SHOULD NOT BE CONSIDERED AS INDICATIVE OF HOW WE WILL PERFORM. THIS DISCUSSION REFERS TO THE PERFORMANCE OF PRIOR PROGRAMS AND PROPERTIES SPONSORED BY OUR SPONSOR OR HIS AFFILIATES OVER THE PERIODS LISTED THEREIN. IN ADDITION, THE TABLES INCLUDED WITH THIS PROSPECTUS (WHICH REFLECT RESULTS OVER THE PERIODS SPECIFIED IN EACH TABLE) DO NOT MEAN THAT WE WILL MAKE INVESTMENTS COMPARABLE TO THOSE REFLECTED IN SUCH TABLES. IF YOU PURCHASE SECURITIES OF PREFERRED APARTMENT COMMUNITIES, INC., YOU WILL NOT HAVE ANY OWNERSHIP INTEREST IN ANY OF THE REAL ESTATE PROGRAMS DESCRIBED IN THE TABLES (UNLESS YOU ARE ALSO AN INVESTOR IN THOSE REAL ESTATE PROGRAMS).

Post Properties

Our sponsor founded Post Properties, Inc. (PPS: NYSE), or Post Properties, in 1970, and directed its activities as a private company until 1993, by which time Post Properties had become a vertically integrated real estate company with over 14,000 apartment units and over 900 employees. Post Properties completed an initial public offering, or IPO, of its shares in 1993. From IPO through 2002, Post Properties developed or acquired an additional 52 properties totaling 17,702 apartment units. Mr. Williams continued as Chief Executive Officer of Post Properties until July 2002 and as Chairman of the Post Properties board of directors until March 2003, at which time Post Properties had a total of 79 properties containing 29,199 units and a total market capitalization of approximately $2.9 billion. Since its founding, Post Properties focused on the development, acquisition, management, and ownership of upscale multifamily apartment communities in Georgia, Arizona, California, Colorado, Florida, Mississippi, New York, North Carolina, Tennessee, Texas and the greater Washington D.C. metropolitan area.

Development Funds

Williams Realty Fund I

In February of 2005, Williams Realty Advisors, LLC, or WRA, an affiliate of our sponsor, commenced the operations of Williams Realty Fund I, LLC, a private, closed-end real estate development program, or Fund I. Mr. Williams is Chief Executive Officer of WRA, the sole manager of Fund I. Fund I closed with $100 million of capital commitments from 91 investors in November of 2005. As of December 31, 2010, this fund has committed approximately $102 million in capital to 34 separate real estate development projects. Fund I s primary strategy was to invest in real estate development projects across a variety of property types. Fund I s investments are spread across several property types including rental apartments, for-sale condominiums, retail, senior housing, industrial warehouse, hotels, residential lots and office.

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As of December 31, 2010, the properties developed under Fund I are broken down as follows by aggregate budgeted project development costs: apartments 32.3%, condominiums 10.7%, hotel-condominiums 17.6%, mixed-use 6.9%, retail 5.9%, hotel 8.0%, senior residential 8.2%, residential lots 4.1%, industrial warehouse 4.8% and office 1.5%. As of December 31, 2010, all Fund I s properties are located in the United States and, based on aggregate budgeted project development costs, are 91.8% in the Southeast and 8.2% in the Mid-Atlantic. The aggregate budgeted costs for development of Fund I s projects total over $1 billion. In addition to Fund I s investments, these projects are financed with first mortgages from banks and other financial institutions, mezzanine debt, and equity co-investment from various sources. All the development properties in Fund I are new construction. As of December 31, 2010, eleven properties have been sold, yielding an internal rate of return based on actual cash distributions to Fund I for assets sold of approximately 22.4% to Fund I (before fees and expenses) and approximately 18.6% to Fund I (after fees and expenses have been allocated to the sold assets) and generating approximately $25 million in cash distributions by Fund I to its investors that is a return of approximately 1.2 times the invested capital with respect to all sold assets, where all such distributions to Fund I s investors have been paid from the sale and/or refinancing of Fund I s properties and none of such distributions have been paid from cash generated by operations. However, when all Fund I s asset dispositions as of December 31, 2010 are included (including any assets lost to a foreclosure, a deed in lieu of foreclosure or any other disposition or loss that is not an arm s-length sale), the internal rate of return based on actual cash distributions to Fund I from all disposed assets is approximately -25.6% to Fund I (before fees and expenses) and approximately -33.2% to Fund I (after fees and expenses have been allocated to all the disposed assets) and the approximately $25 million in cash distributions by Fund I to its investors is a return of approximately 50% of the invested capital with respect to all disposed assets. Because of the development nature of Fund I and its investment in multiple property types, its investment objectives are not similar to ours.

The combination of the downturn in the economy and the lingering effects of the U.S. financial crisis has severely impacted the residential and commercial real estate markets. Real estate values have decreased significantly, and the lack of credit has made refinancing or selling commercial real estate hard in today s market. Consequently, Fund I s transaction activity has been severely curtailed. As a result of these difficult conditions, the remaining assets in Fund I face formidable challenges. Any project with a residential for-sale component, such as condos or lots, faces significantly longer sell-out periods and lower sales prices than originally anticipated. Fund I s retail, hotel, and senior rental projects face more protracted lease-up periods and lower rents than originally anticipated. Even Fund I s apartment properties, which are generally stabilized at 95%+ occupancy, have suffered a significant diminution in value due to lower rental rates and increased cap rates.

Another challenge exists with respect to existing loans. A majority of Fund I s projects were commenced in 2005 and 2006 and were financed with three year construction loans, typically with extension options. Many of these loans have matured or will mature in the near future. Others projects have exhausted the interest carry allowances in their construction loan budgets. Since Fund I investments, like other borrowers, have few, if any, refinancing or recapitalization options available in today s market, existing lenders must either extend these loans or take back the underlying properties. Fund I s strategy is to attempt to work out acceptable loan extensions with its existing lenders that will enable it to hold these properties until they can be stabilized and sold in a more favorable transaction market. As of December 31, 2010, Fund I had six loans related to five of its properties that were in default and that represented approximately 28.1% of Fund I s projects outstanding indebtedness. As of December 31, 2010, Fund I lost through short sales, foreclosures and deeds in lieu of foreclosure the following six projects that, in the aggregate, constituted approximately 25.2% of Fund I s invested capital: (1) a project with 70 residential lots located in Atlanta, Georgia in which Fund I s investment of approximately $3.2 million was lost in a short sale in December 2009; (2) a project with 45 condominiums and a 127-room hotel located in Atlanta, Georgia in which Fund I s investment of approximately $12.5 million was lost in a foreclosure sale in February 2010; (3) a project with 94 condominiums located in Atlanta, Georgia in which Fund I s investment of approximately $1.6 million was lost in a foreclosure sale in May 2010; (4) a project with 232 apartments located in Atlanta, Georgia in which Fund I s investment of approximately $0.4 million was lost through a deed in lieu of foreclosure in June 2010; (5) a project with 65 condominiums located in Nashville, Tennessee in which Fund I s investment of approximately $4.5 million was lost in a short sale in September 2010; and (6) a project with

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approximately 133,000 square feet of retail space located in Covington, Georgia, in which Fund I s investment of approximately $3.4 million was lost in a foreclosure sale in October 2010.

After December 31, 2010 and prior to the date of this prospectus, Fund I disposed of the following seven additional properties through five sales transactions and two short sale transactions: (1) Fund I s interest in a project with 265 multifamily units located in Williamsburg, Virginia was sold in January 2011 to Fund I s joint venture partner where Fund I received aggregate actual cash distributions of approximately $2.34 million from its investment of approximately $0.9 million; (2) a pre-development project located in Coral Gables, Florida in which Fund I s investment of approximately $10.3 million was lost in a short sale in January 2011, however, Fund I has an option to purchase the Coral Gables property from the buyer in the short sale for the buyer's costs plus a stated return; (3) Fund I's interest in a 345-unit multifamily community in Atlanta, Georgia was sold to the Company in April 2011 where Fund I received aggregate cash distributions of approximately $10.3 million from its investment of approximately $6.9 million; (4) the sale of a 204-unit multifamily project in Hampton, Virginia to the Company in April 2011 where Fund I received aggregate actual cash distributions of approximately $1.2 million on its investment of approximately $0.5 million; (5) a sale transaction in May 2011 where Fund I transferred its interest in a 193-unit senior independent living facility in Atlanta, Georgia for no cash consideration; (6) a sale in June 2011 of a 210-unit age-restricted apartment complex where Fund I received no cash distributions from its investment of approximately $6.7 million; and (7) a project with approximately 120 residential lots located in Atlanta, Georgia in which Fund I s investment of $0.5 million was lost in a short sale transaction in July 2011. If these subsequent dispositions are included in Fund I's return calculations, the internal rate of return based on actual cash distributions to Fund I from all disposed assets is approximately -20.2% to Fund I (before fees and expenses) and approximately -24.2% to Fund I (after fees and expenses have been allocated to all the disposed assets) and the approximately $25 million in cash distributions by Fund I to its investors is a return of approximately 33% of the invested capital with respect to all disposed assets. In addition, the disposition of these seven additional properties would reduce Fund I's project loans in default from six loans related to five of its properties to two loans related to two of its properties and these two loans in default represent approximately 6.6% of Fund I s projects outstanding indebtedness (as of December 31, 2010).

As of June 30, 2011, Fund I's two remaining properties that had a total of two loans in default that could result in a total loss of Fund I's investment in those projects as follows: (1) a mixed-use project located in Woodstock, Georgia is in technical default on its loan and, if the lender were to pursue its remedies and prevail, Fund I could lose its entire $3.9 million investment; and (2) the lender on a pre-development project located in Hyopluxo, Florida has filed a foreclosure action against the project which, if determined adversely to Fund I, would result in Fund I losing its entire $3 million investment. If these two potential dispositions are included in Fund I s return calculations as a total loss of investment, the internal rate of return based on actual cash distributions to Fund I from all disposed and potentially disposed assets is approximately -22.8% to Fund I (before fees and expenses) and approximately -26.8% to Fund I (after fees and expenses have been allocated to all the disposed assets) and the approximately $25 million in cash distributions by Fund I to its investors is a return of less than 30% of the invested capital with respect to all disposed assets. Finally, assuming the loss of these two additional properties, Fund I s projects would have no loans in default.

In addition to the above, it will be much more difficult to resolve situations where the cash flow is insufficient to service the debt. As of December 31, 2010, Fund I had two properties with insufficient cash flow to cover debt service payments, which represent in the aggregate approximately 4.1% of Fund I's invested capital. One of the two Fund I properties with insufficient cash flow to cover its debt service payments was a 193-unit senior independent living facility in Atlanta, Georgia that represents approximately 2.8% of Fund I's invested capital. Fund I transferred its interest in this project in May 2011 so the cash flow shortfall is no longer an issue for Fund I. The other project with insufficient cash flow to cover its debt service payments is a former residential lot development site that has been converted to a multifamily development site in Hampton, Virginia that represents approximately 1.3% of Fund I's invested capital. In June 2011, this project closed on two new construction loans that paid off all outstanding debt and provided the project with the capital needed to construct a 96-unit multifamily community. See the section entitled Business Mezzanine Loan elsewhere in this prospectus for a detailed description of the terms of one of these loans.

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It is likely that Fund I s investment in a number of the remaining projects will suffer either partial or, in some cases, complete losses. Finally, in connection with the economic downturn, Fund I disclosed fair values below its book values for certain assets in its December 31, 2008, December 31, 2009 and December 31, 2010 financial statements and recognized impairments related to a number of its assets.

Williams Opportunity Fund

In February of 2007, WRA commenced the operations of Williams Opportunity Fund, LLC, a private, closed-end real estate fund. Mr. Williams is Chief Executive Officer of WRA, the sole manager of WOF. WOF closed with over $103 million of capital commitments from 82 investors in March of 2008. As of December 31, 2010, WOF has committed approximately $70.2 million in capital to 20 separate real estate projects. WOF s primary strategy is to invest in real estate projects and related real estate assets across a variety of property types and markets, including rental apartments, retail/mixed-use, hotels, self-storage and office.

As of December 31, 2010, the properties developed under WOF are broken down as follows by aggregate project costs: apartments 57.5%, retail/mixed-use 1.2%, hotel 34.8%, self-storage 1.3% and office 5.2%. As of December 31, 2010, all WOF s properties are located in the United States and, based on aggregate project development costs, are 71.3% in the Southeast, 23.9% in the Mid-Atlantic and 4.8% in the Northeast. As of December 31, 2010, the aggregate budgeted costs for development of WOF s projects totaled approximately $624 million. In addition to WOF s investments, these projects are financed with first mortgages from banks and other financial institutions, mezzanine debt, and equity co-investment from various sources. All the development properties in WOF are new construction. As of December 31, 2010, one property has been sold, yielding an internal rate of return based on actual cash distributions to WOF for the asset sold of approximately 21.2% to WOF (before fees and expenses) and approximately 14.8% to WOF (after fees and expenses have been allocated to the sold asset) and generating approximately $7.5 million in cash distributions by WOF to its investors that is approximately a 19.4% internal rate of return to WOF's investors with respect to the asset sold, where all such distributions have been paid from the sale or refinancing of WOF s properties and none of such distributions have been paid from cash generated by operations. However, when all WOF's asset dispositions as of December 31, 2010 are included (including any assets lost to a foreclosure, a deed in lieu of foreclosure or any other disposition or loss that is not an arm s-length sale), the internal rate of return based on actual cash distributions to WOF from all disposed assets is approximately 9.3% to WOF (before fees and expenses) and approximately 2.4% to WOF (after fees and expenses have been allocated to all the disposed assets) and the approximately $7.5 million in cash distributions by WOF to its investors is approximately a 6.8% internal rate of return with respect to all disposed assets. Because of the nature of WOF and its investment in multiple property types, its investment objectives are not similar to ours.

The combination of the downturn in the economy and the lingering effects of the U.S. financial crisis has severely impacted the residential and commercial real estate markets. Liquidity and credit for the real estate industry remain scarce. Consequently, WOF s transaction and development activity has been severely curtailed. As a result of these difficult conditions, WOF faces issues in securing the debt and co-equity required to move forward with existing projects in the pre-development stage. In addition, because of limited options for leverage levels consistent with WOF s targets, the program may have a difficult time deploying all of its called capital in a timely fashion in investments that meet WOF s targeted investment profile, which could adversely impact WOF s overall results. Another challenge exists with respect to existing loans related to properties in the pre-development phase. Two of WOF s projects in pre-development have exhausted their carrying cost reserves and have reached maturity on their pre-development loans. Since these WOF investments, like other borrowers holding properties for future development, have few, if any, refinancing/recapitalization options available in today s market, existing lenders must either extend these loans or take back the underlying properties. WOF s strategy is to attempt to work out acceptable loan extensions with its projects existing lenders that will enable it to hold these properties until they can be recapitalized in connection with starting construction of the applicable projects. As of December 31, 2010, WOF had three loans related to two of its properties that were in default, which represent approximately 18.1% of WOF s projects outstanding indebtedness. However, the borrower of one of WOF s projects that has a loan in default (that represented approximately 4.0% of WOF s projects outstanding indebtedness at December 31, 2010) has filed for a judicial declaration that the underlying debt is no longer valid on the basis that such debt was allegedly released by the lender pursuant to a written agreement.

After December 31, 2010 and prior to the date of this prospectus: (1) WOF s interest in a project with 216 apartments located in Royersford, Pennsylvania was sold in January 2011 to WOF s development partner in the project where WOF received aggregate actual cash distributions of approximately $0.56 million from its investment of approximately $0.8 million; (2) WOF's interest in a 216-unit multifamily community was sold to the Company in April 2011 where WOF received no cash distributions on its investment of approximately $3.1 million; and (3) WOF s interest in a 300-unit multifamily community in Hall County, Georgia was sold in July 2011 where WOF received $3.4 million in cash distributions for its $3.4 million investment. If the three subsequent dispositions described above are included in WOF s return calculations, the internal rate of return based on actual cash distributions to WOF from all disposed assets is approximately -6.1% to WOF (before fees and expenses) and approximately -15.5% internal rate of return to WOF (after fees and expenses have been allocated to all the disposed assets) and the approximately $7.5 million in cash distributions by WOF to its investors is approximately a -47.8% internal rate of return with respect to all the disposed assets.

In addition, on November 3, 2010, the borrower for one of the three loans in default (that represented approximately 14.1% of WOF s projects outstanding indebtedness at December 31, 2010) filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code and subsequently the lender for this loan in default filed a lawsuit against WOF for performance of its guarantee of the loan. In August of 2011, the borrower, WOF and the lender entered into a settlement agreement that would release WOF from its guaranty and allow the lender to foreclose on the property, resulting in a complete loss of WOF's investment of over $5 million. This settlement remains subject to bankruptcy court approval.

Finally, in connection with the economic downturn, WOF disclosed fair values below its book values for certain assets in its December 31, 2009 and December 31, 2010 financial statements and recognized impairments related to a number of its assets.

Williams Multifamily Acquisition Fund

In April of 2007, WRA commenced operations of Williams Multifamily Acquisition Fund, or the Acquisition Fund. Mr. Williams is the Chief Executive Officer of WRA, the sole manager of the Acquisition Fund s sole general partner. The three original investors in the Acquisition Fund committed $300 million in equity for the purpose of acquiring select multifamily rental properties in accordance with a prescribed value-add strategy. As of June 30, 2009, the date the investment period during which the Acquisition Fund could acquire new assets expired, the Acquisition Fund had acquired nine apartment communities with an aggregate of almost 3,200 units and totaling approximately $339.5 million in costs. On a same store basis, the Acquisition Fund's portfolio experienced net operating income (NOI) growth of approximately -1.9% from 2008 to 2009. The Acquisition Fund's same store results for 2008 to 2009 represent seven assets comprising 2,296 units that were owned for all of 2008 and 2009. NOI is defined as total revenues less operating expenses and excludes capital expenditures and debt service. The Acquisition Fund's same store growth was approximately 8.1% from 2009 to 2010. The same store results for 2009 to 2010 represent nine assets and 3,199 units that were owned for all of 2009 and 2010. As of December 31, 2010, all the Acquisition Fund s properties are located in the United States and, based on aggregate total capitalization, are 62.7% in the Southeast and 37.3% in the Southwest. All properties of the Acquisition Fund were acquired in the past five years and no program assets have been sold. As of December 31, 2010, approximately $124.2 million of capital has been called and contributed. The Acquisition Fund s objective was to employ leverage up to 65% of the value of the program s assets as part of its strategy to generate competitive internal rates of return, net of management fees, over an eight to ten-year period. The Acquisition Fund has an investment objective that is similar to ours. The Acquisition Fund s portfolio consists entirely of existing multifamily properties.

The combination of the downturn in the economy and the lingering effects of the U.S. financial crisis has severely impacted the multifamily residential real estate markets. Real estate values decreased significantly, and the lack of credit made refinancing or selling commercial real estate hard in many markets. Consequently, the Acquisition Fund s disposition activity had previously been severely curtailed. All the Acquisition Fund s assets saw a diminution in value due to upward movement in cap rates. However, the Acquisition Fund's assets have seen improvement in both occupancy and income growth over the last 18 months as its portfolio

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has benefitted from improved market fundamentals and a well located portfolio. The current turnaround in the multifamily residential real estate market has helped the Acquisition Fund's assets to increase in value, property values on a portfolio basis are still below the original acquisition costs. Finally, as of December 31, 2010, the Acquisition Fund had not yet paid any distributions to its investors.

The adverse market conditions noted above also may cause total returns to the investors in the Acquisition Fund to be lower than originally projected. Due to the improved fundamentals and increased demand for multifamily product, the Acquisition Fund is currently exploring disposition options for the portfolio. Therefore total returns to investors in this program are unknown at this time.

Adverse Business Developments and Conditions

As noted above, neither Fund I nor WOF has paid distributions from cash generated by operations. Furthermore, the Acquisition Fund, which has an investment objective that is similar to ours, had not yet paid any distributions to its investors as of December 31, 2010. The adverse market conditions have severely impacted various real estate markets. As more fully described above, Fund I s transaction activity and the Acquisition Fund s disposition activity have been severely curtailed, and WOF faces issues in securing the debt and co-equity required to move forward with existing projects in the pre-development stage. In addition, as discussed above, Fund I has lost eight properties through short sales, foreclosures and deeds in lieu of foreclosure.

The information summarized herein is set forth in greater detail in the Prior Performance Tables included as Appendix A to this prospectus. Investors should direct their attention to the Prior Performance Tables for further information regarding the prior performance of our sponsor, John Williams, and his affiliates.

Other than as disclosed above, there have been no major adverse business developments or conditions experienced by any program or non-program property that would be material to investors, including as a result of recent general economic conditions.

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BUSINESS

Our Company

We are a Maryland corporation formed primarily to acquire multifamily properties in select targeted markets throughout the United States. As part of our property acquisition strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and we may make mezzanine loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of these properties. As a secondary strategy, we also may acquire senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets as determined by our manager as appropriate for us. We refer to these asset classes as our target assets.

Our promoters were John A. Williams and Leonard A. Silverstein. Since our formation, (i) John A. Williams has served as the President and Chief Executive Officer of our company and as the Chairman of our board of directors, and (ii) Leonard A. Silverstein has served as Executive Vice President, General Counsel and Secretary of our company and as the Vice Chairman of our board of directors. We are externally managed and advised by Preferred Apartment Advisors, LLC, a Delaware limited liability company, which is controlled by John A. Williams, our sponsor and a veteran of the multifamily industry with over four decades of experience, including the founding of the multifamily real estate investment trust, Post Properties, Inc. (NYSE:PPS), and Leonard A. Silverstein. Pursuant to the terms of a management agreement between our manager and us, our manager is responsible for administering our day-to-day business operations, identifying and acquiring targeted real estate investments, overseeing the management of the investments, handling the disposition of the real estate investments and providing us with our management team and appropriate support personnel.

We also hope to benefit from Mr. Williams current organization and platform that specializes in multifamily real estate investment and management. With operations in over 20 nationwide markets, Mr. Williams organization includes (i) Williams Realty Advisors, LLC, or WRA a full service investment management firm, (ii) Williams Asset Management, LLC, or WAM a full service acquisition, asset management and disposition firm, and (iii) RAM Partners, LLC, or RAM, and Williams Residential Management, LLC, or WRM both full service property level management firms. RAM provides third party services and WRM handles all owned assets within the Williams umbrella group. Collectively, RAM and WRM manage over 27,500 multifamily units. We believe these organizations provide the full range of services necessary to fulfill our investment objectives and we hope to benefit from their depth and breadth of experience in a number of ways, including, but not limited to: (i) our manager s intent to contract directly with each of these firms to provide a substantial portion of the services our manager is required to provide in connection with running our day-to-day operations under the management agreement with us, and (ii) key employees of these firms serving as our officers and as officers of our manager.

