INDEPENDENCE REALTY TRUST, INC
Form POS AM
April 05, 2013
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As filed with the Securities and Exchange Commission on April 5, 2013

Registration No. 333-173391

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Post-Effective Amendment No. 6

to

Form S-11

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933

OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

Independence Realty Trust, Inc.

(Exact Name of Registrant as Specified in Governing Instruments)

Cira Centre

2929 Arch Street, 17th Floor

Philadelphia, Pennsylvania 19104

(215) 243-9000

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

Scott F. Schaeffer

Cira Centre

2929 Arch Street, 17th Floor

Philadelphia, Pennsylvania 19104

(215) 243-9000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With copies to:

Jason W. Goode

Lesley H. Solomon

Alston & Bird LLP

1201 West Peachtree Street

Atlanta, GA 30309

(404) 881-7000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

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 of 1933, 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. ¨

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. ¨

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. ¨

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

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	¨	Accelerated filer	¨
Non-accelerated filer	þ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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.

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This Post-Effective Amendment No. 6 consists of the following:

1. The Registrant s prospectus dated April 5, 2013 (the Prospectus);
2. Supplement No. 1 dated April 5, 2013 to the Prospectus, included herewith, which will be delivered as an unattached document along with the Prospectus;
3. Part II, included herewith; and
4. Signatures, included herewith.

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INDEPENDENCE REALTY TRUST, INC.

$1,095,000,000 Maximum Offering

Independence Realty Trust, Inc. is a Maryland corporation incorporated on March 26, 2009 that has elected to be taxed as a real estate investment trust, or REIT. We are sponsored by RAIT Financial Trust, our sponsor, a publicly traded REIT. As of the date of this prospectus, we owned eight multifamily properties, seven of which were acquired from our sponsor. We are offering up to 100,000,000 shares of common stock to investors who meet our suitability standards and up to 10,000,000 shares of common stock to participants in our distribution reinvestment program. We reserve the right to reallocate the shares of common stock we are offering between the primary offering and our distribution reinvestment program. We intend to use substantially all of the net proceeds from this offering to acquire a diverse portfolio of multifamily properties located in the United States. The dealer manager of the offering is Independence Realty Securities, LLC, a member firm of the Financial Industry Regulatory Authority, or FINRA. Our dealer manager is not required to sell a specific number or dollar amount of shares but will use its best efforts to sell our shares and may engage third party soliciting dealers in connection with this offering.

Investing in us involves a high degree of risk. See Risk Factors beginning on page 24 for a discussion of the risks which should be considered in connection with your investment in our common stock. Some of these risks include:

- We are a blind pool offering because, other than the properties we own, we have not identified any properties to acquire with the offering proceeds and we have a limited operating history. As a result, other than the properties we own, you will not have the opportunity to evaluate our investments before we make them, thus making your investment more speculative;
- We acquired properties from our sponsor and our sponsor may provide financing for the acquisition of the future properties we acquire. As a result, there may be conflicts of interest between our interests and those of our sponsor, as well as risks relating to financing arrangements between us and our sponsor;
- Because a public market for our shares of common stock does not exist and may never exist, our shares are illiquid;
- The amount of distributions we may make, if any, is uncertain. Due to the risks involved in the ownership of real estate, there is no guarantee of any return on your investment in us, and you may lose money;
- There are substantial conflicts between the interests of our investors, our interests and the interests of our advisor, sponsor and our respective affiliates regarding affiliate compensation, investment opportunities and management resources;
- Our charter permits us to maintain a level of leverage as high as 300% of our net assets (equivalent to 75% of the cost of our net assets) as of the date of any borrowing;
- As long as we qualify as a REIT for U.S. federal income tax purposes, five or fewer individuals are generally prohibited from beneficially owning more than 50% of our outstanding shares during the last half of each taxable year, making it more difficult to sell your shares to large investors;
- Our investment objectives and strategies may be changed without stockholder consent;
- We are obligated to pay substantial fees to our advisor and its affiliates, including fees payable upon the sale of properties, and our incentive fee structure may result in our advisor recommending riskier or more speculative investments;
- Our organizational documents permit us to pay distributions from any source, including offering proceeds. Subject to certain limited exceptions, there is no limit to the amount of distributions that we may pay from offering proceeds. Until the proceeds from this offering are fully invested and from time to time during our operational stage, we may use proceeds from this offering and financings to fund distributions in anticipation of cash flow to be received in later periods. Such distributions could reduce the cash available to us and could constitute a return of capital to stockholders;
- The agreements between us and our advisor or its affiliates, and the fees paid to them pursuant to such agreements in connection with this offering and in connection with the management of our investments, were not reached through arm s length negotiations and may not reflect the terms that would be available from a third party; and
- If we fail to continue to qualify as a REIT and no relief provisions apply, our cash available for distribution to our stockholders could materially decrease.