Our manager intends to brand all apartment communities owned by the Company as A Preferred Apartment Community , to make A Preferred Apartment Community a trademarked logo and ultimate tagline for each of our communities that will signify certain brand and management standards, and intends to obtain all rights to the trademarks, including federal registration of the trademarks with the United States Patent and Trademark Office, to secure such brand in connection with such branding. However, there can be no assurance that such trademarks will be issued. The strategy will allow each individual community to be part of a centralized marketing and advertising campaign, in addition to property level marketing and advertising. We expect that these campaigns will enhance further the individual property s presence in the marketplace, and we believe that this will allow our communities to be perceived as premier over other properties within the marketplace. Our manager intends to enter into a non-exclusive license agreement with the Company as licensee with respect to all intellectual property of the manager other than trademarks. The license agreement will terminate automatically upon termination of our management agreement or upon a material breach of the license agreement that remains uncured for more than 30 days after receipt of notice of such breach. If the trademarks relating to the A Preferred Apartment Community brand are issued, our manager intends to enter into a non-exclusive license agreement with the Company as licensee with respect to the manager s trademarks on substantially similar terms as the initial intellectual property license agreement.

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Upon the acquisition of each of our communities, we plan to implement what we believe to be an innovative and unique marketing and branding strategy by rolling out the PAC Concierge, PAC Rewards and PAC Partners programs (as described below). We currently anticipate that all these programs will be fully implemented at each of our existing communities by the end of 2011.

The PAC Concierge program is a complimentary service for our residents designed to offer them the type of personal concierge services that you would expect at a high end resort. The concierge services are provided by a professionally trained team ready to coordinate services such as running errands and making dinner reservations, golf tee times and travel arrangements, as well as many other services. Our concierge service is available to our residents 24/7 by telephone, email or web access through our unique resident web portal.

The PAC Rewards program allows residents to accumulate and redeem rewards points for services and upgrades to their home, such as painting an accent wall, carpet cleaning or installing a ceiling fan or kitchen backsplash. Residents may accumulate Preferred Rewards, for example, when they sign their lease, pay their rent online, enroll in our direct debit/automatic payment program, renew their leases, or when a resident s referral signs a new lease.

The PAC Partners program establishes reciprocal relationships between a Preferred Apartment Community and neighborhood businesses to provide our residents with benefits such as discounts, perks and other incentives as an enticement to frequent those businesses and to support the local community.

Our Properties

On April 15, 2011, we completed the acquisition of 100% of the membership interests in Stone Rise Apartments, LLC, a Delaware limited liability company (f/k/a Oxford Rise JV LLC), the fee-simple owner of a 216-unit multifamily apartment community located in suburban Philadelphia, Pennsylvania for a total purchase price of $30.15 million, exclusive of acquisition-related and financing-related transaction costs.

On April 21, 2011, we completed the acquisition of 100% of the membership interests in PAC Summit Crossing, LLC, a Georgia limited liability company (f/k/a Oxford Summit Partners LLC), the fee-simple owner of a 345-unit multifamily apartment community located in suburban Atlanta, Georgia for a total purchase price of $33.2 million, exclusive of acquisition-related and financing-related transaction costs.

On April 29, 2011, we, through our indirectly wholly owned subsidiary Trail Creek Apartments, LLC, completed the acquisition of Oxford Trail, a 204-unit multifamily townhome community located in Hampton, Virginia for a total purchase price of $23.5 million, exclusive of acquisition-related and financing-related transaction costs.

Real Estate Loan Investment

On June 30, 2011, we, through our indirectly owned subsidiary, Trail Creek Mezzanine Lending, LLC (the Lender), made a mezzanine loan investment of $6.0 million (the Mezzanine Loan) to Oxford Hampton Partners LLC, a Georgia limited liability company (the Borrower), in connection with Borrower s plans to construct a 96-unit multifamily community in Hampton, Virginia located adjacent to our existing Trail Creek community. The Borrower was required to fully draw down the Mezzanine Loan on June 30, 2011. WRF has contributed 100% of the cash equity in Oxford Hampton Partners LLC to date.

The Mezzanine Loan matures on June 29, 2016, with no option to extend and pays interest at a fixed rate of 8.0% per annum. Interest will be paid monthly with principal and any accrued but unpaid interest (including the exit fee) due at maturity. Under the terms of a purchase option agreement entered into in connection with the closing of the Mezzanine Loan, the Lender has an option (but not an obligation) to purchase the property between and including April 1, 2014 and June 30, 2014 for $17,825,600, which is the amount of the aggregate project costs as set forth in the approved construction budget on the closing date. If the property is sold to, or refinanced by, a third party before July 1, 2014, the Lender will be entitled to receive an exit fee equal to the amount required to provide it with a 14% cumulative internal rate of return on the loan. If the property is sold to, or refinanced by, a third party on or after July 1, 2014, then the Lender will be entitled to receive an exit fee equal to the amount required to provide it with a 12% cumulative internal rate of return on the loan. The calculation of the cumulative internal rate of return will include the fees received by the Lender at the closing of the Mezzanine Loan. Since the minimum exit fee, assuming the

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purchase option is not exercised is the amount needed to provide a 12% cumulative internal rate of return, the Lender will accrue each period the additional exit fee earned based on the 12% rate assuming the loan was paid off at period end. The accrued exit fee will be recorded as interest income in the consolidated statements of operations the Company. As of June 30, 2011, no additional exit fee was earned by the Lender.

If the Lender exercises the purchase option and acquires the property, any accrued and unpaid exit fee will be treated as additional basis in the acquired project.

The Mezzanine Loan is secured by a pledge of 100% of the membership interests of Borrower. Partial prepayment of the Mezzanine Loan is not permitted without the Lender s consent. The Mezzanine Loan is subordinate to a senior loan of up to an aggregate amount of $10 million that is held by an unrelated third party. W. Daniel Faulk, Jr. and Richard A. Denny, both unaffiliated third parties, have guaranteed to us the completion of the project in accordance with the plans and specifications. This guaranty is subject to the rights held by the senior lender pursuant to a customary intercreditor agreement between the Lender and the senior lender.

In connection with the closing of the Mezzanine Loan, the Lender received a loan fee of 2% of the loan amount, or $120,000, and a loan commitment fee of $14,333. From the loan fee paid in connection with the closing of the Mezzanine Loan, we paid a fee of $60,000, or 1.0% of the maximum loan amount, to our manager, of which WOF received $600 through its special limited liability company interest in our manager. In addition, the borrower used proceeds of the Mezzanine Loan to pay approximately $302,300 to WRF to retire an outstanding short-term loan from WRF that matured on the closing date of the Mezzanine Loan. The net fees received by us will be recognized as an adjustment of yield over the term of the loan using the effective interest method.

Our Manager

Our manager is Preferred Apartment Advisors, LLC, a Delaware limited liability company, which is controlled by John A. Williams and Leonard A. Silverstein.

John A. Williams

John A. Williams has directed and coordinated the development, construction, and management of more than $5 billion in real estate developments for more than four decades. Approximately $3.5 billion of this activity has focused on multifamily housing, with the balance in other property types, including hotels, condominiums and offices. Mr. Williams founded Post Properties, Inc. in 1970 and took it public as a REIT in 1993. When he resigned as Chairman of Post Properties in 2003, the company had over 30,000 apartment units and had averaged FFO growth of 7% per year commencing with the IPO.

Mr. Williams has been a national leader in the urban development concept. He is widely credited with coining the phrases Smart Growth and Live, Work, Play. His urban mixed-use projects have won numerous local and national awards. He was also an early pioneer in green development having advocated for recycling in apartment communities, superior insulation, energy efficient appliances, and environmentally conscious building materials. His early efforts and vision led to many of the LEED standards that are used today.

Among the 40 awards, honors and medals Mr. Williams has received over his 43 years in the industry include being named Entrepreneur of The Year, by both Stanford Business School and Ernst & Young in 1990 and 1988 respectively. He has been given The Wall Street Transcript CEO Award for Commercial Real Estate, in 1995 along with being named CEO of The Year, by Financial World, in 1996. Mr. Williams was listed on National Real Estate

Investor s list of The 20th Century s Most Influential Developers, along with Atlanta Business Chronicle s award for Atlanta Residential Developer of The Decade, for the 1990s, followed by Harvard Business School extending its Community Leadership Award to Mr. Williams in 2000. He has received numerous honors and awards from Cobb County, Georgia including, The Mack Henderson Public Service Award, in 2005. Mr. Williams was inducted into the Multi-Housing News Hall of Fame: First Class in 2004, and given the Four Pillar Award in 2007 by The Council for Quality Growth. In the spring of 2008, Mr. Williams was inducted into the Georgia State University J. Mack Robinson College of Business Hall of Fame as well as the Georgia Institute of Technology College of Management Hall of Fame.

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While serving as the initial Chairman of the Cobb-Marietta Coliseum and Exhibit Hall Authority, Mr. Williams was responsible for leading the effort to build the $200 million Exhibition Meeting Venue and Ballroom complex. These facilities were completed in 1995. The large ballroom, one of the largest in the south, was named The John A. Williams Ballroom. He also led the effort to build the state-of-the-art Cobb Energy Performing Arts Centre which cost $150 million. The 2,800 seat main theatre is named The John A. Williams Theatre.

See the section Management Our Directors and Executive Officers included elsewhere in this prospectus.

Market Opportunities

In the wake of the financial system troubles and downturn in the United States economy after 2007 2008, multifamily assets saw a dramatic drop in their value as the combination of higher capitalization rates and dwindling incomes created formidable headwinds for operators across the country. Many transactions consummated in 2005 2008 were highly leveraged with favorable financing terms. In many instances, these deals are financially troubled or the debt associated with these deals is about to mature. These transactions present problems for undercapitalized owners as the ability to refinance has diminished significantly and the only options that may be available are a sale at a dramatic discount to their basis or foreclosure. However, based on the lack of new supply projected for the next several years, the introduction of the echo boom generation into the market and the dwindling rate of homeownership, we believe multiple opportunities will be created for acquisitions.

Supply Constraints: With the economic conditions curtailing financing and construction, we believe the new supply pipeline will remain below historical averages for the next few years. As can be seen from the charts below, for the last three years, permits for multifamily construction have diminished to an average of approximately 130,000 units annually. In addition, we believe that for the period from 2010 to 2015 the U.S. apartment stock will lose an average of 118,000 units per year to obsolescence or conversion to other uses. We believe that this combination should result in a few years of net completions of new units being well below historical averages. As the economy rebounds and demand for apartment inventory increases, we believe that there will be a shortage of new supply to keep up with the expected increased demand. We believe this window of opportunity will allow owners with desirable product to experience rent growth and enhanced occupancy levels as the market expands and supply struggles to keep pace.

Historical US MultiFamily Permits*

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Historical Permitting Comparison*

* Based on U.S. Census Bureau data as presented by Axiometrics, Inc.

Economic Improvement: While the overall economy struggles to show consistent signs of improvement, we believe that the multifamily sector seems to be the most resilient sector in the real estate market. We believe that the historical correlation between job growth and absorption has not applied. As demonstrated in the chart below, since the third quarter of 2008, apartment absorption on a year-over-year basis has outperformed the corresponding drop in employment, with absorption posting only modest declines in the face of dramatic job losses. We believe that the rental demand for single family rental product (which accounted for a large shadow market in many cities) has dropped significantly, providing relatively more demand for traditional multifamily rental product.

Apartment Absorption Rate vs. Job Growth Rate*

* Based on Witten Advisors Second Quarter 2011 U.S. Apartments Markets Forecast Presentation and U.S. Bureau of Labor Statistics.

Rate of Homeownership: We believe that one of the most significant contributors to the projection for new demand for rental units is the level of homeownership in the United States. As of June 30, 2011, the home ownership rate was approximately 65.9%, down from a high of approximately 69.2% in 2004 (figures

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based on U.S. Census Bureau data and the Witten Advisors Second Quarter 2011 U.S. Apartments Markets Forecast Presentation). Based on industry sources, we believe that, while the current economic weakness should ease, an increase in homeownership rates is unlikely for a much longer period of time and the current downward trend shown in the chart below will continue on its current trajectory.

U.S. Historical & Projected Homeownership Rate

* Source: Figures based on U.S. Census Bureau data and related Arthur C. Nelson forecast (Metropolitan Research Center, University of Utah).

Given the more stringent underwriting standards from lenders and scrutiny from regulators that has been occurring since the beginning of the last recession, the erosion of wealth in the housing sector over the last four years, the decline in overall household income and the dramatic increase in unemployment, we expect the propensity to rent likely will continue to increase in the near term. Based on current U.S. Census Bureau data, from a demographic standpoint, there is a large population bubble of Americans under the age of 30 who we expect to be candidates for home ownership now or in the near future; however, we believe it is likely that the current climate will compel them to delay the decision to purchase a home until they are on firmer economic footing. In addition, we believe the requirements for a mortgage may continue to be stringent and that this group may find it more attractive to rent for a longer period of time until they can qualify for a desirable home. All these factors lead us to believe that an improvement in demand for the apartment market will occur as the rental pool grows in a climate where little supply is being created.

Echo Boom Generation: As shown in the chart of U.S. Census Bureau data below, there are approximately 84 million echo boomers in the population currently, more than their Baby Boomers parents who number approximately 76.9 million. The echo boomers were born between 1977 and 1996 and the bulk of them are currently working their way into the market (age range in 2008 was 12 31). According to the U.S. Department of Education, for school year 2010 2011 more people were expected to attend universities in the United States than at any other time in history. We do not expect this trend to abate anytime in the near future. As these people graduate and work their way into the market, we believe the pool of educated, employed and qualified renters will increase dramatically.

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Population by Age

* Based on U.S. Census Bureau, Population Division July 2009 Data. *http://www.census.gov/popest/national/asrh/NC-EST2009-sa.html*

Our Competitive Strengths

We believe that we distinguish ourselves from our competitors through the following competitive advantages:

experienced management team with significant expertise in real estate and real estate-related debt investments and capital markets;

access to a pipeline of investment opportunities;

benefits from our relationship with our manager and its affiliates; and

dedicated asset management team.

Our Investment Strategy

We will seek to maximize returns for our stockholders by taking advantage of the current environment in the real estate market created by the recent United States financial crisis and downturn in the United States economy. While occupancy and capitalization rates in the multifamily sector have rebounded in recent months, apartment values remain below previous market highs due to significant declines in rental rates, collections and net operating incomes that have yet to fully recover. As the real estate market and economy stabilize, we intend to employ efficient management techniques to grow income and create asset value. Our investment strategy may include, without limitation, the following:

acquiring assets where assets or the owners of assets are overleveraged and/or owners may be struggling to meet current debt service obligations on such assets, or, in certain circumstances, where owners are financial institutions or conduits under either legal or economic compulsion to sell;

acquiring assets in opportunistic, performing and stable markets throughout the United States;

multifamily properties which we believe will generate sustainable cash available for distribution sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation;

taking advantage of the lack of significant new multifamily development in the last few years; and

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taking advantage of the anticipated availability of financing from Freddie Mac and Fannie Mae that fits within our financing strategy. See the section entitled Business Our Financing Strategy included elsewhere in this prospectus for a detailed discussion of our financing strategy.

We believe that financing will be available from Fannie Mae and Freddie Mac because they currently maintain that they will provide liquidity to the market in the form of debt capital at rates that meet our existing financing strategy. While market conditions may change and affect this availability, we believe Fannie Mae and Freddie Mac will continue to operate and provide debt for the multifamily sector. Fannie Mae and Freddie Mac are providing financing in a period where their current interest rate quotes are at or near historical lows, providing favorable economics for acquisitions where we anticipate that property operations will improve.

In implementing our investment strategy, we will use our manager s and its affiliates expertise in identifying attractive investment opportunities with the target classes described below, as well as their transaction sourcing, underwriting, execution and asset management and disposition capabilities. We expect that our manager will make decisions based on a variety of other factors, including expected risk-adjusted returns, credit fundamentals, liquidity, availability of adequate financing, borrowing costs and macroeconomic conditions. In addition, all investment decisions will be made with a view to obtaining and maintaining qualification as a REIT.

We believe there are numerous opportunities within the multi-family sector to acquire assets that fit our investment strategy. While cap rates have come down recently, interest rates generally remain below cap rates, providing an opportunity for buyers to achieve positive leverage (borrow at a cost of capital below the cap rate on the asset). In addition, we believe that NOI growth for multifamily assets in general will be between 5% and 8% annually through 2013.

* Based on Witten Advisors Second Quarter 2011 U.S. Apartments Markets Forecast Presentation and U.S. Bureau of Labor Statistics.

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We believe that opportunity to purchase assets today at a price below replacement cost and below the recent highs in multifamily pricing that occurred in 2006 to 2008, combined with the general forecast of improving NOI growth, supports our investment strategy. However, our investment strategy is dynamic and flexible, which we anticipate will enable us to adapt to shifts in economic, real estate and capital market conditions and to exploit inefficiencies. Consistent with this strategy, our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different economic and capital market conditions. We believe this approach allows us to identify undervalued opportunities in all market cycles, often before other investors identify such opportunities.

In particular, we will look to acquire:

- assets of varying age depending on the return profile and the specific strategy for each asset;
- assets in the top submarkets of each metropolitan statistical area (MSA) defined by highest rent per square foot, highest resident income level, highest property values for single family housing, etc.;
- properties that should be modern in architecture and appearance with no functional obsolescence or design flaws;
- assets comprised of 200 600 units per property to allow increased operating efficiency, with target properties outside this profile evaluated and priced appropriately;
- multifamily properties which we believe will generate sustainable cash available for distribution sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation;
- assets with target capitalization rates varying by market and asset type in light of today's interest rate environment, we believe core assets in the more stable markets could range between 5.0% and 7.0% and more opportunistic assets could have significantly higher acquisition capitalization rates;
- assets with exit capitalization rates forecasted based on market performance, interest rate assumptions, and asset strategy but that generally mirror entry capitalization rates (except on more opportunistic targets); and
- assets in urban infill areas and suburban markets.

It is our policy to acquire our target assets primarily for income, and only secondarily for possible capital gain. We currently do not anticipate investing in unimproved property, developing new construction properties or acquiring new construction, except we would consider a forward purchase or option to purchase contract on a to-be-built multifamily asset with the appropriate provisions for minimum occupancy and income thresholds in order for us to expect the asset to be priced appropriately. In connection with entering into a forward purchase or option to purchase contract, we may be required to provide a deposit, a mezzanine loan or other assurances of our ability to perform our obligations under the forward purchase or option to purchase contract. We do not currently anticipate making any mezzanine loans other than in the context of such forward purchase or option to purchase contracts.

On June 30, 2011, Trail Creek Mezzanine Lending, LLC, a wholly owned subsidiary of our operating partnership, made the Mezzanine Loan investment of $6.0 million to Oxford Hampton Partners LLC, a Georgia limited liability company, in connection with Oxford Hampton Partners LLC s plans to construct a 96-unit townhome community in Hampton, Virginia. Oxford Hampton Partners LLC was required to fully draw down the loan on June 30, 2011. See the section entitled Business Mezzanine Loan elsewhere in this prospectus for a detailed description of the terms of the Mezzanine Loan.

Our target asset acquisitions would fit into three categories consisting of:

Core Assets: Core assets can best be described as being relatively new properties (less than ten years old) in major markets and top submarkets. These properties typically are in infill and close-in suburban locations with significant barriers to entry and little-to-no deferred maintenance issues or

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significant capital expenditures necessary to maintain market presence. The properties are typically well managed and maintained by the seller. Based on the current interest rate environment, we would expect capitalization rates to range from 5.0% to 7.0%;

Value Add Assets: Value add assets can best be described as slightly older assets (up to 25 years old) in major markets, but submarkets can be infill or suburban. Value add assets typically have some deferred maintenance issues, capital expenditure needs and/or modest operational or occupancy deficiencies that may require more management intensive efforts than core assets. These operational deficiencies could include, but are not limited to, below market occupancy rates, unqualified or inexperienced management teams on site or at the corporate level, deferred maintenance and capital expenditure needs. Capital expenditure needs in value add assets should be no more than $10,000 to $20,000 per unit, depending on market conditions and material costs. The capitalization rates for value add assets are expected to be higher (7.00% to 8.00% currently) than core assets with higher expected returns; and

Opportunistic Assets: Opportunistic assets can be older assets, but we would seek to avoid functional obsolescence in an asset due to defective construction and inherent flaws. Examples of functional obsolescence could include, but are not limited to, flat roofs in garden style apartments, floor plans that are significantly smaller than the market average and a high percentage of two bedroom/one bath units relative to the market. Defective construction or inherent flaws could include, but is not limited to, aluminum wiring in apartments for electricity, blu-poly piping and poor installation of mechanical systems or appliances. It is possible that we would acquire an asset with some of these flaws with the intention of correcting the issues or updating the asset. We would expect this type of asset to have serious physical or operational deficiencies that will require intensive efforts to correct either through management changes, renovation or a combination of both. Capital expenditure needs in opportunistic assets will probably exceed $20,000 per unit, depending on market conditions and material costs. Serious physical and operational deficiencies could include, but are not limited to, reroofing a property, repainting the interior and exterior of a property, replacing all the appliances in a property and completely renovating the common areas. Capitalization rates for these assets could be 8.0% or higher due to the potentially serious operational deficiencies with an opportunistic asset, current cap rates may be difficult to determine and may vary widely.

We also may invest in real estate related debt, including, but not limited to, previously originated first mortgage loans on multifamily properties that meet our investment criteria, which are performing or non-performing, previously originated mezzanine loans on multifamily properties that meet our investment criteria (second or subsequent mortgages), which are performing or non-performing, and tranches of securitized loans (pools of collateralized mortgaged-backed securities) on multifamily properties that meet our investment criteria, which are performing or non-performing. We will seek to invest in debt when there is a reasonable expectation that either the satisfaction of the debt under its current terms or the foreclosure of the asset securing the debt would result in a favorable return to us. We will analyze the current operations of any asset securing the debt that we seek to purchase in order to determine the likelihood of a default or foreclosure (in the case where there is not one currently) and price our bid for such debt based on the expectations of either a successful payoff by the current borrower or a need to foreclose on the asset. Other than in connection with forward purchase or option to purchase contracts, we do not intend to originate real estate related debt or make loans to other persons.

We anticipate that future acquisitions of assets by us generally will be from unaffiliated third parties, but we would still consider an acquisition from an affiliated third party if such acquisition made financial sense to us and was approved by our conflicts committee comprised of independent directors.

The investment committee will periodically review our investment portfolio and its compliance with our investment guidelines (or our investment policies), and provide our board of directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. Our investment guidelines, the assets in our portfolio, the decision to utilize leverage, and the appropriate levels of leverage are periodically reviewed by our board of directors as part of their oversight of our manager. Our board of directors may

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amend or revise our investment guidelines without a vote of the stockholders. If our board of directors amends or revises our investment guidelines, the board will describe such amendments or revisions in our next Form 10-Q filing, a Form 8-K or a press release.

Our Target Markets

We will use a variety of metrics and measures to assist us in determining the appropriateness of the markets we will target for acquisitions, the sub-markets within those markets and the individual assets we will acquire. Generally, we intend to target MSAs of one million people or more with favorable economic conditions. The conditions we may monitor in determining the economic conditions of a market include, but are not limited to, job growth, household income, the pipeline of new supply for multifamily units, the pipeline of new supply for single family units, current and forecasted occupancy for multifamily units, current and forecasted rental rate growth for multifamily units, and other statistics that may be relevant to individual markets. In addition, we will analyze data from our affiliate operations to corroborate any assumptions. Our affiliate operations include third party property management of 22,500 multifamily units across 15 states, asset management of over 3,000 multifamily units across four states and in-house property management of over 5,100 multifamily units across six states. In addition to the analysis of current economic conditions and forecasts and the data provided by our affiliates operations, we will utilize a network of industry contacts and relationships to generate significant information about current and future market conditions. The map below provides our most current analysis of the markets where we believe opportunities exist for us to acquire properties. These markets have different favorable and unfavorable traits which might cause us to make different acquisition decisions in each market, depending on the type of asset available in the market, the submarket it is located in within that market, the pricing we anticipate for that asset and our view on how the asset, the submarket and the broader market will perform. The areas in red on the map below indicate our current areas of operation. The areas in blue on the map below indicate additional markets we are currently targeting for properties to acquire, however, no assurance can be given that suitable properties will be acquired in such areas. These initial markets have been selected because our affiliated operations currently have a significant presence in these markets. We anticipate this presence will provide us more accurate and timely market data when evaluating potential acquisitions and speed and efficiency in putting in place a property management team post-acquisition. The map below is a guide and will change as additional information becomes available to us regarding national, market or local trends. As of the date of this prospectus, we currently own properties in Atlanta, Georgia MSA, Hampton, Virginia MSA, and Philadelphia, Pennsylvania MSA and we may purchase properties in markets other than those shown on the map below. See the section entitled Description of Real Estate Investments Property Owned included elsewhere in this prospectus for a detailed discussion of the properties we have acquired.

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Target MSA Map

* Target MSAs in the above map are as of June 30, 2011

Our Financing Strategy

We intend to utilize leverage in making our investments. The number of different investments we will acquire will be affected by numerous factors, including the amount of funds available to us. By operating on a leveraged basis, we will have more funds available for our investments. This will allow us to make more investments than would otherwise be possible, resulting in a larger and more diversified portfolio. See the Risk Factors section of this prospectus for more information about the risks related to operating on a leveraged basis.

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the value of our tangible assets (including our real estate assets, real estate loan investments, accounts receivable and cash and cash equivalents) on a portfolio basis based on fair market value. As of June 30, 2011, our outstanding debt (both secured and unsecured) was approximately 56.5% of the value of our tangible assets on a portfolio basis based on fair market value. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our board without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. These targets, however, will not apply to individual real estate assets or investments. The amount of leverage we will seek for particular investments in our target assets will depend on our manager s assessment of a variety of factors which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in the portfolio, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and the health of the commercial real estate market in general. In addition, factors such as our outlook on interest rates, changes in the yield curve slope, the level and volatility of interest rates and their associated credit spreads, the underlying collateral of our assets and our outlook on credit spreads relative to our outlook on interest rate and economic performance could all impact our decision and strategy for financing the target assets. At the date of acquisition of each asset, we anticipate that the cost of investment for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding

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these limits. Finally, we intend to acquire all our properties through separate special purpose entities and we intend to finance each of these properties using financing techniques for that property alone without any cross-collateralization to our other properties. In addition, neither we nor our operating partnership intend to provide any guaranties of property level indebtedness. Finally, we intend to have no long-term corporate level debt.

The leverage may be obtained from a variety of sources including (but not limited to) Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), commercial banks, credit companies, insurance companies, pension funds, endowments, financial services companies and other institutions who wish to provide debt financing for our assets.

Our secured and unsecured aggregate borrowings are intended by us to be reasonable in relation to our net assets and will be reviewed by our board of directors at least quarterly. In determining whether our borrowings are reasonable in relation to our net assets, we expect that our board of directors will consider many factors, including without limitation, the lending standards of government-sponsored enterprises, such as Fannie Mae, Freddie Mac and other companies for loans in connection with the financing of multifamily properties, the leverage ratios of publicly traded and non-traded REITs with similar investment strategies, whether we have positive leverage (in that, the board will compare the capitalization rates of our properties to the interest rates on the indebtedness of such properties) and general market and economic conditions. There is no limitation on (i) the amount that we may borrow for any single investment, or (ii) the number of mortgages that may be placed on any one piece of property.

Risk Management

Risk management is a fundamental principle in our manager s construction of our portfolio and in the management of each investment. Diversification of our portfolio by investment size and location is critical to controlling portfolio-level risk. Over the long term, it is our policy that no single asset will exceed 15% of our total assets and that we will not have more than 25% of our total assets invested in any single MSA. However, until a sufficient number of properties are acquired, we anticipate that we will have single assets in excess of 15% of our total assets and more than 25% of our assets in a single MSA. There is no limitation on (i) the percentage of assets of any one type of investment which we may invest in, and (ii) in the case of securities, the percentage of securities of any one issuer which we may acquire.

Investment Committee

Our manager has an investment committee which will meet periodically, at least every quarter, to discuss investment opportunities. The investment committee will periodically review our investment portfolio and its compliance with our investment guidelines described above, and provide our board of directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. From time to time, as it deems appropriate or necessary, our board of directors also will review our investment portfolio and its compliance with our investment guidelines and the appropriateness of our investment guidelines and strategies.

Policies With Respect to Certain Other Activities

If our board of directors determines that additional funding is required, we may raise such funds through additional offerings of equity or debt securities or the retention of cash flow (subject to provisions in the Code concerning distribution requirements and the taxability of undistributed REIT taxable income) or a combination of these methods. If our board of directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time. We will seek to maintain a balance between the number of outstanding shares of common stock and other types of equity securities of the company issued and outstanding as we seek to fund our capital needs. However, we can make no assurances that we will be able to achieve or maintain this balance. For example, uncertainties in the marketplace could affect the timing, amount and value of any equity securities to be issued, the success or lack of success of any capital raising program, including without limitation this offering. Moreover, general economic conditions affecting our business, financial condition and operations could affect the balance between the number of outstanding shares of common stock and other types of equity securities of the company issued and outstanding.

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In addition, we may finance the acquisition of investments using the various sources of financing discussed above as described in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources included elsewhere in this prospectus. Our investment guidelines, the assets in our portfolio, the decision to utilize leverage, and the appropriate levels of leverage are periodically reviewed by our board of directors as part of their oversight of our manager.

We may offer equity or debt securities in exchange for property or may redeem or otherwise reacquire shares of our common stock for cash. We also may redeem shares of our Series A Redeemable Preferred Stock for cash or in equal value of our common stock. In addition to the Series A Redeemable Preferred Stock issuable in this offering, we may establish and offer another class or series of preferred stock, including convertible preferred stock. Subject to the percentage of ownership limitations and gross income tests necessary for REIT qualification, we may in the future invest in securities of other REITs or other entities (including for the purpose of exercising control over such entities) that invest in multifamily properties or otherwise have similar investment objectives. We do not intend that our investments in securities will require us to register as an investment company under the Investment Company Act, and we would intend to divest such securities before any such registration would be required. We do not intend to underwrite securities of other issuers.

We intend to make available to our stockholders our annual reports, including our audited financial statements. After our IPO, we became subject to the information reporting requirements of the Exchange Act. Pursuant to those requirements, we are now required to file annual and periodic reports, proxy statements and other information, including audited financial statements, with the SEC.

Our board of directors may change any of these policies without prior notice to you or a vote of our stockholders.

Operating and Regulatory Structure

REIT Qualification

We intend to elect and qualify to be taxed as a REIT, commencing with our tax year ending December 31, 2011. In addition, we may hold certain of our assets through TRSs, which may be subject to corporate-level income tax at regular rates. Our qualification as a REIT depends on our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares. We believe that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT.

So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income we distribute currently to our stockholders. If we fail to qualify for taxation as a REIT in any taxable year, and the statutory relief provisions of the Code do not apply, we will be subject to U.S. federal income tax at regular corporate rates and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Distributions to stockholders in any year in which we are not a REIT would not be deductible by us, nor would they be required to be made. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income or property and to U.S. federal income and excise taxes on our undistributed income.

Investment Company Act Considerations

We intend to conduct our operations so that we and each of our subsidiaries are exempt from registration as an investment company under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is an investment company if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an investment company if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in

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securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis, or the 40% test. Investment securities exclude U.S. Government securities and securities of majority owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We intend to acquire real estate and real-estate related assets directly, for example, by acquiring fee interests in real property, or by purchasing interests, including controlling interests, in REITs or other real estate operating companies, such as real estate management companies and real estate development companies, that own real property. We also may acquire real estate assets through investments in joint venture entities, including joint venture entities in which we may not own a controlling interest. We anticipate that our assets generally will be held in our wholly owned and majority owned subsidiaries, each formed to hold a particular asset.

We intend to conduct our operations so that our company and most, if not all, of its wholly owned and majority owned subsidiaries will comply with the 40% test. We will continuously monitor our holdings on an ongoing basis to determine the compliance of our company and each wholly owned and majority owned subsidiary with this test. Because we expect that most of our assets will be real estate investments, we expect that most, if not all, of the company s wholly owned and majority owned subsidiaries will not be relying on exemptions under either Section 3(c)(1) or 3(c)(7) of the Investment Company Act. Consequently, interests in these subsidiaries (which are expected to constitute most, if not all, of our assets) generally will not constitute investment securities. Accordingly, we believe that our company and most, if not all, of its wholly owned and majority owned subsidiaries will not be considered investment companies under Section 3(a)(1)(C) of the Investment Company Act.

In addition, we believe that neither we nor any of our wholly owned or majority owned subsidiaries will be considered investment companies under Section 3(a)(1)(A) of the Investment Company Act because they will not engage primarily, or propose to engage primarily, or hold themselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, we and our subsidiaries will be primarily engaged in non-investment company businesses related to real estate. Consequently, we and our subsidiaries expect to be able to conduct their respective operations such that none of them will be required to register as an investment company under the Investment Company Act.

The determination of whether an entity is our majority owned subsidiary is made by us. The Investment Company Act defines a majority owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority owned subsidiary of such person. The Investment Company Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We treat companies in which we own at least a majority of the outstanding voting securities as majority owned subsidiaries for purposes of the 40% test. We have not requested that the SEC staff approve our treatment of any entity as a majority owned subsidiary and the SEC staff has not done so. If the SEC staff were to disagree with our treatment of one or more companies as majority owned subsidiaries, we would need to adjust our strategy and our assets in order to continue to comply with the 40% test. Any such adjustment in our strategy could have a material adverse effect on us.

We intend to conduct our operations so that neither we nor any of our wholly owned or majority owned subsidiaries fall within the definition of investment company under the Investment Company Act. If we or any of our wholly owned or majority owned subsidiaries inadvertently falls within one of the definitions of investment company, we intend to rely on the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act, which is available for entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. In addition to prohibiting the issuance of certain types of securities, this exclusion generally requires that at least 55% of an entity s assets must be comprised of mortgages and other liens on and interests in real estate, also known as qualifying assets, and at least 80% of the entity s assets must be comprised of qualifying assets and a broader category of assets that we refer to as real estate related assets under the Investment Company Act. Additionally, no more than 20% of the entity s assets may be comprised of miscellaneous assets.

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We will classify our assets for purposes of the Investment Company Act, including the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act, in large measure based upon no-action positions taken by the SEC staff in the past. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued more than ten years ago. No assurance can be given that the SEC staff will concur with our classification of our assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify our assets for purposes of the Investment Company Act. If we are required to re-classify our assets, we may no longer be in compliance with the exclusion from the definition of an investment company provided by Section 3(c)(5)(C) of the Investment Company Act.

For purposes of determining whether we satisfy the 55%/80% tests, we will classify the assets in which we invest as follows:

Real Property. Based on the no-action letters issued by the SEC staff, we will classify our fee interests in real properties as qualifying assets. In addition, based on no-action letters issued by the SEC staff, we will treat our investments in joint ventures, which in turn invest in qualifying assets such as real property, as qualifying assets only if we have the right to approve major decisions affecting the joint venture; otherwise, such investments will be classified as real estate-related assets. We expect that no less than 55% of our assets will consist of investments in real property, including any joint ventures that we control.

Securities. We intend to treat as real estate-related assets debt and equity securities of both non-majority owned publicly traded and private companies primarily engaged in real estate businesses, including REITs and other real estate operating companies, and securities issued by pass-through entities of which substantially all the assets consist of qualifying assets or real estate-related assets.

Loans. Based on the no-action letters issued by the SEC staff, we will classify our investments in various types of whole loans as qualifying assets, as long as the loans are fully secured by an interest in real estate at the time we originate or acquire the loan. However, we will consider loans with loan-to-value ratios in excess of 100% to be real estate-related assets. We will treat our mezzanine loan investments as qualifying assets so long as they are structured as Tier 1 mezzanine loans in accordance with the guidance published by the SEC staff in a no-action letter that discusses the classifications of Tier 1 mezzanine loans under Section 3(c)(5)(C) of the Investment Company Act.

Consistent with no-action positions taken by the SEC staff, we will consider any participation in a whole mortgage loan, including B-Notes, to be a qualifying real estate asset only if (1) we have a participation interest in a mortgage loan that is fully secured by real property; (2) we have the right to receive our proportionate share of the interest and the principal payments made on the loan by the borrower, and our returns on the loan are based on such payments; (3) we invest only after performing the same type of due diligence and credit underwriting procedures that we would perform if we were underwriting the underlying mortgage loan; (4) we have approval rights in connection with any material decisions pertaining to the administration and servicing of the loan and with respect to any material modification to the loan agreements; and (5) if the loan becomes non-performing, we have effective control over the remedies relating to the enforcement of the mortgage loan, including ultimate control of the foreclosure process, by having the right to: (a) appoint the special servicer to manage the resolution of the loan; (b) advise, direct or approve the actions of the special servicer; (c) terminate the special servicer at any time with or without cause; (d) cure the default so that the mortgage loan is no longer non-performing; and (e) purchase the senior loan at par plus accrued interest, thereby acquiring the entire mortgage loan.

We will base our treatment of any other investments as qualifying assets and real estate-related assets on the characteristics of the underlying collateral and the particular type of loan (including whether we have foreclosure rights with respect to those securities or loans that have underlying real estate collateral) and we will make these determinations in a manner consistent with guidance issued by the SEC staff.

Qualification for exemption from the definition of investment company under the Investment Company Act will limit our ability to make certain investments. For example, these restrictions may limit the ability of our company and our subsidiaries to invest directly in mortgage-related securities that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations and certain

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asset-backed securities, distressed debt, subordinated debt and real estate companies or in assets not related to real estate. Although we intend to monitor our portfolio, there can be no assurance that we will be able to maintain this exemption from registration for our company or each of our subsidiaries.

A change in the value of any of our assets could negatively affect our ability to maintain our exemption from regulation under the Investment Company Act. To maintain compliance with the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional assets that we might not otherwise have acquired or may have to forego opportunities to acquire assets that we would otherwise want to acquire and would be important to our investment strategy.

To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon the definition of investment company and the exceptions to that definition, we may be required to adjust our investment strategy accordingly. Additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the investment strategy we have chosen.

If we are required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use borrowings), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), and portfolio composition, including restrictions with respect to diversification and industry concentration and other matters. Compliance with the Investment Company Act would, accordingly, limit our ability to make certain investments and require us to significantly restructure our business plan.

Competition

Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. We are subject to significant competition in acquiring our target assets. In particular, we will compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds, commercial and investment banks, hedge funds, mortgage bankers, commercial finance and insurance companies, governmental bodies and other financial institutions. We also may compete with John A. Williams and his affiliates for investment opportunities. See the section entitled Risk Factors Risks Related to Conflicts of Interest included elsewhere in this prospectus. In addition, there are several REITs with similar investment objectives, including a number that have been recently formed, and others may be organized in the future. These other REITs will increase competition for the available supply of real estate-related assets suitable for purchase or origination. Some of our anticipated competitors have greater financial resources, access to lower costs of capital and access to funding sources that may not be available to us. In addition, some of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the Investment Company Act. Furthermore, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, or pay higher prices, than we can. Current market conditions may attract more competitors, which may increase the competition for our target assets. An increase in the competition for such assets may increase the price of such assets, which may limit our ability to generate attractive risk-adjusted returns for our stockholders, thereby adversely affecting the market price of our outstanding stock.

In the face of this competition, we expect to have access to our manager s and its affiliates professionals and their industry expertise, which we believe will provide us with a competitive advantage and help us assess investment risks and determine appropriate pricing for potential investments. We expect that these relationships will enable us to compete more efficiently and effectively for attractive investment opportunities. In addition, we believe that current market conditions may have adversely affected the financial condition of certain competitors. Thus, not having a legacy portfolio also may enable us to compete more effectively for attractive investment opportunities. Although we believe we are well positioned to compete effectively in each facet of our business, there can be no assurance that we will be able to achieve our business goals or expectations due to the extensive competition in our market sector. For additional information concerning these competitive risks, see Risk Factors.

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Employees

We are externally managed by our manager pursuant to the third amended and restated management agreement between our manager and us. All our officers are employees of our manager or its affiliates. See the section entitled Our Manager and Management Agreement Management Agreement included elsewhere in this prospectus.

Legal Proceedings

Neither we nor our subsidiaries nor, to our knowledge, our manager is currently subject to any legal proceedings that we or our manager consider to be material. To our knowledge, none of our properties is currently subject to any legal proceeding that we consider material.

Other Information

Our principal executive offices are located at 3625 Cumberland Boulevard, Suite 400, Atlanta Georgia 30339. Our telephone number is (770) 818-4100. Our website is *www.pacapts.com*. The contents of our website are not part of this prospectus. The information on our website is not intended to form a part of or be incorporated by reference into this prospectus.

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DESCRIPTION OF REAL ESTATE INVESTMENTS

Properties Owned

The following table provides information as of June 30, 2011 regarding our three multifamily communities.

(1) Exclusive of additional amounts recoverable from tenants for utilities and rent concessions that may be offered to tenants.

(2) The purchase price of acquired properties is based on the aggregate value of the tangible and identifiable intangible assets and liabilities acquired.

(3) Each of the multifamily communities is operated under a management agreement between our manager and Williams Residential Management, LLC, or the property manager, an affiliate of our manager.

(4) Mortgage debt amount and interest rate at June 30, 2011. Interest rate varies monthly and is calculated by adding 2.77% to the British Banker s Association s one month LIBOR Rate for United States Dollar deposits, or LIBOR, for Stone Rise and 2.80% to LIBOR for Trail Creek. LIBOR was 0.19% on June 30, 2011.

(5) Variable monthly interest rates are capped at 7.25% and 6.85% for Stone Rise and Trail Creek, respectively.

See the section entitled Certain Relationships and Related Transactions Agreements With Institutional and Other Investors Real Estate Property Acquisitions contained elsewhere in this prospectus.

Summit Crossing

On April 21, 2011, we completed the acquisition of 100% of the membership interests in PAC Summit Crossing, LLC, a Georgia limited liability company (f/k/a Oxford Summit Partners LLC), (Summit Crossing) the fee-simple owner of a 345-unit multifamily community located in suburban Atlanta, Georgia for a total purchase price of $33.2 million, exclusive of acquisition-related and financing-related transaction costs.

We funded the purchase price from proceeds of the IPO and concurrent private placement transaction and a non-recourse first mortgage loan in the original principal amount of approximately $20.9 million. The loan bears interest at a fixed rate of interest equal to 4.71% per annum. The loan requires monthly payments of accrued interest only from the period of June 1, 2011 to May 1, 2014. Beginning on June 1, 2014, the Loan will require monthly payments of accrued interest and principal based on a 30-year amortization period. The loan matures on May 1, 2018. The loan may not be partially prepaid, but may be prepaid in full at any time. However, any prepayment before February 1, 2018 will require us to pay a prepayment premium. The prepayment premium is the greater of (1) 1% of the loan balance and (2) the present value of the difference in payments implied between the stated interest rate on the loan and the equivalent rate on a U.S. Treasury security whose maturity coincides with the maturity of the loan at the time the prepayment is being calculated. In the case where a U.S. Treasury security does not have a maturity date equal to the maturity date of the loan, the interpolation of the yield between the securities immediately shorter and immediately longer than the maturity of the loan shall be used. At maturity a balance of approximately $14.3 million will be due on the loan, assuming no prior principal prepayment on the loan.

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Summit Crossing is a multifamily community consisting of 345 units located in suburban Atlanta, Georgia. The community consists of 26 garden and townhome buildings on a 19-acre landscaped setting. A gated and controlled access community, Summit Crossing is comprised of a unit mix of 83 one-bedroom garden apartment homes, 40 one-bedroom townhomes, 53 two-bedroom garden apartment homes, and 166 two-bedroom townhomes and 3 three-bedroom garden apartment homes. The property was constructed in 2007 and its apartment homes have an average size of 1,024 square feet. We believe that the Summit Crossing property is suitable and adequate for use as a multifamily apartment complex. No major renovations, improvements or developments are planned for the Summit Crossing property.

There are currently nine other apartment communities in the area that we believe are competitive with Summit Crossing, with seven of those properties located two to three miles south in Alpharetta/North Fulton County. Including Summit Crossing, these ten properties total 3,842 units, have an average unit size of 1,094 square feet and an average year of construction of 2000. In addition to existing competitive properties, the market in which Summit Crossing is located currently has no properties under construction or planned, but an affiliate of the seller of Summit Crossing owns two adjacent parcels each entitled for multi family development that would allow for the future development of a 162 unit community and a 150 unit community. Other than those two parcels, there is no other multifamily zoned land in Summit Crossing s market. In addition to the specific competitive conditions described above, general competitive conditions affecting Summit Crossing include those identified in the section entitled Competition included elsewhere in this prospectus.