This offering will end no later than June 10, 2014 (three years after the initial effective date of the registration statement relating to this offering).

PENNSYLVANIA INVESTORS: Because the minimum closing amount is less than $50,000,000, you are cautioned to carefully evaluate our ability to fully accomplish our stated objectives and inquire as to the current dollar volume of our subscriptions. We will not release any subscription proceeds from Pennsylvania investors from escrow until we have an aggregate of $50,000,000 in subscriptions.

TENNESSEE INVESTORS: The minimum offering amount for Tennessee investors is $25,000,000 in aggregate gross offering proceeds. We will not release any subscription proceeds from Tennessee investors until we have received an aggregate of $25,000,000 in subscriptions.

Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, 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. You should purchase these securities only if you can afford a complete loss of your investment. The use of forecasts in this offering is prohibited. Any representation to the contrary and any predictions, written or oral, as to the amount or certainty of any present or future cash benefit or tax consequence which may flow from an investment in us is not permitted.

	Price to Public	Selling Commissions	Dealer Manager Fee	Proceeds to Us Before Expenses(1)(2)
Primary Offering Per Share	$ 10.00	$ .70	$ .30	$ 9.00
Total Maximum	$ 1,000,000,000.00	$ 70,000,000.00	$ 30,000,000.00	$ 900,000,000.00
Distribution Reinvestment Program Offering Per Share(1)	$ 9.50	$	$	$ 9.50
Total Maximum	$ 95,000,000.00	$	$	$ 95,000,000.00

(1) We reserve the right to reallocate shares of common stock being offered between the primary offering and our distribution reinvestment program.
(2) Proceeds are calculated before reimbursing our advisor for organization and offering expenses.

Prospectus dated April 5, 2013

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INVESTOR SUITABILITY STANDARDS

An investment in our common stock is suitable only for persons who have adequate financial means and desire a relatively long-term investment. We have established suitability standards for investors who purchase our common stock. These suitability standards are intended to help ensure, given the high degree of risk inherent in, the long-term nature of an investment in, and the relative illiquidity of, our shares, that shares of our common stock are an appropriate investment for those of you who become investors. In addition, residents of some states must meet higher suitability standards under state law. These standards require you to meet the applicable criteria below. In determining your net worth, do not include your home, home furnishings or your automobiles.

Notwithstanding these investor suitability standards, potential investors should note that investing in shares of our common stock involves a high degree of risk and should consider all of the information contained in this prospectus, including the Risk Factors section contained herein, in determining whether an investment in our common stock is appropriate.

The minimum purchase is 200 shares ($2,000), except in certain states. The minimum purchase for New York residents is 250 shares ($2,500), except for IRAs which must purchase a minimum of 100 shares ($1,000). The minimum purchase for Tennessee residents is 250 shares ($2,500). Following an initial subscription for at least the required minimum investment, any investor may make additional purchases in increments of at least 100 shares ($1,000), except for purchases made by residents of states with a different requirement, whose additional investments must meet their state s minimum investment amount, and purchases of shares pursuant to our distribution reinvestment program, which may be in lesser amounts.

General Standards for all Investors. Investors must have either (a) a net worth of at least $250,000 or (b) an annual gross income of at least $70,000 and a minimum net worth of at least $70,000.

California. Investors must have either (a) a net worth of at least $250,000 or (b) an annual gross income of at least $70,000 and a net worth of at least $100,000.

Kentucky and Ohio. Investors must have either (a) a net worth of at least $250,000 or (b) an annual gross income of at least $70,000 and a minimum net worth of at least $70,000, with the amount invested in this offering not to exceed 10% of the Kentucky or Ohio investor s liquid net worth.

Iowa. Investors must have either (a) a net worth of at least $350,000 or (b) an annual gross income of at least $70,000 and a minimum net worth of at least $100,000. In addition, shares will only be sold to Iowa residents that represent that they have a combined liquid net worth of at least 10 times the amount of their investment in this real estate investment program and other similar programs.

Maine, Michigan, North Dakota, Oregon, Pennsylvania, Vermont and Washington. Investors must have either (a) a net worth of at least $250,000 or (b) an annual gross income of at least $70,000 and a minimum net worth of at least $70,000. The investor s maximum investment in us and our affiliates cannot exceed 10% of the Maine, Michigan, North Dakota, Oregon, Pennsylvania, Vermont or Washington investor s net worth.

Kansas, Massachusetts, Missouri and California. In addition to the general suitability standards described above, it is recommended that investors should invest, in the aggregate, no more than 10% of their liquid net worth in our shares and securities of other REITs. Liquid net worth is defined as that portion of net worth (total assets minus total liabilities) that is comprised of cash, cash equivalents and readily marketable securities.