All the leased space is residential with leases ranging from an initial term of three months to one year. The average historical occupancy rate (determined by the total number of units actually occupied at the specified point in time indicated) for the last five years is as follows:

At December 31, 2010	94.8 %
At December 31, 2009	93.8 %
At December 31, 2008	85.4 %
At December 31, 2007	76.5 %
At December 31, 2006	N/A

No single tenant occupies 10% or more of Summit Crossing.

The average historical effective net annual rental rate per unit (including any tenant concessions and abatements) at the property is as follows:

Year ending December 31, 2010	$ 10,476
Year ending December 31, 2009	$ 10,212
Year ending December 31, 2008	$ 10,536
Year ending December 31, 2007	$ 10,728
Year ending December 31, 2006	N/A

Property taxes paid on Summit Crossing for the fiscal year ended December 31, 2010 were $142,698.44. Summit Crossing was subject to a tax rate of 2.4719% of its assessed value.

Under a contract with our manager, Williams Residential Management, LLC, an affiliate of our manager, will act as property manager of Summit Crossing. In the opinion of the management of the Company, Summit Crossing is adequately covered by insurance.

Stone Rise

On April 15, 2011, we completed the acquisition of 100% of the membership interests in Stone Rise Apartments, LLC, a Delaware limited liability company (f/k/a Oxford Rise JV LLC), (Stone Rise) the fee-simple owner of a 216-unit multifamily apartment community located in suburban Philadelphia, Pennsylvania for a total purchase price of $30.15 million, exclusive of acquisition-related and financing-related transaction costs.

We funded the purchase price from proceeds of the IPO and concurrent private placement transaction and a non-recourse first mortgage in the original principal amount of $19.5 million. The loan bears interest at an adjustable interest rate that is calculated each month. The adjustable interest rate is set at 277 basis points

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above the British Banker s Association s one month LIBOR and is capped at 7.25% per annum. The loan requires monthly payments of accrued interest only from the period of June 1, 2011 to May 1, 2014. Beginning on June 1, 2014, the loan will require monthly payments of accrued interest and principal based on a 30-year amortization period. The loan matures on May 1, 2018. The loan may not be partially prepaid, but may be prepaid in full at any time. However, any prepayment before February 1, 2018 will require us to pay a prepayment premium. Prepayment premiums are as follows: Year 1 5% of principal being prepaid; Year 2 4% of principal being prepaid; Year 3 3% of principal being prepaid; Year 4 2% of principal being prepaid; and Year 5 to maturity 1% of principal being prepaid. At maturity a balance of approximately $17.0 million will be due on the loan, assuming no prior principal prepayment on the loan.

Stone Rise is an existing multifamily apartment complex consisting of 216 units located in suburban Philadelphia, Pennsylvania. The community consists of 8 garden buildings on a 20-acre landscaped setting. Stone Rise is comprised of a unit mix of 72 one-bedroom garden apartment homes and 144 two-bedroom garden apartment homes. The property was constructed in 2008 and its apartment homes have an average size of 1,078 square feet. We believe the Stone Rise property is suitable and adequate for use as a multifamily apartment complex. No major renovations, improvements or developments are planned for the Stone Rise property.

There are currently six other apartment communities in the area that we believe are competitive with Stone Rise. All these properties are located south of Stone Rise nearer to Interstate 76 and Highway 202. Including Stone Rise, the seven properties total 1,602 units, have an average unit size of 1,027 square feet and an average year of construction of 2002. Further, in Chester County, Pennsylvania, the county in which Stone Rise is located, no new construction of multifamily properties is currently on-going or planned. In addition, new construction is constrained due to a current lack of sewer availability that requires any new construction to bear the burden of constructing and maintaining a waste water treatment plant and drip irrigation system. In addition to the specific competitive conditions described above, general competitive conditions affecting Stone Rise include those identified in the section entitled Competition included elsewhere in this prospectus.

All the leased space is residential with leases ranging from an initial term of three months to one year. The average historical occupancy rate (determined by the total number of units actually occupied at the specific point in time indicated) for the last five years is as follows:

At December 31, 2010	94.0 %
At December 31, 2009	79.2 %
At December 31, 2008	21.8 %
At December 31, 2007	N/A
At December 31, 2006	N/A

No single tenant occupies 10% or more of Stone Rise.

The average historical effective net annual rental rate per unit (including any tenant concessions and abatements) at the property is as follows:

Year ending December 31, 2010	$ 14,640
Year ending December 31, 2009	$ 14,556
Year ending December 31, 2008	$ 16,284
Year ending December 31, 2007	N/A
Year ending December 31, 2006	N/A

Property taxes paid on Stone Rise for the fiscal year ended December 31, 2010 were $392,887. Stone Rise was subject to a base property tax rate of 0.6295% of its assessed value. In addition, Stone Rise was subject to an additional property tax rate of 2.55% of its 2009 assessed value for the first half of 2010 and to an additional property tax rate of 2.617% of its 2010 assessed value for the second half of 2010.

Under a contract with our manager, Williams Residential Management, LLC, an affiliate of our manager, will act as property manager of Stone Rise. In the opinion of the management of the Company, Stone Rise is adequately covered by insurance.

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Trail Creek

On April 29, 2011, we, through our indirectly wholly owned subsidiary Trail Creek Apartments, LLC, completed the acquisition of a 204-unit multifamily townhome community located in Hampton, Virginia (Trail Creek) for a total purchase price of $23.5 million, exclusive of acquisition-related and financing-related transaction costs.

We purchased a fee-simple interest in the property from Oxford Trail JV LLC and funded the purchase price from proceeds of the IPO and concurrent private placement transaction and a non-recourse first mortgage in the original principal amount of approximately $15.3 million. The loan bears interest at an adjustable interest rate that is calculated each month. The adjustable interest rate is set at 2.80% above LIBOR, and is capped at 6.85% per annum. The loan requires monthly payments of accrued interest only from the period of June 1, 2011 to May 1, 2014. Beginning on June 1, 2014, the loan will require monthly payments of accrued interest and principal based on a 30-year amortization period. The loan matures on May 1, 2018. The loan may not be partially prepaid but may be prepaid in full at any time. However, any prepayment before February 1, 2018 will require us to pay a prepayment premium. Prepayment premiums are as follows: Year 1 5% of the loan balance; Year 2 4% of the loan balance; Year 3 3% of the loan balance; Year 4 2% of the loan balance; and Year 5 to maturity 1% of the loan balance. At maturity a balance of approximately $18.1 million will be due on the loan, assuming no prior principal prepayment on the loan.

Trail Creek is a multifamily community consisting of 204 units located in Hampton, Virginia. The community consists of 20 two-story townhome buildings on approximately 16.92 acres. Trail Creek is comprised of a unit mix of 84 one-bedroom townhomes and 120 two-bedroom townhomes. The property was constructed in 2006 and its townhomes have an average size of 984 square feet. We believe the Trail Creek property is suitable and adequate for use as a multifamily apartment complex. No major renovations, improvements or developments are planned for the Trail Creek property.

There are currently seven other apartment communities in the area that we believe are competitive with Trail Creek, with five of those properties located within approximately two to three miles of Trail Creek. Including Trail Creek, these eight properties total 1,981 units, have an average unit size of 1,009 square feet and an average year of construction of 2004. In addition to existing competitive properties, the market in which Trail Creek is located currently has two properties under construction or planned that total 446 units. In addition to the specific competitive conditions described above, general competitive conditions affecting Trail Creek include those identified in the section entitled Competition included elsewhere in this prospectus.

All the leased space is residential with leases ranging from an initial term of three months to one year. The average historical occupancy rate (determined by the total number of units actually occupied at the specified point in time indicated) for the last five years is as follows:

At December 31, 2010	97.3 %
At December 31, 2009	94.8 %
At December 31, 2008	92.1 %
At December 31, 2007	69.3 %
At December 31, 2006	7.2 %

No single tenant occupies 10% or more of Trail Creek.

The average historical effective net annual rental rate per unit (including any tenant concessions and abatements) at the property is as follows:

Year ending December 31, 2010	$ 12,528
Year ending December 31, 2009	$ 12,336
Year ending December 31, 2008	$ 12,360
Year ending December 31, 2007	$ 12,180
Year ending December 31, 2006	$ 11,808

Property taxes paid on Trail Creek for the fiscal year ended December 31, 2010 were $240,893. Trail Creek was subject to a tax rate of 1.04% of its assessed value.

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Under a contract with our manager, Williams Residential Management, LLC, an affiliate of our manager, will act as property manager of Trail Creek. In the opinion of the management of the Company, Trail Creek is adequately covered by insurance.

Real Estate Loan Investment

On June 30, 2011, we, through our indirectly owned subsidiary, Trail Creek Mezzanine Lending, LLC (the Lender), made the Mezzanine Loan to Oxford Hampton Partners LLC, a Georgia limited liability company (the Borrower), in connection with Borrower s plans to construct a 96-unit townhome community in Hampton, Virginia. The Borrower was required to fully draw down the Mezzanine Loan on June 30, 2011.

The Mezzanine Loan matures on June 29, 2016, with no option to extend and pays interest at a fixed rate of 8.0% per annum. Interest will be paid monthly with principal and any accrued but unpaid interest (including the exit fee) due at maturity. Under the terms of a purchase option agreement entered into in connection with the closing of the Mezzanine Loan, the Lender has an option (but not an obligation) to purchase the property between and including April 1, 2014 and June 30, 2014 for $17,825,600, which is the amount of the aggregate project costs as set forth in the approved construction budget on the closing date. If the property is sold to, or refinanced by, a third party before July 1, 2014, the Lender will be entitled to receive an exit fee equal to the amount required to provide it with a 14% cumulative internal rate of return on the loan. If the property is sold to, or refinanced by, a third party on or after July 1, 2014, then the Lender will be entitled to receive an exit fee equal to the amount required to provide it with a 12% cumulative internal rate of return on the loan. The calculation of the cumulative internal rate of return will include the fees received by the Lender at the closing of the Mezzanine Loan. Since the minimum exit fee, assuming the purchase option is not exercised is the amount needed to provide a 12% cumulative internal rate of return, the Lender will accrue each period the additional exit fee earned based on the 12% rate assuming the loan was paid off at period end. The accrued exit fee will be recorded as interest income in the consolidated statements of operations the Company. As of June 30, 2011, no additional exit fee was earned by the Lender.

If the Lender exercises the purchase option and acquires the property, any accrued and unpaid exit fee will be treated as additional basis in the acquired project.

The Mezzanine Loan is secured by a pledge of 100% of the membership interests of Borrower. Partial prepayment of the Mezzanine Loan is not permitted without the Lender s consent. The Mezzanine Loan is subordinate to a senior loan of up to an aggregate amount of $10 million that is held by an unrelated third party. W. Daniel Faulk, Jr. and Richard A. Denny, both unaffiliated third parties, have guaranteed to us the completion of the project in accordance with the plans and specifications. This guaranty is subject to the rights held by the senior lender pursuant to a customary intercreditor agreement between the Lender and the senior lender.

In connection with the closing of the Mezzanine Loan, the Lender received a loan fee of 2% of the loan amount, or $120,000, and a loan commitment fee of $14,333. From the loan fee paid in connection with the closing of the Mezzanine Loan, we paid a fee of $60,000, or 1.0% of the maximum loan amount, to our manager, of which WOF received $600 through its special limited liability company interest in our manager. In addition, the borrower used proceeds of the Mezzanine Loan to pay approximately $302,300 to WRF to retire an outstanding short-term loan from WRF that matured on the closing date of the Mezzanine Loan. The net fees received by us will be recognized as an adjustment of yield over the term of the loan using the effective interest method.

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OUR MANAGEMENT

Our Directors and Executive Officers

We operate under the direction of our board of directors. The board is responsible for the overall management and control of our affairs. Preferred Apartment Advisors, LLC has been formed to manage our day-to-day affairs and the acquisition and disposition of our investments, subject to the board s supervision. Each of our executive officers, including John A. Williams and Leonard A. Silverstein, who also serve as directors, also are officers of our manager. As a result, these individuals owe fiduciary duties to our manager, which fiduciary duties may conflict with the duties that they owe to us and our stockholders. As described in greater detail under section entitled The Manager below, our manager is responsible for making investment decisions subject to the approval of its investment committee and the oversight of our board of directors.

Our charter and by-laws provide that the number of our directors may be established by a majority of the entire board of directors but may not be fewer than two nor more than ten. We currently have seven directors, including five independent directors. Directors are elected by a plurality of all the votes cast. There are no family relationships among any of our directors or officers, or officers of our manager.

During the discussion of a proposed transaction, independent directors may offer ideas for ways in which transactions may be structured to offer the greatest value to us, and our manager will take these suggestions into consideration when structuring transactions. Each director will serve until the next annual meeting of stockholders and until his or her successor is duly elected and qualifies. Although the number of directors may be increased or decreased, a decrease will not have the effect of shortening the term of any incumbent director.

Any director may resign at any time. A director may be removed, with or without cause, by the affirmative vote of the holders of not less than 66-2/3% of the total voting power of all our outstanding common stock. Notice of a special meeting to remove a director will indicate that the purpose, or one of the purposes, of the meeting is to determine if the director shall be removed.

Any vacancy created by an increase in the number of directors or the death, resignation or removal of a director may be filled by a vote of a majority of the remaining directors. If at any time there are no directors in office, successor directors shall be elected in accordance with the Maryland General Corporation Law, or the MGCL. Each director will be bound by the charter and the by-laws.

The directors are not required to devote all their time to our business and are only required to devote the time to our affairs as their duties require. It is expected that the directors will meet quarterly or more frequently if necessary. Our directors are not required to devote a substantial portion of their time to discharge their duties as our directors. Consequently, in the exercise of their responsibilities, the directors heavily rely on our manager. Our directors have a duty to our company to supervise the relationship between us and our manager. The board is empowered to fix the compensation of all officers that it selects and approve the payment of compensation to directors for services rendered to us in any other capacity.

Our board of directors will establish policies on investments and borrowing, the general terms of which are set forth in this prospectus. The directors may establish further policies on investments and borrowings and monitor our administrative procedures, investment operations and performance to ensure that the policies are fulfilled and are in the best interest of our stockholders.

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We have provided below certain information about our executive officers and our directors.

Name	Age	Position(s)
John A. Williams	68	President, Chief Executive Officer and Chairman of the Board
Leonard A. Silverstein	53	Executive Vice President, General Counsel, Secretary and Vice Chairman of the Board
Michael J. Cronin	56	Chief Accounting Officer and Treasurer
William F. Leseman	51	Executive Vice President Property Management
Daniel M. DuPree	64	Independent Director
Timothy A. Peterson	46	Independent Director
Steve Bartkowski	58	Independent Director
Gary B. Coursey	71	Independent Director
Howard A. McLure	54	Independent Director

John A. Williams, has served as the President, Chief Executive Officer and Chairman of our company since our formation. Mr. Williams was born and educated in Atlanta. Following graduation from the city s public school system, he entered the Georgia Institute of Technology where he earned a BS in Industrial Management. Mr. Williams has directed and coordinated the development, construction, and management of real estate developments since 1966. Over the course of his career, he has directed and coordinated the development, construction, and management of more than $5 billion in real estate developments. Approximately $3.5 billion of this activity has focused on multifamily housing (over 100,000 apartments), with the balance in other property types including hotels, condominiums and offices. Mr. Williams founded Post Properties, Inc. in 1970. He took Post Properties, Inc. public as a REIT in 1993. When he resigned as Chairman of Post Properties in 2003, the company had over 30,000 apartment units and had averaged Funds from Operation (FFO) growth of 7% per year commencing with the initial public offering. Mr. Williams is currently Chief Executive Officer of Williams Realty Advisors, LLC and has held this position since February 2005. He also holds interests in various other entities involving the acquisition, development, building, holding, leasing, managing, operating and exchanging of real properties and enterprises that collectively have over 800 employees and have been involved in over $3 billion in development.

Mr. Williams has been a national leader in the urban development concept. He is widely credited with coining the phrases Smart Growth and Live, Work, Play. His urban mixed-use projects have won numerous local and national awards. He was also an early pioneer in green development having advocated for recycling in apartment communities, superior insulation, energy efficient appliances, and environmentally conscious building materials. His early efforts and vision led to many of the LEED standards that are used today.

Among the 40 awards, honors and medals Mr. Williams has received over his 43 years in the industry include being named Entrepreneur of The Year, by both Stanford Business School and Ernst & Young in 1990 and 1988 respectively. He has been given The Wall Street Transcript CEO Award for Commercial Real Estate, in 1995 along with being named CEO of The Year, by Financial World, in 1996. Mr. Williams was listed on National Real Estate Investor s list of The 20th Century s Most Influential Developers, along with Atlanta Business Chronicle s award for Atlanta Residential Developer of The Decade, for the 1990 s; followed by Harvard Business School extending its Community Leadership Award to Mr. Williams in 2000. He has received numerous honors and awards from Cobb County, Georgia including, The Mack Henderson Public Service Award, in 2005. Mr. Williams was inducted into the Multi-Housing News Hall of Fame: First Class in 2004, and given the Four Pillar Award in 2007 by The Council for Quality Growth. John A. Williams is and has always been very active in varied philanthropic activities, outreaches, and organizations in Georgia and around the World. In the spring of 2008, Mr. Williams was inducted into the Georgia State University J. Mack Robinson College of Business Hall of Fame as well as the Georgia Institute of Technology College of Management Hall of Fame.

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Mr. Williams is currently serving on the Board of Directors of the Atlanta Falcons of which he is also a minority owner. He has previously served on the boards of Riverside Bancshares, Inc., where he was the largest stockholder, the Georgia Regional Transportation Authority, the Atlanta Regional Commission, Atlanta Convention & Visitors Bureau, Post Secondary/Vocational Education, the Executive Committee of the National Apartment Association, the Board of Directors of NationsBank and Barnett Banks, Inc, the Board of Directors of Crawford & Company, and the Board of Directors of Post Properties, Inc. He is the Founder and past Chairman of the Cumberland Community Improvement District. He served as president of the Homebuilders Association of Metropolitan Atlanta, Chairman of the Metro Atlanta Chamber of Commerce, Chairman of the Metro Business Forum, Chairman of the Regional Business Coalition, Chairman of the Cobb-Marietta Coliseum and Exhibit Hall Authority, and Chairman of the Cobb County Chamber of Commerce, serving two terms.

While serving as the initial Chairman of the Cobb-Marietta Coliseum and Exhibit Hall Authority, Mr. Williams was responsible for leading the effort to build the $200 million Exhibition Meeting Venue and Ballroom complex. These facilities were completed in 1995. The large ballroom, one of the largest in the south, was named The John A. Williams Ballroom. He also led the effort to build the state-of-the-art Cobb Energy Performing Arts Centre which cost $150 million. The 2,800 seat main theatre is named The John A. Williams Theatre.

In February 2010, iStar Tara, LLC effected a non-judicial foreclosure relating to The Mansion hotel property in Atlanta, Georgia, where Mr. Williams, our sponsor, served as a guarantor to a loan related to the property. Various actions followed, culminating in a mutual settlement among the parties. Our manager, which Mr. Williams controls together with Mr. Silverstein, was not a party to this dispute, and it has informed us that the terms of the settlement are not expected to have a material impact on its business or its operations. Mr. Williams has informed us that he believes the settlement has not and will not have a material adverse impact on his financial condition.

In June 2010, litigation was initiated when Messrs. Williams and Silverstein, among others, filed a lawsuit against Synovus Bank seeking judicial declaration that they have no liability under certain guarantees executed by them in favor of Synovus Bank (as successor-in-interest to Bank of North Georgia) in connection with certain real estate loans on the basis that all such liabilities were allegedly released by Synovus Bank pursuant to a release agreement executed by Northside Guaranty, LLC, an entity wholly owned by our sponsor, and Bank of North Georgia. Synovus Bank has asserted counterclaims against, among other counterclaim defendants, Messrs. Williams and Silverstein, including counterclaims alleging that Messrs. Williams and Silverstein remain liable to Synovus Bank pursuant to the guarantees at issue. The counterclaims against Messrs. Williams and Silverstein in these legal proceedings, if adversely determined against them, would have a material adverse effect on their respective net worth. Messrs. Williams and Silverstein have informed us of their respective beliefs that they have meritorious defenses against these counterclaims and plan to pursue such defenses vigorously.

In April 2010, RBC Bank (USA) filed a lawsuit against, among others, Mr. Williams alleging that he is liable to RBC Bank (USA) for breach of certain guaranties executed by Mr. Williams in favor of RBC Bank (USA) in connection with certain real estate loans. The claims against Mr. Williams in these legal proceedings, if adversely determined against Mr. Williams, would have a material adverse effect on Mr. Williams net worth. Mr. Williams has informed us of his belief that he has meritorious defenses against these claims and plans to pursue such defenses vigorously. On October 13, 2011, Mr. Williams entered into a term sheet for a Settlement Agreement with RBC Bank (USA), pursuant to which his alleged guaranties in favor of the bank would be released, resulting in no material adverse effect to Mr. Williams.

On July 8, 2011, Caterpillar Financial Services Corporation (Caterpillar) commenced an action against Mr. Williams in the Superior Court of Fulton County, Georgia. In this action, Caterpillar seeks to recover $1,238,208.51, plus accrued interest, legal fees and costs, under a personal guaranty given by Mr. Williams in connection with a loan by

Caterpillar to VMV, Ltd. Mr. Williams is the 100% indirect owner of VMV, Ltd. Mr. Williams has informed us of his belief that he has meritorious defenses to Caterpillar s claims and that he intends to vigorously contest them.

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We believe that Mr. Williams previous experience as the founder of Post Properties, Inc. and his current role as the Chief Executive Officer of Williams Realty Advisors, LLC make him well qualified to serve as a member of our Board of Directors.

Leonard A. Silverstein, has served as Executive Vice President, General Counsel, Secretary and Vice Chairman of our company since our formation. Mr. Silverstein has also served as General Counsel of Williams Realty Advisors, LLC since February 2005 and Chief Operating Officer of Corporate Holdings, LLC since October 2004. From August 1994 to 2004, Mr. Silverstein was a partner at the law firm of McKenna, Long & Aldridge LLP. From January 1991 to August 1994, Mr. Silverstein was a partner at the law firm of Powell, Goldstein, Frazer & Murphy LLP, where he began his legal practice in 1983. Mr. Silverstein s practice focused on securities and corporate finance law, corporate governance and mergers and acquisitions, advising both publicly-held and privately-held clients in a variety of industries, including real estate.

Mr. Silverstein currently serves on the Advisory Board of Mayer Electric Supply Co., Inc., a regional electrical equipment and supply wholesale-distributor, headquartered in Birmingham, Alabama. He has served on the Board of Trustees and Executive Committee of the American Jewish Committee, Atlanta Chapter, where he currently serves as President, and on the Board of Trustees of the Jewish Federation of Greater Atlanta. He also has served on the Board of Directors of numerous other business and civic organizations, including the American-Israel Chamber of Commerce Southeast Region, Atlanta Symphony Associates, Business Practice Section of the Atlanta Bar Association, Vanderbilt University National Alumni Association, and Zoo Atlanta, and formerly served as Vice Chairman of the Securities Law Subcommittee of the State Bar of Georgia. Mr. Silverstein received his law degree from Vanderbilt University School of Law where he served on the editorial staff of the Vanderbilt Law Review, and his BA from Vanderbilt University, where he graduated magna cum laude.

In June 2010, litigation was initiated by, among others, Mr. Williams and Leonard Silverstein, our Executive Vice President, General Counsel and Secretary and a Director, among others, filed a lawsuit against Synovus Bank seeking judicial declaration that they have no liability under certain guarantees executed by them in favor of Synovus Bank (as successor-in-interest to Bank of North Georgia) in connection with certain real estate loans on the basis that all such liabilities were allegedly released by Synovus Bank pursuant to a release agreement executed by Northside Guaranty, LLC, an entity wholly owned by our sponsor, and Bank of North Georgia. Synovus Bank has asserted counterclaims against, among other counterclaim defendants, Messrs. Williams and Silverstein, including counterclaims alleging that Messrs. Williams and Silverstein remain liable to Synovus Bank pursuant to the guarantees at issue. The counterclaims against each of Messrs. Williams and Silverstein in these legal proceedings, if adversely determined against him, would have a material adverse effect on his net worth. Messrs. Williams and Silverstein have informed us of their respective beliefs that they have meritorious defenses against these counterclaims and plan to pursue such defenses vigorously.

We believe that Mr. Silverstein s previous experience as a partner in each of McKenna, Long & Aldridge LLP and Powell, Goldstein, Frazer & Murphy LLP, his current roles as General Counsel of Williams Realty Advisors, LLC and Chief Operating Officer of Corporate Holdings, LLC and his legal education make him well qualified to serve as a member of our Board of Directors.

Michael J. Cronin, has served as Chief Accounting Officer and Treasurer of our company since formation. Mr. Cronin has served in various capacities since joining Williams Realty Advisors, LLC in December 2005, most recently as Chief Financial Officer since October 2008. Prior to joining Williams Realty Advisors, Mr. Cronin served as Vice President of Morgan Stanley Real Estate Advisors from February 2004 to December 2005. Mr. Cronin was the Chief Financial Officer of Hatfield Philips, a commercial real estate company, for three years prior to joining Morgan Stanley Real Estate Advisors. In total, Mr. Cronin has over 25 years of accounting, reporting and finance experience in the real estate field. He is a CPA and holds a BBA and Masters degree in Accounting from the University of Georgia.

William F. Leseman, has served as Executive Vice President Property Management of our company since formation. Mr. Leseman has over 26 years of experience in property management and since 1995 has served as President of RAM Partners, LLC, a full-service property management firm that leases and manages over 120 multi-family properties totaling approximately 31,000 units. From 1989 to 1995, Mr. Leseman served

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as Senior Vice President of property management for Post Properties, Inc. (NYSE: PPS), and was responsible for the management of more than 16,000 apartment units. He was previously a senior manager for a large regional property management company responsible for the firm s owned and third-party portfolios. Mr. Leseman received a B.S. in Business Management from Stephen F. Austin State University in 1982. Mr. Leseman is a member of the Institute of Real Estate Management where he holds the Certified Property Management designation.

Daniel M. DuPree, was elected to our board as a Director effective as of March 31, 2011. Mr. DuPree has over 30 years of real estate experience in shopping center management, leasing and development. Since March 2009, he has served as Chief Executive Officer for The Reynolds Companies, a real estate development company in Atlanta, Georgia. From 1992 to March 2001 and then again from March 2003 to March 2009, Mr. DuPree served as President and Chief Operating Officer for Cousins Properties Incorporated (NYSE: CUZ), a real estate development, acquisition, financing, management and leasing company. From September 2002 to March 2003, Mr. DuPree served as Chief Executive Officer of Barry Real Estate Companies, a real estate development and management company. From 1982 to 1992, he served as Chief Executive Officer of New Market Development Company, a shopping center management and development company which he founded in 1982. From 1976 to 1982, Mr. DuPree served as an Executive Vice President for Post Properties, Inc. (NYSE: PPS) where he was responsible for shopping center management, leasing and development. From 1974 to 1976, Mr. DuPree was a commercial real estate broker for Coldwell Banker and Company.

Mr. DuPree has served as Capital Campaign Chair of the Atlanta Community Food Bank, as Board Chair of the Midtown Alliance, and as Transportation Committee Chair for the Metropolitan Atlanta Chamber of Commerce. He is a board member of both the University of Florida College of Business Administration and the Wake Forest University Calloway School of Business. Mr. DuPree received his Bachelor of Science Business Administration degree from the University of Florida. We believe that Mr. DuPree s previous experience as Chief Operating Officer of Cousins Properties and his current role as Chief Executive Officer of The Reynolds Companies make him well qualified to serve as a member of our Board of Directors.

Timothy A. Peterson, was elected to our board as a Director, effective as of March 31, 2011. Since 2003, Mr. Peterson has been a partner, Chief Financial Officer and member of the Investment Committee of Altman Development Corporation where his primary responsibilities have been overseeing capital markets activities, financial reporting, strategic planning and budgeting. Mr. Peterson was Chief Financial Officer for Keystone Property Trust (NYSE: KTR) from 1998 to 2002, becoming Executive Vice President from 2002 to 2003. From 1989 to 1998, Mr. Peterson served in a series of positions for Post Properties, Inc. (NYSE: PPS), including as Executive Vice President. Working very closely with the president of Post Properties, Mr. Peterson was responsible for the day-to-day coordination with the accountants, attorneys and investment bankers involved in completing Post Properties initial public offering in July 1993. Throughout his career, Mr. Peterson has overseen in excess of $3 billion of real estate financings using public stock sales, secured and unsecured debt, tax-exempt and taxable bond issuances, private placements and joint ventures.

Mr. Peterson has been a frequent speaker on REITs and real estate development. He is a past member of the National Association of Real Estate Investment Trusts where he served as a Co-Chairman of its Accounting Committee, and a member of the Best Financial Practices Task Force. He is a member of the Advisory Board for the University of Florida Center for Real Estate Studies and has served as Treasurer and member of the Executive Committee, and a Director and Treasurer of The Please Touch Museum (the Philadelphia children s museum). Mr. Peterson received his undergraduate degree in Accounting from the University of Florida in 1985 and his MBA in Finance from the University of Florida in 1987. Mr. Peterson formerly was licensed as a Certified Public Accountant.

We believe that Mr. Peterson s previous experience as Chief Financial Officer of Keystone Property Trust and Executive Vice President of Post Properties, Inc. combined with his financial reporting, accounting and initial public offering experience, makes him well qualified to serve as a member of our Board of Directors.

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Steve Bartkowski, was elected to our board as a Director, effective as of March 31, 2011. After graduation from high school, which included numerous personal honors in football, basketball and baseball, he chose from over 100 scholarship offers to attend the University of California at Berkeley. He was an All American in both baseball and football at the University of California at Berkeley. In 1975, he was the first pick in the NFL draft, selected by the Atlanta Falcons, serving as their starting quarterback for the following 11 seasons. Mr. Bartkowski was the NFL s rookie of the year in 1975, the NFL s highest rated quarterback for three years, and earned All-Pro honors for his efforts in 1980 and 1981. He was the most valuable player in the NFC in 1980. Mr. Bartkowski led the Falcons to their first play-off game in 1978 and again in 1980 and 1982. Mr. Bartkowski played his last season in the NFL for the Los Angeles Rams and retired from professional football in 1987.

Following retirement from professional football, Mr. Bartkowski produced and hosted the popular TNN outdoor television series, Backroad Adventures with Steve Bartkowski from 1994 to 1996. He was also the host of a top rated outdoor television series, Suzuki s Great Outdoors with Steve Bartkowski, on ESPN from 1990 1993.

Since 1997, Mr. Bartkowski has worked in business development for DPR Construction, Inc., a global commercial contractor and construction management company. He is a well known motivational speaker on personal success and excellence, giving speeches throughout the U.S.

Mr. Bartkowski serves on the Boards of Directors of several charitable organizations, including The World Children s Center, an orphanage being constructed in Georgia. He participates in numerous charitable fundraisers throughout the year. He is also a member of the Board of Advisors for the Atlanta Falcons. Mr. Bartkowski was inducted into the Atlanta Falcon s Ring of Honor. He is a member of the Georgia Sports Hall of Fame and the Atlanta Sports Hall of Fame.

We believe that Mr. Bartkowski s experience in business development for DPR Construction, Inc. and his previous leadership and management experience, both in professional football and television, make him well qualified to serve as a member of our Board of Directors.

Gary B. Coursey, was elected to our board as a Director on December 3, 2010. Mr. Coursey has over 47 years of experience in the architectural profession and has managed the completion of thousands of projects representing over $3 billion in construction costs. He founded Gary B. Coursey & Associates Architects, Inc. in 1971 and has built an innovative architectural practice focused on the highest level of creativity and design and is a LEED certified firm. Mr. Coursey has overseen the design of over 300,000 units of multi-family housing, personal care facilities, athletic facilities, office buildings, industrial buildings, financial institutions, medical facilities, military facilities, restaurants, shopping centers and churches. Mr. Coursey has experience throughout the U.S., as well as internationally.

Mr. Coursey is a registered professional architect in the states of Georgia, Alabama, California, Connecticut, Florida, North Carolina, Ohio, South Carolina, Tennessee, Texas and Virginia. He is currently a member of the American Institute of Architects and is Past Vice President, Secretary and Treasurer of the American Institute of Architects, Georgia Association. Mr. Coursey is a member of the Atlanta Apartment Association, the Chamber of Commerce for each of Atlanta, Cobb County and North Fulton County, and the Advisory Board for the Southern Polytechnic State University School of Architecture. Mr. Coursey also serves on the Boards of the Ronald McDonald Houses of Atlanta and the Boys & Girls Clubs of Metro Atlanta. Mr. Coursey received his Bachelor of Science in Architecture from the Georgia Institute of Technology and his Associate of Science in Building Construction from Southern Polytechnic State University.

We believe that Mr. Coursey s experience as the founder of Gary P. Coursey & Associates Architects, Inc. and his related architectural design experience make him well qualified to serve as a member of our Board of Directors.

Howard A. McLure, was elected to our board as a Director, effective as of March 31, 2011. Since May 2011, Mr. McLure has served as Chairman and Chief Executive Officer of change: healthcare, Inc., a provider of healthcare cost transparency services to self-insured employers who sponsor high detectable health care benefit plans. From March 2007 until November 2009, he served as Executive Vice President of CVS Caremark Corporation (NYSE: CVS) and President of Caremark Pharmacy Services, a division of CVS

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Caremark Corporation, where he was responsible for all sales and operations of the division. From June 2005 until March 2007, Mr. McLure served as Senior Executive Vice President and Chief Operating Officer of Caremark RX, Inc., listed on the New York Stock Exchange prior to the closing of the CVS Corp. Caremark RX Inc. merger in March 2007. From May 2000 to June 2005, Mr. McLure served as Executive Vice President and Chief Financial Officer of Caremark RX, Inc. From June 1998 to May 2000, Mr. McLure served as Senior Vice President and Chief Accounting Officer of Caremark RX, Inc. From 1995 to 1998, Mr. McLure was Senior Vice President and Controller of Magellan Health Services, Inc. (NASDAQ: MGLN), a specialty managed healthcare company. Mr. McLure received his Bachelor s of Business Administration in Accounting from the University of Georgia in 1979. Mr. McLure formerly was licensed as a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

In November 2009, a securities class action lawsuit was filed in federal court in Rhode Island against CVS Caremark Corporation and certain of its officers, including Mr. McLure, which includes allegations of securities fraud relating to certain public disclosures made by CVS Caremark Corporation and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against CVS Caremark Corporation and its directors and certain officers, including Mr. McLure, which includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that CVS Caremark Corporation was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. Mr. McLure has informed us of his belief that any allegations made against him in these lawsuits are without merit and that he plans to defend against them vigorously.

We believe that Mr. McLure s previous experience as Executive Vice President of CVS Caremark Corporation and Senior Executive Vice President, Chief Operating Officer and Chief Financial Officer of Caremark RX, Inc. makes him well qualified to serve as a member of our Board of Directors.

Corporate Governance Board of Directors and Committees

Our business is managed by our manager, subject to the supervision and oversight of our board of directors, which has established investment guidelines described under the section entitled Business Our Investment Strategy included elsewhere in this prospectus for our manager to follow in its day-to-day management of our business. Our board of directors may amend or revise our investment guidelines without a vote of the stockholders. A majority of our board of directors will be independent, as determined by the requirements of the AMEX and the regulations of the SEC. Our directors keep informed about our business by attending meetings of our board of directors and its committees and through supplemental reports and communications. Our independent directors will meet regularly in executive sessions without the presence of our corporate officers or non-independent directors.

Audit Committee. Our audit committee consists of three of our independent directors: Messrs. Timothy A. Peterson, Howard A. McLure, and Gary B. Coursey. Mr. Peterson serves as chairman of the audit committee and as the audit committee financial expert , as defined in applicable SEC rules. The audit committee, by approval of at least a majority of the members, will: select the independent registered public accounting firm to audit our annual financial statements; review with the independent registered public accounting firm the plans and results of the audit engagement; approve the audit and non-audit services provided by the independent registered public accounting firm; review the independence of the independent registered public accounting firm; consider the range of audit and non-audit fees; and review the adequacy of our internal accounting controls. Our board of directors has adopted a charter for the audit committee that sets forth its specific functions, powers, duties and responsibilities. The audit committee will have additional powers, duties and responsibilities as may be delegated to it by the board of directors.

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Compensation Committee. Our compensation committee consists of three of our independent directors: Messrs. Howard A. McLure, who serves as chairman, Daniel DuPree and Steve Bartkowski. Among other things, the committee charter calls upon the compensation committee to:

- review and approve on an annual basis the corporate goals and objectives relevant to chief executive officer compensation, if any, evaluate our chief executive officer s performance in light of such goals and objectives and, either as a committee or together with our independent directors (as directed by the board of directors), determine and approve the remuneration of our chief executive officer based on such evaluation;
- review and oversee management s annual process, if any, for evaluating the performance of our officers and review and approve on an annual basis the remuneration of our officers;
- oversee our stock incentive plan;
- assist the board of directors and the chairman in overseeing the development of executive succession plans; and
- determine from time to time the remuneration for our independent directors.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee is comprised of three of the independent directors: Messrs. Daniel DuPree, who serves as chairman, Gary B. Coursey and Steve Bartkowski. The nominating and corporate governance committee was formed to establish and implement our corporate governance practices and to nominate individuals for election to the board of directors. Our nominating and corporate governance committee operates pursuant to a written charter adopted by our board of directors. Among other things, the committee charter calls upon the nominating and corporate governance committee to: develop criteria for selecting new directors and identify individuals qualified to become board members and members of the various committees of the board; select, or recommend that the board select, the director nominees for each annual meeting of stockholders and the committee nominees; and develop and recommend to the board a set of corporate governance principles applicable to the corporation.

The nominating and corporate governance committee will consider nominees recommended by stockholders.

Independent Directors. Our board of directors has determined that each of our independent directors is independent within the meaning of the applicable (i) requirements set forth in the Exchange Act and the applicable SEC rules, and (ii) rules of the AMEX.

To be considered independent under the AMEX rules, the board of directors must determine that a director does not have a material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with any of those entities, including our sponsor and his affiliates). Under the AMEX rules, a director will not be independent if, within the last three years:

- the director was employed by us or our sponsor, our manager or any of our affiliates;
- an immediate family member of the director was employed by us or our sponsor as an executive officer;
- the director, or an immediate family member of the director, received more than $120,000 during any 12-month period in direct compensation from us or our sponsor, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- the director was affiliated with or employed by a present or former internal or external auditor of us or our sponsor;
- an immediate family member of the director was affiliated with or employed in a professional capacity by a present or former internal or external auditor of us or our sponsor;

an executive officer serves on our compensation committee or the board of directors of a company which employed the director, or which employed an immediate family member of the director, as an executive officer; or
the director was an executive officer or an employee (or an immediate family member of the director was an executive officer) of a company that makes payments to, or receives payments from, us or our manager for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or 2% of such other company s consolidated gross revenues.

Conflicts Committee. Our conflicts committee is comprised of three of our independent directors: Messrs. Timothy A. Peterson, who serves as chairman, Howard A. McLure, and Gary B. Coursey. The conflicts committee was formed to review, among other things, (1) transactions we enter into with John A. Williams, WOF, Preferred Apartment Advisors, LLC or any of their respective affiliates, which are subject to an inherent conflict of interest, and (2) the allocation of investment opportunities among affiliated entities. For a description of certain of our conflict resolution procedures, see Certain Relationships and Related Transactions Conflicts of Interest Certain Conflict Resolution Procedures included elsewhere in this prospectus.

Executive and Director Compensation

Compensation of Directors

Our compensation committee designs our director compensation with the goals of attracting and retaining highly qualified individuals to serve as independent directors and fairly compensating them for their time and efforts. Because of our intent to qualify as a REIT and the unique attributes of a REIT, service as an independent director on our board requires broad expertise in the fields of real estate and real estate investing.

We compensate each of our independent directors with an annual fee of $50,000. We also pay an additional $10,000 annual retainer to the chair of our audit committee. In addition, we pay independent directors a fee of $2,000 per meeting for attending committee meetings. All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors and committees thereof. If a director is also one of our officers, we will not pay that director any compensation for services rendered as a director. We may issue shares of our common stock pursuant to our stock incentive plan in lieu of paying an independent director his or her annual fees and/or meeting fees in cash. Any fees owed to our independent directors will be paid in shares of restricted common stock through April 2013. Afterwards, any such fees may be paid in cash or stock. If we elect to pay our independent directors in cash, subject to the consent of the compensation committee, each independent director may elect to receive his or her annual fees and/or meeting fees in the form of shares of our common stock or a combination of shares of our common stock and cash. The vesting schedule for fees paid to our independent directors in shares of our common stock will be determined by the compensation committee in connection with such award. None of the members of the board of directors will be entitled to any fees for serving on the board of directors except as set forth above or unless the board unanimously determines otherwise.

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Compensation of our directors for 2011 as of August 5, 2011 was as follows:

(1) On April 5, 2011, we issued 26,000 restricted shares of common stock to our independent directors in lieu of paying cash as compensation for annual service on our board of directors pursuant to our 2011 stock incentive plan. On May 5, 2011, we issued 1,872 shares of common stock to our independent directors in lieu of paying cash as compensation for attendance at our board committee meetings pursuant to our 2011 stock incentive plan. On August 4, 2011, we issued 1,500 shares of common stock to our independent directors in lieu of paying cash as compensation for attendance at Board committee meetings pursuant to our 2011 stock incentive plan.

Compensation of Officers

We currently intend that our officers will not receive any cash compensation from us for their services as our officers. We intend to compensate our officers in accordance with our stock incentive plan. Our compensation committee will determine if and when any of our officers will receive any compensation under our stock incentive plan. Our officers are officers of one or more of our affiliates and also may be compensated by those entities (including our manager), in part, for their services rendered to us. In addition, the operating partnership agreement of our operating partnership authorizes grants of Class B Limited Partnership Units, representing Class B limited partnership interests in our operating partnership, to our directors, officers and employees (if we ever have employees), employees of our manager and its affiliates, employees of entities that provide services to us, our manager and its affiliates, or to entities that provide services to us. See the section entitled Summary of Our Operating Partnership Agreement Class B Limited Partnership Units. To the extent that our officers are granted Class B Limited Partnership Units in respect of their services to us, our officers will not receive duplicate compensation under our 2011 stock incentive plan. See the section entitled Our Management Our Directors and Executive Officers included elsewhere in this prospectus for information about our officers. See the section entitled Our Manager and Management Agreement Management Agreement Compensation to Manager included elsewhere in this prospectus for information relating to reimbursement by us to the manager for compensation of its officers.

Stock Incentive Plan

We have adopted a stock incentive plan to align the long-term financial interest of our officers with those of our stockholders. The compensation committee intends to design long-term incentive awards to ensure that our executive officers have a continuing stake in our long-term success, that the total compensation realized by our executive officers reflects our multi-year performance as measured by the efficient use of capital and changes in stockholder value, and that a large portion of their total compensation opportunity is earned over a multi-year period and is forfeitable in the event of termination of employment.

The compensation committee, as appointed by our board of directors, has the full authority: (a) to administer and interpret the plan; (b) to grant to eligible employees, consultants and independent directors (i) stock options, (ii) stock appreciation rights, (iii) restricted shares, (iv) performance shares, and (v) other stock-based awards; (c) to determine the eligibility of employees, consultants and independent directors of us, any of our affiliates and our manager to receive an award; (d) to determine whether and to what extent awards are to be granted; (e) to determine the number of shares of common stock to be covered by each award granted; (f) to determine the terms and conditions of any award granted (including, but not limited to, the exercise or purchase price (if any), any restriction or limitation, any vesting schedule or acceleration thereof,

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or any forfeiture restrictions or waiver thereof, regarding any award and the shares of common stock relating thereto, based on such factors, if any, as the compensation committee shall determine, in its sole discretion); (g) to determine whether, to what extent and under what circumstances grants of options and other awards are to operate on a tandem basis and/or in conjunction with or apart from other awards made by us outside of the stock incentive plan; (h) to determine whether and under what circumstances a stock option may be settled in cash, common stock and/or restricted shares; (i) to determine whether, to what extent and under what circumstances common stock and other amounts payable with respect to an award shall be deferred either automatically or at the election of the participant in any case, in a manner intended to comply with Section 409A of the Code; (j) to determine whether a stock option is an incentive stock option or non qualified stock option; (k) to determine whether to require a participant, as a condition of the granting of any award, to not sell or otherwise dispose of shares acquired pursuant to an award for a period of time as determined by the compensation committee, in its sole discretion, following the date of such award; and (l) to exercise such powers and to perform such acts as the compensation committee deems necessary or expedient to promote our best interests; however, neither the compensation committee nor the board of directors may take any action under our stock incentive plan that would result in a repricing of any stock option without having first obtained the affirmative vote of our stockholders. In connection with this authority, the compensation committee may, among other things, establish performance goals that must be met in order for awards to be granted or to vest, or for the restrictions on any such awards to lapse. The compensation committee consists solely of independent directors, each of whom is intended to be, to the extent required by Rule 16b-3 under the Exchange Act, a non-employee director and will, at such times as we are subject to Section 162(m) of the Code, qualify as an outside director for purposes of Section 162(m) of the Code. The total number of shares that may be made subject to awards under our stock incentive plan will not exceed 567,500 shares of our common stock.