Alabama. In addition to the general suitability standards above, shares will only be sold to Alabama residents that represent that they have a liquid net worth of at least 10 times the amount of their investment in this real estate investment program and other similar programs.

Nebraska. Investors must have either (a) a minimum net worth of $100,000 and an annual income of $70,000 or (b) a minimum net worth of $350,000. In addition, the total investment in us should not exceed 10% of the investor s net worth.

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Tennessee. In addition to the general suitability standards described above, shares will only be sold to Tennessee residents that represent that their maximum investment in us and our affiliates does not exceed 10% of their liquid net worth. We will only sell shares of our common stock to residents of Tennessee investors who initially purchase a minimum of 250 shares for a total purchase price of $2,500.

Because the minimum offering of our common stock is less than $50,000,000, Pennsylvania investors are cautioned to carefully evaluate our ability to fully accomplish our stated objectives and to inquire as to the current dollar volume of our subscription proceeds. Further, the minimum aggregate closing amount for Pennsylvania investors is $50,000,000.

The foregoing suitability standards must be met by the investor who purchases the shares. In the case of sales to fiduciary accounts, these minimum standards must be met by the beneficiary, the fiduciary account or by the donor or grantor who directly or indirectly supplies the funds to purchase the common stock if the donor or the grantor is the fiduciary. Investors with investment discretion over assets of an employee benefit plan covered by ERISA should carefully review the information in the ERISA Considerations section of this prospectus.

In the case of gifts to minors, the suitability standards must be met by the custodian of the account or by the donor.

In order to ensure adherence to the minimum income and net worth standards established for us, requisite criteria must be met, as set forth in the subscription agreement in the form attached hereto as Appendix C. In addition, our sponsor, our dealer manager and the soliciting dealers, as our agents, must make every reasonable effort to determine that the purchase of our shares is a suitable and appropriate investment for an investor. In making this determination, the soliciting dealers will rely on relevant information provided by the investor in the investor s subscription agreement, including information regarding the investor s age, investment objectives, investment experience, income, net worth, financial situation, other investments, and any other pertinent information, including whether (i) the participant is or will be in a financial position appropriate to enable him to realize the benefits described in the prospectus, (ii) the participant has a fair market net worth sufficient to sustain the risks inherent in the investment program and (iii) the investment program is otherwise suitable for the participant. Executed subscription agreements will be maintained in our records for 6 years.

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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 (the USA PATRIOT Act), the shares of common stock offered hereby may not be offered, sold, transferred or delivered, directly or indirectly, to any Prohibited Shareholder, 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.

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QUESTIONS AND ANSWERS ABOUT THIS OFFERING

Below are some of the more frequently asked questions and answers relating to our structure and management and an offering of this type. Please see the remainder of this prospectus for more detailed information about this offering.

Q: What is a REIT?

A: REIT stands for an entity electing to be treated as a real estate investment trust for U.S. federal income tax purposes. In general, a REIT is a company that:

- pools the capital of many investors to acquire or provide financing for real estate properties;
- allows individual investors to invest in a diversified real estate portfolio managed by a professional management team;
- is required to pay distributions to investors of at least 90% of its taxable income (excluding net capital gain) each year; and
- avoids the U.S. federal double income taxation treatment of income that results from investments in a corporation because a REIT is generally not subject to U.S. federal corporate income tax and excise tax on its net income, so long as it complies with certain tax requirements.

Q: What is an UPREIT?

A: UPREIT stands for Umbrella Partnership Real Estate Investment Trust. An UPREIT is a REIT that holds substantially all of its properties through a partnership in which the REIT (directly or indirectly) holds an interest as a general partner and/or a limited partner, approximately equal to the value of capital raised by the REIT through sales of its capital stock. Using an UPREIT structure may give us an advantage in acquiring properties from persons who may not otherwise sell their properties because of certain unfavorable U.S. federal income tax consequences. Generally, a sale of property directly to a REIT is a taxable sale to the selling property owner. In an UPREIT structure, a seller of a property who desires to defer taxable gain on the sale of his property may in some cases transfer the property to the UPREIT in exchange for limited partnership units in the partnership and defer taxation of gain until the seller later exchanges his limited partnership units on a one-for-one basis for REIT shares or for cash pursuant to the terms of the limited partnership agreement.

Q: What is the experience of your management?

A: Our advisor, Independence Realty Advisors, LLC, is responsible for managing our day-to-day affairs and for identifying and making acquisitions and investments on our behalf. Our advisor s current team of senior management averages approximately 20 years of industry experience among them. Our advisor will select investments for us based on specific investment objectives and criteria and subject to the direction and oversight of our board of directors.