The compensation committee intends to continually evaluate the use of equity-based awards and intends to use such awards as part of designing and administering our compensation program. We expect to make grants at regular intervals.

The compensation committee may grant equity incentives in the form of stock options (non-qualified and incentive stock options), stock appreciation rights, restricted shares, performance shares and other stock-based awards (including restricted stock units (RSUs) and deferred stock units).

We intend to follow a practice of granting equity incentives on an annual basis to our directors, officers and employees (if we ever have employees), employees of our manager and its affiliates, employees of entities that provide services to us, directors of the manager or of entities that provide services to us, certain of our consultants and certain consultants to the manager and its affiliates or to entities that provide services to us. We also may make grants (a) on the commencement of employment to new directors, officers and employees (if we ever have employees), new consultants to us and new consultants to our manager and its affiliates or to entities of such consultants that provide services to us, (b) to key employees of us or our manager or its affiliates following a significant change in job responsibilities, or (c) to meet specific retention objectives. Grants will be issued on the date they are approved by the compensation committee, except in certain circumstances, such as for new hires, who may be granted awards on the second day after we release our financial results for that quarter. The exercise price for stock options will be determined on the grant date and will be no less than the fair market value of our common stock at the time of the grant (or, in the case of an incentive stock option granted to a ten percent stockholder, 110% of the fair market value of the common stock). The compensation committee will set the vesting schedule, which may be subject to the attainment of specified performance targets and rights of acceleration.

The stock incentive plan and the awards granted under the plan will not affect the power of the board or the stockholders to authorize: (a) any adjustment, recapitalization, reorganization or other change in our capital structure; (b) any merger or consolidation of our company; (c) any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting our common stock; (d) the dissolution or liquidation of our company or an affiliate of our company; (e) any sale or transfer of all or part of the assets or business of our company or any affiliate of our company; (f) any stock split, reverse stock split, stock dividend, subdivision, combination or reclassification of shares; or (g) any other corporate act or proceeding. In addition, in the event of any change in our capital structure pursuant to any stock split, reverse stock split, stock dividend,

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subdivision, combination or reclassification of shares that may be issued under the stock incentive plan, any recapitalization, any merger, any consolidation, any spin off, any reorganization or any partial or complete liquidation, or similar corporate transaction or event, then the compensation committee may adjust any award or make any adjustment in the stock incentive plan in order to prevent dilution or enlargement of the rights of participants under the stock incentive plan, including: (i) the number and kind of shares of stock that may thereafter be issued in connection with awards; (ii) the number and kind of shares of stock or other property (including cash) issued or issuable in respect of outstanding awards; (iii) the purchase price relating to any award; and (iv) the maximum number of shares of common stock subject to any award which may be granted under the plan to any individual participant. Awards under the stock incentive plan are intended to either be exempt from, or comply with, Section 409A of the Code and payment in connection with any award subject to Section 409A of the Code must be in accordance with Section 409A.

Upon a change in control (as defined under the stock incentive plan) of our company, any award that was not previously vested will become fully vested and/or payable, but restrictions to which restricted shares or other awards are subject will not lapse.

Compliance with the American Jobs Creation Act

As part of our strategy for compensating our independent directors, we intend to grant equity incentives under our stock incentive plan described above. This method of compensating individuals may possibly be considered to be a nonqualified deferred compensation plan under Section 409A of the Code.

Under Section 409A of the Code, nonqualified deferred compensation plans must meet certain requirements regarding the timing of distributions or payments and the timing of agreements or elections to defer payments, and must also prohibit any possibility of acceleration of distributions or payments, as well as certain other requirements. The guidance under Section 409A of the Code provides that there is no deferral of compensation merely because the value of property (received in connection with the performance of services) is not includible in income by reason of the property being substantially nonvested (as defined in Section 83 of the Code). Accordingly, it is intended that the restricted share awards will not be considered nonqualified deferred compensation.

If Section 409A of the Code applies to any of the awards issued under either plan described above, or if Section 409A of the Code applies to any other arrangement or agreement that we may make, and if such award, arrangement or agreement does not meet the timing and other requirements of Section 409A of the Code, then (i) all amounts deferred for all taxable years under the award, arrangement or agreement would be currently includible in the gross income of the recipient of such award or of such deferred amount to the extent not subject to a substantial risk of forfeiture and not previously included in the gross income of the recipient, (ii) interest at the underpayment rate plus 1% would be imposed on the underpayments that would have occurred had the compensation been includible in income when first deferred (or, if later, when not subject to a substantial risk of forfeiture) would be imposed upon the recipient, and (iii) a 20% additional tax would be imposed on the recipient with respect to the amounts required to be included in the recipient s income. Furthermore, if the affected individual is our employee, we would be required to withhold U.S. federal income taxes on the amount deferred but includible in income due to Section 409A of the Code, although there may be no funds currently being paid to the individual from which we could withhold such taxes. We would also be required to report on an appropriate form (W-2 or 1099) amounts which are deferred, whether or not they meet the requirements of Section 409A of the Code, and if we fail to do so, penalties could apply.

We do not intend to issue any award, or enter into any agreement or arrangement that would be considered a nonqualified deferred compensation plan under Section 409A of the Code, unless such award, agreement or arrangement complies with the timing and other requirements of Section 409A of the Code. It is our current belief, based upon the statute, the regulations issued under Section 409A of the Code and legislative history, that the stock options we currently intend to grant and the restricted share awards we currently intend to grant will not be subject to taxation under Section 409A of the Code because neither such stock options nor such restricted share awards will be considered a nonqualified deferred compensation plan. Nonetheless, there can be no assurances that any stock options or restricted share awards which we

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have granted or which hereafter may be granted will not be affected by Section 409A of the Code, or that any such stock options or restricted share awards will not be subject to income taxation under Section 409A of the Code.

Code of Business Conduct and Ethics

Our board of directors has established a code of business conduct and ethics. Among other matters, the code of business conduct and ethics is designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;
compliance with applicable governmental laws, rules and regulations;
prompt internal reporting of violations of the code of business conduct and ethics to appropriate persons identified in such code; and
accountability for adherence to the code of business conduct and ethics.

Waivers to the code of business conduct and ethics may only be granted by unanimous written consent of the independent directors of our board of directors. If the independent directors grant any waivers of the elements listed above to any of our officers, we expect to announce the waiver within five business days on the corporate governance section on our corporate website. The information on our website will not be a part of this prospectus.

Compensation Committee Interlocks and Insider Participation

Our compensation committee is comprised of three of our independent directors. None of these individuals has at any time served as an officer or employee of the company. None of our executive officers has served as a director or member of the compensation committee of any entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

Limitation of Liability and Indemnification

Maryland law permits us to include in our charter a provision limiting the liability of our directors and officers to our stockholders and us for money damages, except for liability resulting from (i) actual receipt of an improper benefit or profit in money, property or services, or (ii) active and deliberate dishonesty established by a final judgment and that is material to the cause of action. Our charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law.

The Maryland General Corporation Law requires us (unless our charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. The Maryland General Corporation Law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that:

the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith, or (2) was the result of active and deliberate dishonesty;
the director or officer actually received an improper personal benefit in money, property or services; or

in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct

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or was adjudged liable on the basis that personal benefit was improperly received. However, indemnification for an adverse judgment in a suit by the corporation or in its right, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses. The Maryland General Corporation Law permits a corporation to advance reasonable expenses to a director or officer upon receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed if it is ultimately determined that the standard of conduct was not met.

Our charter requires us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. With the approval of our board of directors, we may provide such indemnification and advance for expenses to any individual who served a predecessor of the Company in any of the capacities described above and any employee or agent of the Company or a predecessor of the Company, including Preferred Apartment Advisors, LLC or any of its affiliates. This provision does not reduce the exposure of directors and officers to liability under federal or state securities laws, nor does it limit the stockholders ability to obtain injunctive relief or other equitable remedies for a violation of a director s or an officer s duties to us, although the equitable remedies may not be an effective remedy in some circumstances.

We also have agreed to indemnify and hold harmless Preferred Apartment Advisors, LLC and its affiliates performing services for us from specific claims and liabilities arising out of the performance of their obligations under the management agreement. As a result, our stockholders and we may be entitled to a more limited right of action than they and we would otherwise have if these indemnification rights were not included in the management agreement.

The general effect to investors of any arrangement under which we agree to insure or indemnify any persons against liability is a potential reduction in distributions resulting from our payment of premiums associated with insurance or indemnification payments in excess of amounts covered by insurance. In addition, indemnification could reduce the legal remedies available to our stockholders and us against the officers and directors.

We have entered into an indemnification agreement with each of our officers and directors. Each indemnification agreement provides, among other things, that we will indemnify, to the maximum extent permitted by law, the covered officer or director against any and all judgments, penalties, fines and amounts paid in settlement, and all reasonable and out-of-pocket expenses (including attorneys fees), actually and reasonably incurred in connection with any threatened, pending or completed action, suit, arbitration, alternative dispute resolution mechanism, investigation, inquiry, administrative hearing or other proceeding that arises out of the officer s or director s status as a present or former officer, director, employee or agent of the Company. Each indemnification agreement also requires us, upon request of the covered officer or director, to advance the expenses related to such an action provided that the officer or director undertakes to repay any amounts to which he is subsequently determined not to be entitled.

The indemnification agreement is not exclusive of any other rights to indemnification or advancement of expenses to which the covered officer or director may be entitled, including any rights arising under our charter or bylaws or applicable law.

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OUR MANAGER AND MANAGEMENT AGREEMENT

General

We are externally managed and advised by our manager. The executive offices of our manager are located at 3625 Cumberland Boulevard, Suite 400, Atlanta, Georgia 30339, and the telephone number of our manager s executive offices is (770) 818-4100.

Officers of Our Manager

The following sets forth certain information with respect to each of the executive officers of our manager:

Name	Age	Position(s)
John A. Williams	68	President and Chief Executive Officer
Leonard A. Silverstein	53	Executive Vice President, General Counsel and Secretary
Michael J. Cronin	56	Chief Accounting Officer and Treasurer
William F. Leseman	51	Executive Vice President Property Management

Management Agreement

We have entered into a third amended and restated management agreement, or management agreement, with our manager. Pursuant to the management agreement, our manager will implement our business strategy and perform certain services for us, subject to oversight by our board of directors.

Duties of Our Manager. Under the terms of our management agreement, our manager generally has responsibility for our day-to-day operations. Many of the services to be performed by the manager in managing our day-to-day activities are summarized below. This summary is provided to illustrate the material functions that the manager will perform for us as our manager, and it is not intended to include all the services that may be provided to us by the manager or by third parties. Under the terms of the management agreement, the manager undertakes to use commercially reasonable efforts to identify and acquire for us investment opportunities consistent with our investment policies and objectives as adopted by our board of directors. In its performance of this undertaking, the manager, either directly or indirectly by engaging an affiliate or third party, will, subject to the authority of the board of directors:

- identify real estate investment opportunities consistent with our investment policies, acquisition strategy and objectives;
- structure the terms and conditions of transactions pursuant to which acquisitions of properties will be made;
- acquire properties on our behalf in compliance with our investment objectives and strategies;
- arrange for the financing and refinancing of properties;
- administer our bookkeeping and accounting functions;
- serve as our consultant in connection with policy decisions to be made by our board of directors, managing our properties or causing our properties to be managed by another party; and
- render other services as our board of directors reasonably requests or our manager deems appropriate.

Our manager will handle the matters relating to (1) management of our real estate, including arranging for purchases, sales, leases, maintenance and insurance, (2) the purchase, sale and servicing of our mortgages, and (3) investment advisory services.

Term of the Management Agreement. The initial term of the management agreement expires on the fifth anniversary of the closing of the initial public offering and will be automatically renewed for a one-year term each anniversary date thereafter unless previously terminated as described below. Our independent directors will review our manager s performance and fees that may be payable to our manager annually, and, following the initial term, the management agreement may be terminated annually upon the affirmative vote of at least 75% of our independent directors, based upon (1) unsatisfactory performance that is materially

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detrimental to us, or (2) our determination that the fees payable to our manager are not in accordance with market rates, subject to our manager s right to prevent such termination due to above-market fees by accepting a reduction of fees to at or below market rates agreed to by at least 75% of our independent directors. We must provide 180 days prior written notice of any such termination. We also may terminate the management agreement at any time, including during the initial term, without the payment of any termination fee, with generally at least 30 days prior written notice from our board of directors for cause, as defined in the management agreement, in the absence of our manager s cure. We do not have the right to decline to renew the management agreement. Our manager may decline to renew the management agreement by providing us with 180 days prior written notice. Our manager may terminate the management agreement for good reason, with at least 60 days prior written notice, in the absence of our cure. Unless the manager declines to renew the management agreement or the management agreement is terminated for cause, our manager will be paid accrued fees upon termination as described in the table below.

We may terminate the management agreement for cause effective upon 30 days prior written notice, without payment of any fees accrued, under certain conditions, including upon the occurrence of a breach of any material provision of the management agreement and such breach remains uncured for a period of 60 days, a bankruptcy event, a change of control which our independent directors determine to be materially detrimental to us, the dissolution of our manager, or a final judicial determination that our manager has committed fraud against us, embezzled our funds or otherwise acted in bad faith in a manner resulting in a materially adverse effect on us together with an affirmative vote of our independent directors. However, if the act or failure to act leading to such final determination was committed by a person other than an executive officer of our manager, our manager may cure the breach by terminating the employment of such person.

Compensation to Manager. The management agreement provides for the manager to be paid fees in connection with services provided to us. These fees include acquisition, disposition, property management, leasing, asset management and construction, development and landscaping fees. In addition, the manager has a special limited partnership interest in the operating partnership.

We will not reimburse the manager or its affiliates for services for which the manager or its affiliates are entitled to compensation in the form of a separate fee. If the manager or its affiliates perform services that are outside of the scope of the management agreement, we will compensate them at rates and in amounts agreed upon by the manager and our independent directors.

Other than as set forth in the following paragraph, our manager bears the expenses it incurs in connection with performing its duties under the management agreement. These include salaries and fringe benefits of its directors and officers, travel costs and other administrative expenses of its directors and officers.

We may reimburse our manager for certain costs and expenses it incurs in connection with the services it provides to us including, but not limited to:

acquisition expenses incurred in connection with the selection and acquisition of investments, whether or not acquired;

general and administrative expenses;

expenses incurred in connection with the issuance of our securities and any financing transactions and other costs incident to the acquisition, disposition and financing of our investments;

costs of legal, tax, accounting, consulting, auditing and other similar services rendered to us by providers retained by our manager, or, if such services are provided by our manager s personnel, costs only in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm s-length basis;

the compensation and expenses of our directors and the cost of liability insurance to indemnify us, our officers and our directors;

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expenses related to communications to our security holders or the holders of securities of any of our subsidiaries and other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including all costs of preparing and filing required reports with the SEC, the costs payable by us to any transfer agent and registrar in connection with the listing and/or trading of our securities on any exchange, the fees payable by us to any such exchange in connection with the listing of our shares, costs of preparing, printing and mailing our annual report to our stockholders or our operating partnership s partners, as applicable, and proxy materials with respect to any meeting of our stockholders or our operating partnership s partners, as applicable;

costs associated with any computer software or hardware, electronic equipment or purchased information technology services from third-party vendors that is used for us or our subsidiaries;

expenses incurred by managers, officers, personnel and agents of our manager for travel on our behalf and other out-of-pocket expenses incurred by managers, officers, personnel and agents of our manager in connection with the purchase, financing, refinancing, sale or other disposition of an investment on our behalf or in connection with any financing transaction undertaken on our behalf;

costs and expenses incurred with respect to market information systems and publications, research publications and materials, and settlement, clearing and custodial fees and expenses;

the costs of maintaining compliance with all federal, state and local rules and regulations and the rules and regulations of any regulatory agency;

all taxes and license fees;

all insurance costs incurred in connection with the operation of our business except for the costs attributable to the insurance that our manager elects to carry for itself and its personnel;

costs and expenses incurred in contracting with third parties;

all other costs and expenses relating to our business and investment operations, including acquisition expenses and the costs and expenses of owning, protecting, maintaining, developing and disposing of investments, including appraisal, reporting, audit and legal fees;

expenses relating to any office(s) or office facilities, including disaster backup recovery sites and facilities, maintained for us or our subsidiaries or our investments separate from the office or offices of our manager;

expenses related to the payment of interest, dividends or distributions in cash or any other form authorized or caused to be made by our board of directors, our operating partnership or other governing body to or on account of holders of our securities or the securities of any subsidiary, including in connection with any dividend reinvestment plan;

any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against us or any subsidiary, or against any trustee, director, partner, member or officer of our company or our subsidiaries in his or her capacity as such for which we are or such subsidiary is required to indemnify such trustee, director, partner, member or officer pursuant to the applicable governing instruments or any agreement or other instrument or by any court or governmental agency;

personnel costs (as described below); and

all other expenses actually incurred by our manager which are reasonably necessary or advisable for the performance by our manager of its duties and functions under the management agreement.

The officers and key personnel of our manager may spend a portion of their time on activities unrelated to us. It is currently anticipated that John A. Williams and Leonard A. Silverstein will spend substantially all their business time on our behalf. Each of the other two executive officers, Messrs. Cronin and Leseman, currently is expected to spend a significant portion of his business time on our behalf but may not always spend a majority of his time on our behalf. In addition to the four executive officers listed above, our manager

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employs personnel who have extensive experience in selecting and managing commercial properties similar to the properties sought to be acquired by us, none of which personnel is expected to spend a majority of time on our behalf.

Our manager will be responsible for the expenses related to any and all personnel of our manager and its affiliates who provide services to us under the management agreement (including each of our officers and directors who are also directors, officers, employees or agents of our manager or any of its affiliates), including salaries, bonus and other wages, payroll taxes, the cost of employee benefit plans of such personnel, and costs of insurance with respect to such personnel. The anticipated amount of reimbursement to our manager for personnel costs will be evaluated on an ongoing basis. Such reimbursement will be based on a number of factors, including profitability, funds available and our ability to pay distributions from cash flow generated from operations. We do not intend to reimburse any compensation in 2011, however, the currently anticipated amount of reimbursement on an annual basis in 2012 for our four executive officers is as follows:

Executive	Anticipated Reimbursement Amounts for Compensation[(1)]
John A. Williams	$ 250,000
Leonard A. Silverstein	$ 200,000
Michael J. Cronin	$ 100,000
William F. Leseman	$ 100,000
Total	$ 650,000

(1) Includes base salary, bonuses and related benefits. Equity awards may be issued in the future by the compensation committee of our board of directors. The timing and amount of any such equity award is not presently known.

Fees Payable Upon Termination of the Management Agreement. If the management agreement is terminated by reason of a change of control of our company, by us without cause in connection with the expiration of a renewal term, by the manager for good reason or upon our liquidation, the manager will be entitled to receive payment of any earned but unpaid compensation and expense reimbursements accrued as of the date of termination.

The manager will be entitled to receive all accrued but unpaid compensation in cash on the effective date of the termination.

Liability and Indemnification of Manager. Under the management agreement, we also will be required to indemnify the manager and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding with respect to the manager s acts or omissions. For details regarding these limitations and circumstances under which we are required or authorized to indemnify and to advance expenses to the manager, see Our Management Limitation of Liability and Indemnification.

Other Activities of Manager and its Affiliates. The manager and its affiliates expect to engage in other business ventures, and as a result, their resources will not be dedicated exclusively to our business. However, pursuant to the management agreement, the manager must devote sufficient resources to our administration to discharge its obligations. The manager may assign the management agreement to an affiliate upon approval of a majority of the independent directors. We may assign or transfer the management agreement to a successor entity.

Amendment of the Management Agreement. The management agreement can be amended by a written instrument that is signed by all the parties to that agreement (or their successors or assigns, where applicable).

Potential Acquisition of Manager. Many REITs which are listed on a national stock exchange are considered self-administered, since the employees of such a REIT perform all significant management functions. In contrast, REITs that are not self-administered, like us, typically engage a third party, such as our manager, to perform management functions on its behalf. If for any reason our independent directors determine that we should become self-administered, we are not prohibited from acquiring the business conducted by the manager (including all its assets). See the section entitled Certain Relationships and Related Transactions Conflicts of Interest included elsewhere in this prospectus. Any such transaction will occur, if at all, only if our board of directors obtains a fairness opinion from a recognized financial advisor or institution providing valuation services to the effect that the consideration to be paid therefor is fair, from a financial point of view, to our stockholders.

Management Compensation

The following table summarizes the fees and expense reimbursements that we will pay to our dealer manager, our manager (or persons affiliated with or related to our manager, including our officers) and to our independent directors:

Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units)/ Maximum Offering (150,000 Units)
Selling Commission[1]	For acting as the dealer manager, we will pay to our dealer manager 7% of gross proceeds of this offering. Our dealer manager may reallow all or a portion of the selling commissions to participating broker-dealers.	\$140,000/\$10,500,000
Dealer Manager Fee	For acting as the dealer manager, we will pay to our dealer manager 3% of gross proceeds of this offering. Our dealer manager may reallow up to 1.5% of gross offering proceeds it receives as dealer manager fees to participating broker-dealers.	\$60,000/\$4,500,000
Other Offering Expenses	We will reimburse our manager up to 1.5% of gross offering proceeds for actual expenses incurred in connection with this offering. Other offering expenses include all expenses to be paid by us in connection with the offering, such as our legal, accounting, printing, mailing and filing fees, charges of our escrow holder and transfer agent, reimbursement of bona fide, itemized and detailed due diligence expenses of our dealer manager.	\$30,000/\$2,250,0000
	Acquisition and Operational Stage	
Acquisition Fees	Fees payable to our manager in the amount of 1.0% of the gross contract purchase price of the property, loan or other real estate-related asset purchased, for services in connection with selecting, evaluating and acquiring such asset. For purposes of this prospectus, gross contract purchase price means the amount actually paid or allocated in respect of the purchase of a property or the amount actually paid or allocated in respect of the purchase of loans or other real-estate related assets, in each case inclusive of acquisition expenses and any indebtedness assumed or incurred in respect of such	\$16,700/\$1,252,500 (assuming no debt) \$47,714/\$3,578,511 (assuming we incur our expected leverage of 65% of acquisition cost) \$66,800/\$5,010,000 (assuming we incur our maximum leverage of 75% of acquisition cost)

investment but exclusive of acquisition fees.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units)/ Maximum Offering (150,000 Units)
Acquisition Expenses[(2)]	We will reimburse our manager for expenses actually incurred (including personnel costs) related to selecting, evaluating and acquiring assets on our behalf, regardless of whether we actually acquire the related assets. Personnel costs associated with providing such services will be determined based on the amount of time incurred by the applicable employee of our manager and the corresponding payroll and payroll related costs incurred by our manager. In addition, we also will pay third parties, or reimburse our manager or its affiliates, for any investment-related expenses due to third parties, including, but not limited to, legal fees and expenses, travel and communications expenses, costs of appraisals, accounting fees and expenses, third-party brokerage or finder s fees, title insurance expenses, survey expenses, property inspection expenses and other closing costs, regardless of whether we acquire the related assets.	Not determinable at this time.
Asset Management Fee[(3)]	We will pay our manager a monthly fee equal to one-twelfth of 0.50% of the total value of our assets (including cash or cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization, impairment charges and cumulative acquisition costs charged to expense in accordance with generally accepted accounting principles, or GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs). This fee will be payable monthly in arrears, based on assets held by us on the last date of the prior month, adjusted for appropriate closing dates for individual property acquisitions.	Not determinable at this time.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units)/ Maximum Offering (150,000 Units)
Property Management and Leasing Fee[4]	We will pay our manager a monthly fee equal to 4% of the monthly gross revenues of our properties managed, for services in connection with the rental, leasing, operation and management of our properties and the supervision of any third parties that are engaged by our manager to provide such services. Our manager may subcontract the performance of its property management and leasing services duties to third parties or affiliates and pay all or a portion of its property management fee to such persons with whom it contracts for these services. Our manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted property management and leasing duties. The property management and leasing fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.	Not determinable at this time.
General and Administrative Expenses Fee[2][3][4]	We will pay our manager a monthly fee equal to 2% of our monthly gross revenues.	Not determinable at this time.
Disposition Fee on Sale of Assets	We may pay our manager a commission upon the sale of one or more of our properties or other assets in an amount equal to the lesser of (a) one-half of the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset, and (b) 1% of the sale price of the asset. Payment of such fee may be made only if the manager provides a substantial amount of services in connection with the sale of the asset as determined by a majority of our independent directors. In addition, the amount paid when added to all other commissions paid to unaffiliated parties in connection with such sale shall not exceed the lesser of (1) the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset and (2) an amount equal to 6% of the sale price of such asset.	Not determinable at this time because actual amounts are dependent upon the sale price of specific assets and what would be reasonable, customary and competitive at the time of sale.
Construction Fee, Development Fee and Landscaping Fee	We will pay our manager a construction fee, development fee and landscaping fee at market rates customary and competitive in light of the size, type and location of the asset in connection with the construction, development or landscaping of a property, or for management and oversight of expansion projects and other capital improvements.	Not determinable at this time because actual amounts are dependent upon market rates in light of the size, type and location of the asset.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units)/ Maximum Offering (150,000 Units)
Accrued Fees Upon Termination	If the management agreement is terminated by reason of a change of control, by us without cause in connection with the expiration of a renewal term, by the manager for good reason or upon our liquidation, the manager will be entitled to receive payment of any earned but unpaid compensation and expense reimbursements accrued as of the date of termination.	Not determinable at this time.
Awards Under Our Stock Incentive Plan	We have adopted a stock incentive plan pursuant to which our directors, officers and employees (if we ever have employees), employees of our manager and its affiliates, employees of entities that provide services to us, directors of our manager or of entities that provide services to us, certain of our consultants and certain consultants to our manager and its affiliates or entities of such consultants that provide services to us may be granted equity incentive awards in the form of stock options, stock appreciation rights, restricted stock, performance shares or other stock-based awards. Our compensation committee will determine all awards under our stock incentive plan and the vesting schedule for the grants.	The total number of shares that may be made subject to awards under our stock incentive plan will not exceed 567,500 shares of our common stock.
Compensation to Independent Directors	We pay to each of our independent directors a retainer of $50,000 per year. We also pay an annual retainer of $10,000 to the chair of our audit committee. In addition, each independent director will be paid a fee of $2,000 for each board committee meeting the director attends in person and reasonable out-of-pocket expenses incurred in connection with attendance of meetings of our board or board committees. We may issue shares of our common stock pursuant to our stock incentive plan in lieu of paying an independent director his or her annual fees and/or meeting fees in cash. To date, we have issued shares of our common stock in lieu of paying cash as compensation to our independent directors and currently expect to continue paying such compensation in shares of common stock. Any fees owed to our independent directors will be paid in shares of restricted common stock through April 2013. After such date, any such fees may be paid in cash or stock. Our independent directors also may receive awards under our stock incentive plan. Our compensation committee will determine all awards to our independent	The independent directors, as a group, will receive for a full fiscal year estimated aggregate compensation of approximately $350,000, payable in cash or shares of our common stock.

directors under our stock incentive plan and the vesting schedule for such awards.

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Type of Compensation	Determination of Amount	Estimated Amount of Minimum Offering (2,000 Units)/ Maximum Offering (150,000 Units)
	Liquidation Stage	
Special Limited Partnership Interest	Our manager has a special limited partnership interest in our operating partnership entitling it to distributions from our operating partnership equal to 15% of any net sale proceeds from an asset (which equals the proceeds actually received by us from the sale of such asset after paying off outstanding debt related to the sold asset and paying any seller related closing costs, including any commission paid to our manager in connection with the sale of the asset, less expenses allocable to the sold asset) remaining after the payment of (i) the capital and expenses allocable to all realized investments (including the sold asset), and (ii) a 7% priority annual return on such capital and expenses; *provided, however,* that all accrued and unpaid dividends on our preferred stock have been paid in full. This distribution with respect to the special limited partnership interest is payable upon the sale of an asset even if holders of our preferred stock have not received a return of their capital, but only after the holders of our preferred stock have received payment in full of all accrued and unpaid dividends on our preferred stock. It is also possible that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital. The special limited partner shall be entitled to tax distributions, at our sole discretion as the general partner, provided such distributions do not prevent us from satisfying the requirements for qualification as a REIT. Any tax distributions shall offset future distributions to which the special limited partner is entitled.	Not determinable at this time

(1) The combined selling commission and dealer manager fee will not exceed 10% of gross proceeds of our offering. Our dealer manager will repay to the company any excess payments made to our dealer manager over FINRA s 10% cap if the offering is abruptly terminated after reaching the minimum amount, but before reaching the maximum amount, of offering proceeds.

(2) Amounts paid in respect of acquisition expenses and the general and administrative expenses fee include our portion of any expenses incurred by our manager on behalf of joint ventures in which we are a participant.

(3) The total amount of the asset management, property management and leasing and general and administrative fees and expenses paid or reimbursed to our manager will be capped at 1.50% of total value of our assets (including

cash and cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization, impairment charges and cumulative acquisition costs charged to expense in accordance with GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs).

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(4) In addition to the general and administrative expenses fee, we may reimburse our manager for certain costs and expenses it incurs in connection with the services it provides to us, including, but not limited to, personnel costs, as described above in this section, Management Agreement.

Investment Committee

Our manager will have an investment committee which will meet periodically, at least every quarter, to discuss investment opportunities. The investment committee will periodically review our investment portfolio and its compliance with our investment guidelines described above, and provide our board of directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. From time to time, as it deems appropriate or necessary, our board of directors also will review our investment portfolio and its compliance with our investment guidelines and the appropriateness of our investment guidelines and strategies.

1% Manager Revenue Interest

WOF will hold a special limited liability company interest in our manager, which interest will entitle WOF to receive an aggregate of 1% of the gross revenues (excluding amounts to reimburse our initial costs, other reimbursed expenses, and any gross revenues related to property management and leasing fees) of our manager received, directly or indirectly, from us and our operating partnership or our controlled affiliates (including any subsidiaries and/or joint ventures), or the 1% Manager Revenue Interest. Initial costs will include (a) legal and accounting fees and expenses related to organization of the company, the operating partnership and our manager as well as the private placement to WOF, (b) brokerage and advisory services, (c) capital raising costs for sales of common stock, and (d) legal, financial and regulatory fees and expenses and other expenses described in Part II Information Not Required in Prospectus of this registration statement.

WOF will have the right to transfer all or part of the 1% Manager Revenue Interest to any of its affiliates without the consent of the manager. WOF will grant our manager a right of first offer prior to any transfer to a non-affiliate. Our Manager and WOF have agreed that, after a holding period of one year, either party may trigger a sale of the 1% Manager Revenue Interest to the Manager. The sale price for the 1% Manager Revenue Interest will be determined using the average of the valuation appraisals received from two independent appraisers that have reasonably suitable experience in business valuations.

For so long as WOF and any permitted transferees thereof hold the 1% Manager Revenue Interest, they will be entitled to receive an aggregate of 1% of the gross proceeds actually received by our manager, from any sale of all or substantially all of, or the internalization of, our manager.

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PRINCIPAL STOCKHOLDERS

The following table provides information, as of August 5, 2011, regarding the number and percentage of shares of our common stock beneficially owned by each director, each executive officer, each person known to us to be the beneficial owner of more than 5% of our outstanding shares of common stock and all directors and executive officers as a group. In accordance with SEC rules, each listed person s beneficial ownership includes all shares of common stock the person actually owns beneficially or of record, all shares of common stock over which the person has or shares voting or dispositive control (such as in the capacity as a general partner of an investment fund), and all shares the person has the right to acquire within 60 days (such as shares of restricted common stock which are scheduled to vest within 60 days). Except as otherwise provided, all shares are owned directly, and the indicated person has sole voting and investing power. Unless otherwise indicated, the business address of the stockholders listed below is the address of our principal executive office, 3625 Cumberland Boulevard, Suite 400, Atlanta, Georgia 30339.

	Percentage of Common Stock Outstanding					
	Immediately prior to this offering			Immediately after this offering		
Beneficial Owner	Shares Owned		Percentage	Shares Owned		Percentage
Williams Opportunity Fund, LLC(1)(3)	1,000,000		19.43 %	1,000,000		19.43 %
Williams Realty Fund I, LLC(2)(3)	690,000		13.40 %	690,000		13.40 %
NELL Partners, Inc.(3)	36,666	(4)(5)	*	36,666	(4)(5)	*
John A. Williams(1)(2)(3)	66,661	(4)(5)(6)	1.30 %	66,661	(4)(5)(6)	1.30 %
Leonard A. Silverstein(1)(2)(3)	37,666	(4)(5)	*	37,666	(4)(5)	*
William F. Leseman	1,000		*	1,000		*
Daniel M. DuPree	666		*	666		*
Timothy A. Peterson	2,958		*	2,958		*
Steve Bartkowski	3,166		*	3,166		*
Gary B. Coursey	666		*	666		*
Howard A. McLure	20,916		*	20,916		*
All directors and executive officers as a group (8 persons)	97,033		1.89 %	97,033		1.89 %

* Less than 1%

(1) John A. Williams and Leonard A. Silverstein are two members of the five-member investment committee of Williams Opportunity Fund, LLC. The other members of the investment committee are John A. Williams son, John A. Williams, Jr., Michael J. Cronin, our Chief Accounting Officer and Treasurer, and an employee of a company controlled by John A. Williams. Subject to the review and approval by an external, independent advisory committee as to affiliate transactions and other conflicts of interest, the investment committee will control the voting and investment power of these shares.

(2) John A. Williams and Leonard A. Silverstein are two members of the five-member investment committee of Williams Realty Fund I, LLC. The other members of the investment committee are John A. Williams son, John A. Williams, Jr., and two independent members. The investment committee will control the voting and investment power of these shares.

(3) Williams Realty Fund I, LLC, Williams Opportunity Fund, LLC, NELL Partners, Inc. and Mr. Williams spouse collectively own 34.12% of our common stock.

(4) NELL Partners, Inc. owns 36,666 shares of our common stock. John A. Williams and Leonard A. Silverstein share joint voting and investment power of these shares.

(5) Although John A. Williams and Leonard A. Silverstein share joint voting and investment power of the shares held by NELL Partners, Inc., each disclaims any economic interest in such shares. 70% of such shares are owned indirectly by the Nancy Ann Richardson Williams Children s Trust, formed on January 30, 1995, a trust created by Mr. Williams spouse for the benefit of their children. 30% of such shares are owned indirectly by the Northside Partners Trust, formed on November 2, 2009, a trust created by Leonard A. Silverstein s spouse for the benefit of their children.

(6) 29,995 of these shares are owned by Mr. Williams' spouse. Mr. Williams disclaims any beneficial ownership of such shares.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Agreements With Institutional and Other Investors

Williams Opportunity Fund Private Placement Offering

Private Placement. On April 5, 2011, pursuant the terms of the subscription agreement relating to the private placement offering with WOF, we completed a private placement of 500,000 shares of common stock to WOF pursuant to Regulation D of the Securities Act. The shares of common stock were sold at a purchase price of $10.00 per share. The private placement resulted in gross proceeds of $5.0 million. The sale was not subject to any underwriting discount or commission. Aggregate offering expenses in connection with the private placement were approximately $0.3 million. WOF is an affiliate of our sponsor, John A. Williams. WOF agreed with the underwriters in the IPO, for a period ending on October 2, 2011, subject to certain exceptions, not to, directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any of our common stock issued in connection with the private placement offering or any other securities that are convertible or exchangeable for our common stock issued in connection with the private placement offering or file any registration statement with respect to any of the foregoing or enter into any swap or any other agreement or any transaction that transfers the economic ownership of the common stock issued in connection with the private placement offering without the prior written consent of the representative.

Registration Rights. Concurrently with the closing of the private placement offering referred to above, we entered into a registration rights agreement for the benefit of WOF in connection with its holdings of common stock. WOF has piggyback registration rights. If we propose to register under the Securities Act any common stock, whether or not for the sale for our own account or for the account of another person, WOF may include in such registration statement the number of shares of common stock as WOF may request, subject to the terms and upon the conditions set forth in the registration rights agreement. WOF has waived such rights in respect of this offering.

Common Stock Issuance

In connection with our formation and initial capitalization, in January 2010, we issued 33,333 shares of our Class B Common Stock for total gross proceeds to us of $99,999 to NELL Partners, Inc., an entity controlled by John A. Williams and Leonard A. Silverstein. In addition, we issued 3,333 shares of our Class A Common Stock for total gross proceeds to us of $9,999 to NELL Partners, Inc. Pursuant to a change in the designation of our shares of Class A Common Stock to common stock and a change of each of our issued and outstanding shares of Class B Common Stock to one issued and outstanding share of common stock, all pursuant to an amendment to our charter filed on February 22, 2011, NELL Partners now holds 36,666 shares of common stock.

Williams Opportunity Fund Promissory Notes

On April 5, 2011, we paid in full the amounts owing under all our outstanding promissory notes issued to WOF consisting of: $465,050 that was outstanding on the $465,050 original principal promissory note, together with $11,642 in accrued and unpaid interest, $1.24 million that was outstanding on the $1.25 million line of credit, together with $17,453 in accrued and unpaid interest, and the $52,259 that was outstanding on the $0.75 million line of credit, together with $167 in accrued and unpaid interest. All the promissory notes issued to WOF were retired in connection with their repayment in full on April 5, 2011.

Real Estate Property Acquisitions

As of the date of this prospectus, we have acquired three multifamily communities and entered into the Mezzanine Loan related to the construction of a multifamily community that we have an option to purchase. As of June 30, 2011, we have expended a portion of the net proceeds of the IPO as follows: (1) approximately $11.9 million was expended in connection with the acquisition of the membership interests in Stone Rise on April 15, 2011; (2) approximately $13.1 million was expended in connection with the acquisition of the membership interests in Summit Crossing on April 21, 2011; (3) approximately $9.0 million was expended in connection with the acquisition of Trail Creek on April 29, 2011; (4) approximately $3.0 million was expended in connection with the $6.0 million Mezzanine Loan to Oxford

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Hampton Partners LLC, through the Company's wholly owned subsidiary Trail Creek Mezzanine Lending, LLC on June 30, 2011; and (5) approximately $0.5 million was expended for our organizational costs. The aggregate amount of net proceeds expended in connection with the three acquisitions, the Mezzanine Loan and organizational costs is approximately $37.5 million. In addition to the use of IPO proceeds in connection with the three acquisitions and the Mezzanine Loan and for organizational costs, we set aside $2.5 million for a working capital and dividend reserve and approximately $0.8 million for planned non-recurring capital expenditures on the three acquisitions, leaving no remaining net proceeds from the IPO.

The Stone Rise membership interests were acquired from Oxford Rise Partners LLC, a Georgia limited liability company, and WOF. WOF owns approximately 19.43% of the outstanding common stock of the Company. In addition, John A. Williams, the President, Chief Executive Officer and Chairman of the Board, indirectly owns an approximate 1.0% membership interest in WOF. In connection with the acquisition, we paid an acquisition fee of $301,500, or 1.0% of the contract purchase price, to our manager, of which WOF received $3,015 through its special limited liability company interest in the manager which entitles WOF to receive 1% of the manager s gross revenues.

The Summit Crossing membership interests were acquired from Oxford Summit Development LLC, a Georgia limited liability company, and WRF. WRF owns approximately 13.40% of our outstanding common stock. In addition, Mr. Williams indirectly owns an approximate 7.0% membership interest in WRF. In connection with the acquisition, we paid an acquisition fee of $332,000, or 1.0% of the contract purchase price, to our manager, of which WOF received $3,220 through its special limited liability company interest in our manager.

WRF owned indirectly an approximately 10% membership interest in Oxford Trail JV. Separate from Mr. Williams membership interest in WRF, Mr. Williams received approximately $62,600 from Trail JV as a promoted interest in connection with the sale of Trail Creek. Leonard A. Silverstein, the Executive Vice President, General Counsel, Secretary and Vice Chairman of the Board received approximately $20,375 from Oxford Trail JV as a promoted interest in connection with the sale of Trail Creek. In connection with the acquisition, we paid an acquisition fee of $235,000, or 1.0% of the contract purchase price, to our manager of which WOF received $2,350 through its special limited liability company interest in the manager which entitles WOF to receive 1% of the manager s gross revenues.

The acquisition price for each property acquired from an affiliate was determined pursuant to the appraisals of two independent real estate appraisers. For a description of the properties and the terms of the purchase agreements, see the section entitled Description of Real Estate Investments included elsewhere in this prospectus.

In connection with the closing of the Mezzanine Loan, Oxford Hampton Partners LLC used proceeds of the Mezzanine Loan to pay approximately $302,300 to WRF to retire an outstanding short term loan from WRF that matured on the closing date of the Mezzanine Loan.

In addition, in connection with the closing of the Mezzanine Loan, we received a loan fee of 2% of the maximum loan amount, or $120,000, and a loan commitment fee of $14,333. From the $120,000 loan fee, we paid a fee of $60,000, or 1.0% of the maximum loan amount, to our manager of which WOF received $600 through its special limited liability company interest in the manager which entitles WOF to receive 1% of the manager s gross revenues.

The terms of the Mezzanine Loan were approved by our conflicts committee, which consists entirely of independent directors not otherwise interested in the transaction. For a description of the terms of Mezzanine Loan, see the section entitled Description of Real Estate Investments included elsewhere in this prospectus.

Directed Share Program.

In connection with our initial public offering, Williams Opportunity Fund, LLC, an affiliate of our sponsor, purchased 500,000 shares of our common stock through our directed share program, and Williams Realty Fund I, LLC, an affiliate of our sponsor, purchased 690,000 shares of our common stock, through our directed share program.

Conflicts of Interest

We are subject to various conflicts of interest arising out of our relationship with Preferred Apartment Advisors, LLC, our manager, and its affiliates, including conflicts related to the arrangements pursuant to which Preferred Apartment Advisors, LLC and its affiliates will be compensated by us. Our agreements and compensation arrangements with our manager and its affiliates were not determined by arm s-length negotiations. We anticipate that future acquisitions by us of assets likely will be mostly from unaffiliated third parties, but we would still consider an acquisition from an affiliated third party if such acquisition made financial sense to us and was approved by our conflicts committee comprised of independent directors. See the section entitled Our Manager and Management Agreement included elsewhere in this prospectus. Some of the conflicts of interest in our transactions with our manager and its affiliates, and the limitations on our manager adopted to address these conflicts, are described below.

Our manager and its affiliates will try to balance our interests with their duties to other John A. Williams-sponsored programs. However, to the extent that our manager or its affiliates take actions that are more favorable to other entities than to us, these actions could have a negative impact on our financial performance and, consequently, on distributions to you and the value of our stock. In addition, our directors, officers and certain of our stockholders may engage for their own account in business activities of the types conducted or to be conducted by our subsidiaries and us. For a description of some of the risks related to these conflicts of interest, see the section entitled Risk Factors Risks Related to Conflicts of Interest included elsewhere in this prospectus.

Our independent directors have an obligation to function on our behalf in all situations in which a conflict of interest may arise, and all our directors have a duty to act in a manner reasonably believed to be in our best interests.

Interests in Other Real Estate Programs

Affiliates of our officers and directors and entities owned or managed by such affiliates may acquire or develop real estate for their own accounts, and have done so in the past. Furthermore, except in certain circumstances, affiliates of our officers and directors and entities owned or managed by such affiliates may form additional real estate investment entities in the future, whether public or private, which can be expected to have the same investment objectives and policies as we do and which may be involved in the same geographic area, and such persons may be engaged in sponsoring one or more of such entities at approximately the same time as our shares of common stock are being offered. Our manager, its affiliates and affiliates of our officers and directors are not obligated to present to us any particular investment opportunity that comes to their attention, unless such opportunity is of a character that might be suitable for investment by us. Our manager and its affiliates likely will experience conflicts of interest as they simultaneously perform services for us and other affiliated real estate programs.

Since 2005, certain of our officers and directors and their affiliates have sponsored three private real estate programs, including one program focused on acquiring residential real estate assets and two programs focused primarily on developing real estate assets across multiple property types. All three of these programs are still operating, but only one of them, William Multifamily Acquisition Fund, has an investment objective that is similar to ours. In addition, an affiliate of one of our officers, William F. Leseman, has performed as the property manager for a number of third party clients, assisting these clients in the operation of their multifamily real estate assets and advising these clients in connection with sales of their multifamily real estate assets. Williams Residential Management, LLC also performs as a property manager for all owned assets within the Williams umbrella group. Conflicts of interest may arise between us and our sponsor s prior programs, between us and future programs, between us and the institutional investors for which RAM Partners, LLC serves as the third party property manager, and between us and affiliates of our sponsor for which Williams Residential Management, LLC serves as the property manager.

Any affiliated entity, whether or not currently existing, could compete with us in the sale or operation of the properties. We will seek to achieve any operating efficiency or similar savings that may result from affiliated management of competitive properties. However, to the extent that affiliates own or acquire property that is adjacent, or in close proximity, to a property we own, our property may compete with the affiliate s property for tenants or purchasers.

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Every transaction that we enter into with our manager or its affiliates is subject to an inherent conflict of interest. Our board of directors may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with an affiliate or in invoking powers, rights or options pursuant to any agreement between us and our manager or any of its affiliates.

Other Activities of Preferred Apartment Advisors, LLC and Its Affiliates

We rely on Preferred Apartment Advisors, LLC for the day-to-day operation of our business. As a result of the interests of members of its management in other John A. Williams-sponsored programs and the fact that they also are engaged, and will continue to engage, in other business activities, Preferred Apartment Advisors, LLC and its affiliates have conflicts of interest in allocating their time between us and other John A. Williams-sponsored programs and other activities in which they are involved. Our executive officers and the key professionals associated with Preferred Apartment Advisors, LLC who provide services to us are not obligated to devote a fixed amount of their time to us, but Preferred Apartment Advisors, LLC believes that our executive officers and the other key professionals have sufficient time to discharge fully their responsibilities to us and to the other business in which they are involved. In addition, Preferred Apartment Advisors, LLC believes that it and its affiliates have sufficient time and personnel to discharge fully their responsibilities to us and all the John A. Williams-sponsored programs and other ventures in which they are involved.

In addition, each of our executive officers also serves as an officer of our manager and/or other affiliated entities. As a result, these individuals owe fiduciary duties to these other entities, in addition to the duties that they owe to us.

We may purchase properties or interests in properties from affiliates of Preferred Apartment Advisors, LLC. The prices we pay to affiliates of our manager for these properties will not be the subject of arm s-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated with unaffiliated parties.

Competition in Acquiring, Leasing and Operating of Properties

Conflicts of interest will exist to the extent that we may acquire, or seek to acquire, properties in the same geographic areas where properties owned by other John A. Williams-sponsored programs are located. In such a case, a conflict could arise in the acquisition or leasing of properties if we and another John A. Williams-sponsored program were to compete for the same properties or tenants in negotiating leases, or a conflict could arise in connection with the resale of properties if we and another John A. Williams-sponsored program were to attempt to sell similar properties at the same time. Conflicts of interest also may exist at such time as we or our affiliates managing property on our behalf seek to employ developers, contractors or building managers, as well as under other circumstances. Preferred Apartment Advisors, LLC will seek to reduce conflicts relating to the employment of developers, contractors or building managers by making prospective employees aware of all such properties seeking to employ such persons. In addition, Preferred Apartment Advisors, LLC will seek to reduce conflicts that may arise with respect to properties available for sale or rent by making prospective purchasers or tenants aware of all such properties. However, these conflicts cannot be fully avoided in that there may be established differing compensation arrangements for employees at different properties or differing terms for resales or leasing of the various properties.

Moreover, our charter provides that none of John A. Williams and his affiliates has a duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as us, and none of our officers or directors who is a director, officer or employee of one or more of John A. Williams affiliates will be liable to us or our stockholders for breach of any duty by reason of any such activities. Our charter further provides that if John A. Williams or any of the officers and directors of one of his affiliates acquires knowledge of a potential transaction or matter that may be a business opportunity for us, John A. Williams or such officer or director will have no duty to communicate or offer such business opportunity to us and will not be liable to us or any of our stockholders for breach of any duty by reason of the fact that such business opportunity is not communicated or offered to us unless such business opportunity is offered to such person in his or her capacity as one of our directors or officers. Any person purchasing or otherwise acquiring any interest in any shares of our stock will be deemed to have notice of and to have consented to these provisions.

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Special Limited Partnership Interest

At the sale of each individual asset, our manager may be entitled to distributions from our operating partnership on the special limited partnership interest held by our manager, also known as the promote . Our manager has a special limited partnership interest in our operating partnership entitling it to distributions from our operating partnership equal to 15% of any net sale proceeds from an asset (which equals the proceeds actually received by us from the sale of such asset after paying off outstanding debt related to the sold asset and paying any seller related closing costs, including any commission paid to our manager in connection with the sale of the asset, less expenses allocable to the sold asset) remaining after the payment of (i) the capital and expenses allocable to all realized investments (including the sold asset), and (ii) a 7% priority annual return on such capital and expenses; *provided*, *however*, that all accrued and unpaid dividends on our preferred stock have been paid in full. This distribution with respect to the special limited partnership interest is payable upon the sale of an asset even if holders of our preferred stock have not received a return of their capital, but only after the holders of our preferred stock have received payment in full of all accrued and unpaid dividends on our preferred stock. It is also possible that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital. Moreover, to the extent a distribution with respect to the special limited partnership interest has been paid to our manager for any assets sold within 60 days prior to the sale of an asset in which the Priority Return for that asset was not met, our manager shall return to us an amount up to the distribution so received for the assets sold within such 60-day period, which shall be applied to any Priority Return shortfall actually arising from the sale of the subsequent asset.

Lack of Separate Representation

Proskauer Rose LLP acts, and may in the future act, as counsel to us, Preferred Apartment Advisors, LLC and its affiliates in connection with the offering or otherwise. There is a possibility that in the future the interests of the various parties may become adverse, and under the Code of Professional Responsibility of the legal profession, Proskauer Rose LLP may be precluded from representing any one of such parties. If a dispute were to arise between us, Preferred Apartment Advisors, LLC or any of its affiliates, separate counsel for such matters will be retained as and when appropriate.

Joint Ventures with Affiliates of our Manager

We may enter into joint ventures with other John A. Williams-sponsored programs (as well as other parties) for the acquisition, development or improvement of properties. See the section entitled Business Our Investment Strategy included elsewhere in this prospectus. Our manager and its affiliates may have conflicts of interest in determining that a John A. Williams-sponsored program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals which are or which may become inconsistent with our business interests or goals. In addition, should any such joint venture be consummated, our manager may face a conflict in structuring the terms of the relationship between our interests and the interest of the co-venturer and in managing the joint venture. Since our manager and its affiliates will control both us and any affiliated co-venturer, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm s-length negotiation of the type normally conducted between unrelated co-venturers.

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Receipt of Fees and Other Compensation by our Manager and its Affiliates

Our manager and its affiliates will receive substantial fees from us, which fees have not been negotiated at arm s length. Subject to oversight by our board of directors, our manager will have considerable discretion with respect to all decisions relating to the terms and timing of all transactions. The fees received by our manager and its affiliates could influence our manager s advice to us as well as the judgment of affiliates of our manager, some of whom also serve as our executive officers and directors and as key professionals of our manager and its affiliates. Therefore, our manager may have conflicts of interest concerning certain actions taken on our behalf, particularly because such fees generally will be payable to our manager and its affiliates regardless of the quality of the properties acquired or the services provided to us. See the section entitled Our Manager and Management Agreement included elsewhere in this prospectus. Among other matters, these compensation arrangements could affect their judgment with respect to:

the continuation, renewal or enforcement of our agreements with our manager and its affiliates, including the management agreement;

sales of properties and other investments (including, subject to the approval of our conflicts committee, sales to affiliates), which entitles our manager to disposition fees and possible distributions with respect to the special limited partnership interest held by our manager; *provided*, *however*, that distributions with respect to the special limited partnership interest will only be payable after the return to the stockholders of their capital contributions related to each asset sold plus an amount that would be equal to the Priority Return, *i.e.*, a 7% cumulative, non-compounded annual return on such capital; *provided*, *further*, *however*, that, to the extent a distribution with respect to the special limited partnership interest has been paid to our manager for any assets sold within 60 days prior to the sale of an asset in which the Preferred Return for that asset was not met, our manager shall return to us an amount up to the distribution so received for the assets sold within such 60-day period, which shall be applied to any Priority Return shortfall actually arising from the sale of the subsequent asset;

acquisitions of properties and other investments, which entitles our manager to acquisition fees and asset management fees;

borrowings to acquire properties and other investments, which borrowings will increase the acquisition and asset-management fees payable to our manager; and

whether we seek stockholder approval to internalize our management, which may entail acquiring assets (such as office space, furnishings, intellectual property and technology costs) and negotiating compensation for real estate professionals at our manager and its affiliates that may result in these individuals receiving more compensation from us than they currently receive from our manager and its affiliates.

Certain Conflict Resolution Procedures

Every transaction that we enter into with John A. Williams, WOF, our manager or any of their respective affiliates will be subject to an inherent conflict of interest. Our board of directors may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with an affiliate or in invoking powers, rights or options pursuant to any agreement between us and John A. Williams, WOF, our manager or any of their respective affiliates.

In order to reduce or eliminate certain potential conflicts of interest, our conflicts committee will review (1) transactions we enter into with John A. Williams, WOF, our manager or any of their respective affiliates, and (2) the allocation of investment opportunities among affiliated entities. Our conflicts committee may restrict us from the following transactions:

Purchasing or leasing properties in which John A. Williams, WOF, our manager, any of our directors or any of their respective affiliates has an interest without a determination by a majority of the members of the conflicts committee not otherwise interested in such transaction that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the seller or lessor unless there is reasonable justification for any amount that exceeds such cost and such excess amount is determined to be reasonable. We may be restricted from acquiring any such

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property at an amount in excess of its appraised value. We may be restricted from selling or leasing properties to John A. Williams, WOF, our manager, any of our directors or any of their respective affiliates unless a majority of the members of the conflicts committee not otherwise interested in the transaction determines that the transaction is fair and reasonable to us.

Making any loans to John A. Williams, WOF, our manager, any of our directors or any of their respective affiliates, except for making or investing in mortgage, bridge or mezzanine loans involving John A. Williams, WOF, our manager, our directors or any of their respective affiliates. We may be required to obtain an appraisal of the underlying property from an independent appraiser and show that the transaction is approved as fair and reasonable to us and on terms no less favorable to us than those available from third parties. In addition, our conflicts committee may restrict John A. Williams, WOF, our manager, any of our directors or any of their respective affiliates from receiving loans from us or making loans to us or to joint ventures in which we are a joint venture partner unless approved by a majority of the members of the conflicts committee not otherwise interested in the transaction as fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties.

Reimbursing John A. Williams, WOF, our manager or any of their respective affiliates, at cost, for actual expenses incurred by them on behalf of us or joint ventures in which we are a joint venture partner.

Investing in an investment opportunity that becomes available that is suitable, under all the factors considered by our manager, for both us and one or more other entities affiliated with our manager and for which more than one of such entities has sufficient uninvested funds, if another such entity has had the longest period of time elapse since it was offered an investment opportunity. Such entity will first be offered such investment opportunity. It will be the duty of our conflicts committee to insure that this method is applied fairly to us. In determining whether or not an investment opportunity is suitable for more than one program, our manager, subject to approval by our conflicts committee, shall examine, among others, the following factors:

- the anticipated cash flow of the property to be acquired and the cash requirements of each program;
- the effect of the acquisition both on diversification of each program s investments by type of property, geographic area and tenant concentration;
- the policy of each program relating to leverage of properties;
- the income tax effects of the purchase to each program;
- the size of the investment; and
- the amount of funds available to each program and the length of time such funds have been available for investment.

If a subsequent development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of our manager, to be more appropriate for a program other than the program that committed to make the investment, our manager may determine that another program affiliated with our manager or its affiliates will make the investment. Our conflicts committee has a duty to ensure that the method used by our manager for the allocation of the acquisition of properties by two or more affiliated programs seeking to acquire similar types of properties is applied fairly to us.

Accepting goods or services from John A. Williams, WOF, our manager or any of their respective affiliates or entering into any other transaction with John A. Williams, WOF, our manager or any of their respective affiliates unless a majority of the members of our conflicts committee not otherwise interested in the transaction approve such transaction as fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

The following chart shows the ownership structure of the various entities that are affiliated with Preferred Apartment Communities, Inc. and Preferred Apartment Advisors, LLC.

(1) NELL Partners, Inc. is controlled by John A. Williams, our sponsor, and Leonard A. Silverstein.

(2) Preferred Apartment Advisors, LLC is controlled by NELL Partners, Inc. Other than the 1% Manager Revenue Interest (as defined in the section entitled Our Manager and Management Agreement 1% Manager Revenue Interest included elsewhere in this prospectus) held by WOF, all interests of Preferred Apartment Advisors, LLC are held by NELL Partners, Inc.

(3) The common stock investors in the initial public offering own registered shares of common stock of Preferred Apartment Communities, Inc. The 500,000 shares of common stock acquired by WOF in the private placement offering are not registered shares.

(4) NELL Partners, Inc. owns 36,666 shares of common stock and WOF owns 1,000,000 shares of common stock. 690,000 shares of common stock were sold to Williams Realty Fund I, LLC in the initial public offering and 500,000 shares of common stock were sold to WOF in the initial public offering.

(5) Each property is expected to be held in a special purpose entity.

(6) As the special limited partner of the operating partnership, our manager is entitled to receive a participation in net sales proceeds of our investments. See the section entitled Our Manager and Management Agreement Management Compensation Special Limited Partnership Interest included elsewhere in this prospectus for information relating to the calculation of distributions with respect to the special limited partnership interest and conditions under which it may be paid.

(7) The shares of common stock issuable upon the redemption of the Series A Redeemable Preferred Stock will be registered shares.

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DESCRIPTION OF SECURITIES

General

We were formed under the laws of the state of Maryland. The rights of our stockholders are governed by Maryland law as well as our charter and by-laws. The following summary of the terms of our capital stock is only a summary, and you should refer to the Maryland General Corporation Law and our charter and by-laws for a full description. The following summary is qualified in its entirety by the detailed information contained in our charter and by-laws. Copies of our charter and by-laws are filed as exhibits to the registration statement, of which this prospectus is a part. See the section entitled Where You Can Find Additional Information included elsewhere in this prospectus.

Our charter authorizes us to issue up to 415,066,666 shares of common stock, $0.01 par value per share and 15,000,000 shares of undesignated preferred stock, $0.01 par value per share. Our charter authorizes our board of directors to amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of shares of stock of any class or series without stockholder approval. Prior to the offering, 5,173,399 shares of common stock were issued and outstanding on a fully diluted basis, including 26,000 shares of unvested restricted common stock. Immediately following this offering, 5,173,399 shares of common stock and a minimum of 2,000 and a maximum of 150,000 shares of Series A Redeemable Preferred Stock will be issued and outstanding. Under Maryland law, stockholders are not generally liable for our debts or obligations.

Our charter also contains a provision permitting our board of directors, by resolution, to classify or reclassify any unissued common stock or preferred stock into one or more classes or series by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, or terms or conditions of redemption of any new class or series of stock, subject to certain restrictions, including the express terms of any class or series of stock outstanding at the time. We believe that the power to classify or reclassify unissued shares of stock and thereafter issue the classified or reclassified shares provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise.

Our charter and by-laws contain certain provisions that could make it more difficult to acquire control of our company by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to negotiate first with our board of directors. We believe that these provisions increase the likelihood that proposals initially will be on more attractive terms than would be the case in their absence and facilitate negotiations that may result in improvement of the terms of an initial offer that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. See the section entitled Risk Factors Investment Risks included elsewhere in this prospectus.

Common Stock

Subject to any preferential rights of any other class or series of stock and to the provisions of our charter regarding the restrictions on the ownership and transfer of stock, the holders of common stock are entitled to such distributions as may be authorized from time to time by our board of directors out of legally available funds and declared by us and, upon our liquidation, are entitled to receive all assets available for distribution to our stockholders. Holders of common stock will not have preemptive rights, which means that they will not have an automatic option to purchase any new shares that we issue, or preference, conversion, exchange, sinking fund or redemption rights. Holders of common stock generally will have no appraisal rights.

The holders of common stock shall vote together as a single class on all matters. Holders of shares of common stock shall be entitled to vote for the election of directors. Directors may be removed from office, with or without cause, by the affirmative vote of the holders of not less than 66-2/3% of the total voting power of all outstanding common stock of the Company. Vacancies on the board of directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors may be filled by a majority of the directors then in office (although less than a quorum). Any such director elected to fill a vacancy will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualifies or until his or her earlier death, resignation or removal.

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Preferred Stock

Our charter authorizes our board of directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock and to set or change the voting, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class of shares so issued. If any preferred stock is publicly offered, the terms and conditions of such preferred stock, including any convertible preferred stock, will be set forth in articles supplementary and described in a registration statement registering the issuance of such preferred stock, if such preferred stock is registered. Because our board of directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of common stock or other preferred stock. If we ever create and issue additional preferred stock with a distribution preference over common stock or preferred stock, payment of any distribution preferences of new outstanding preferred stock would reduce the amount of funds available for the payment of distributions on the common stock and junior preferred stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage the following:

- a merger, tender offer, or proxy contest;
- the assumption of control by a holder of a large block of our securities; or
- the removal of incumbent management.

Also, our board of directors, without stockholder approval, may issue additional preferred stock with voting and conversion rights that could adversely affect the holders of common stock or preferred stock.

Series A Redeemable Preferred Stock

Our board of directors, including our independent directors, has created out of the authorized and unissued shares of our preferred stock, a series of redeemable preferred stock, designated as the Series A Redeemable Preferred Stock Preferred Stock (the Series A Redeemable Preferred Stock).

The following is a brief description of the terms of our Series A Redeemable Preferred Stock being offered in this offering. The description of our Series A Redeemable Preferred Stock contained herein does not purport to be complete and is qualified in its entirety by reference to the Articles Supplementary for our Series A Redeemable Preferred Stock, which has been filed with the SEC as an exhibit to the registration statement, of which this prospectus is a part.

Rank. Our Series A Redeemable Preferred Stock ranks with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:

- senior to our common stock and any other class or series of our capital stock, the terms of which expressly provide that our Series A Redeemable Preferred Stock ranks senior to such class or series as to dividend rights or rights on our liquidation, winding-up and dissolution;
- junior to each class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that such class or series ranks senior to the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding up and dissolution; and
- junior to all our existing and future debt obligations.

Investors in the Series A Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Preferred Stock receive a return of their capital.

Stated Value. Each share of Series A Redeemable Preferred Stock will have an initial Stated Value of $1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our Series A Redeemable Preferred Stock, as set forth in the Aricles Supplementary.

Dividends. Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to our Series A Redeemable Preferred Stock, if any such class or series is authorized in the future, the holders of Series A Redeemable Preferred Stock are entitled to receive, when and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock shall be cumulative from the date of issuance. We expect to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day), beginning no later than the month following the first full month after we receive and accept aggregate subscriptions in excess of the minimum offering. Once we begin paying such dividends, we expect to pay them monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our board of directors, in its sole discretion, and may vary from time to time.

Holders of our shares of Series A Redeemable Preferred Stock are not entitled to any dividend in excess of full cumulative dividends on our shares of Series A Redeemable Preferred Stock. Unless full cumulative dividends on our shares of Series A Redeemable Preferred Stock for all past dividend periods have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, we will not:

declare and pay or declare and set aside for payment dividends and we will not declare and make any other distribution of cash or other property (other than dividends or distributions paid in shares of stock ranking junior to the Series A Redeemable Preferred Stock as to the dividend rights or rights on our liquidation, winding-up or dissolution, and options, warrants or rights to purchase such shares), directly or indirectly, on or with respect to any shares of our common stock or any class or series of our stock ranking junior to or on parity with the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution for any period; or

except by conversion into or exchange for shares of stock ranking junior to the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution, or options, warrants or rights to purchase such shares, redeem, purchase or otherwise acquire (other than a redemption, purchase or other acquisition of common stock made for purposes of an employee incentive or benefit plan) for any consideration, or pay or make available any monies for a sinking fund for the redemption of, any common stock or any class or series of our stock ranking junior to or on parity with the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution.

To the extent necessary to preserve our status as a REIT, the foregoing sentence, however, will not prohibit declaring or paying or setting apart for payment any dividend or other distribution on the common stock.

Redemption at the Option of a Holder. Beginning two years from the date of original issuance of shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 10% redemption fee, plus any accrued but unpaid dividends.

Beginning three years from the date of original issuance of shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 5% redemption fee, plus any accrued but unpaid dividends.

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Beginning four years from the date of original issuance of shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 3% redemption fee, plus any accrued but unpaid dividends.

Beginning five years from the date of original issuance of shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, plus any accrued but unpaid dividends.

For example, if after two years from the date of issuance, but prior to three years from the date of issuance, a holder of Series A Redeemable Preferred Stock requires the Company to redeem his or her shares, then, based on an assumed annual dividend rate of six percent (6%) and the 10% redemption fee and assuming that all dividends have been timely and fully paid in cash and assuming no other distributions have been made in respect of such shares, the holder would be entitled to receive an aggregate amount that, together with all such paid dividends, would equal to 102% of the aggregate Stated Value of the shares of Series A Redeemable Preferred Stock redeemed.

If a holder of Series A Redeemable Preferred Stock causes the Company to redeem such shares of Series A Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption.

Our obligation to redeem any shares of our Series A Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption.

Optional Redemption Following Death of a Holder. Subject to restrictions, beginning on the date of original issuance and ending two years thereafter, we will redeem shares of Series A Redeemable Preferred Stock held by a natural person upon his or her death at the written request of the holder s estate at a redemption price equal to the Stated Value, plus accrued and unpaid dividends thereon through and including the date of redemption; *provided, however*, that our obligation to redeem any of the shares of Series A Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption.

Optional Redemption by the Company. We will have the right to redeem any or all shares of our Series A Redeemable Preferred Stock beginning on the tenth anniversary of the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed. We will redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value per share of Series A Redeemable Preferred Stock, plus any accrued but unpaid dividends. We have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

We may exercise our redemption right by delivering a written notice thereof to all, but not less than all, of the holders of Series A Redeemable Preferred Stock. A notice of redemption shall be irrevocable. Each such notice will state the date on which the redemption by us shall occur, which date will be 30 days following the notice date.

Liquidation Preference. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Series A Redeemable Preferred Stock, the holders of shares of Series A

Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per share, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to and including the date of payment.

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After payment of the full amount of the liquidating distributions to which they are entitled, the holders of our shares of Series A Redeemable Preferred Stock will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, the consolidation or merger of any other corporation, trust or entity with or into us, the sale or transfer of any or all our assets or business, or a statutory share exchange will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.