Q: What is your investment strategy?

A: Our investment strategy is to acquire a diverse portfolio of multifamily properties located in the United States. We plan to diversify our portfolio by size, property location and risk with the goal of attaining a portfolio of multifamily properties with strong and stable cash flows that will generate attractive distributions for our investors. We will target primarily core and stabilized multifamily properties that are well leased and produce predictable income. We will also consider the acquisition of properties that require limited capital expenditures, have existing cash flow and offer opportunities for enhanced returns, with a primary focus on multifamily properties and a lesser focus on other asset classes.

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Q: What properties do you currently own?

A: We own eight multifamily properties located in six states, seven of which were contributed to us by our sponsor. Our properties cost $153,565 in the aggregate, contain a total of 2,004 rental units and were 92.0% occupied as of December 31, 2012. Our board of directors, including a majority of our independent directors, approved the contribution of seven properties from our sponsor and the issuance of limited partner interests in our operating partnership to our sponsor as being fair and reasonable to us and at a price no greater than the costs of these properties to our sponsor. The purchase price for these properties did not exceed their appraised value as performed by nationally recognized appraisal firms that are independent of us and our sponsor and were selected by our independent directors. We purchased our eighth property from an unaffiliated third party.

Q: If I buy shares of your common stock, will I receive distributions, and if so, how often?

A: To qualify as a REIT, we are required to make annual aggregate distributions to our stockholders of at least 90% of our taxable income (excluding net capital gain). We are taxed on any undistributed income, including on any net capital gain. Subject to the approval of our board of directors and applicable law, we intend to make distributions to our stockholders on a monthly basis, and we intend to make distributions sufficient to meet the annual distribution requirements in order to maintain our qualification as a REIT and to avoid U.S. federal income and excise taxes on our earnings; however, it may not always be possible to do so.

We generally do not intend to fund such distributions from offering proceeds; however, if we have not generated sufficient cash flow from our operations or other sources, such as borrowings, advances from our advisor, our advisor s deferral, suspension and/or waiver of its fees and expense reimbursements, we may use the net proceeds from this offering to fund distributions. Our board of directors may change this policy, in its sole discretion, at any time. 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. Distributions made from offering proceeds are a return of capital to stockholders upon which we will have used to pay offering and organization expenses in connection with this offering.

Q: Can I reinvest my distributions in additional shares of common stock?

A: Yes, you may elect to participate in our distribution reinvestment program by checking the appropriate box on the subscription agreement, or by filling out an enrollment form which we will provide you at your request. The purchase price for shares purchased pursuant to the distribution reinvestment program will be $9.50 per share until not more than 18 months following the completion of our offering stage and 95% of our net asset value thereafter. We will consider our offering stage complete when we are no longer publicly offering equity securities in a continuous offering, whether through our initial public offering or any future offerings.

Q: Will the distributions I receive be taxable as ordinary income?

A: Distributions that you receive (not designated as capital gain dividends), including distributions reinvested pursuant to our distribution reinvestment program, will be taxed as ordinary income to the extent that they are paid from our earnings and profits (as determined for U.S. federal income tax purposes). However, distributions that we designate as capital gain dividends will generally be taxable as long-term capital gain to the extent they do not exceed our actual net capital gain for the taxable year. Some portion of your distributions may not be subject to tax in the year in which they are received because depreciation expense reduces the amount of taxable income but does not reduce cash available for distribution. The portion of

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your distribution which is not designated as a capital gain dividend and is in excess of our current and accumulated earnings and profits is considered a return of capital for tax purposes and will reduce the tax basis of your investment, deferring such portion of your tax until your investment is sold or our company is liquidated, at which time you will be taxed at capital gains rates. Please note that each investor s tax considerations are different, therefore, we suggest that you consult with your tax advisor prior to making an investment in our shares.

Q. Will I receive a stock certificate?

A. No. You will not receive a stock certificate unless expressly authorized by our board of directors. We anticipate that all shares of our common stock will be issued in book-entry form only. The use of book-entry registration protects against loss, theft or destruction of stock certificates and reduces the offering costs.

Q. How do I subscribe for shares of common stock?

A. Investors who meet the minimum income and net worth standards established for us may purchase shares of our common stock. See Investor Suitability Standards of this prospectus. Investors that would like to purchase shares of our common stock should:

Read the entire final prospectus and any appendices and supplements accompanying the final prospectus;

Complete and sign the subscription agreement, a copy of which is included in this prospectus as Appendix C.

Deliver a check for the full purchase price of the shares of our common stock being subscribed for along with the completed subscription agreement to the registered broker-dealer or investment advisor. Your check should be made payable to Independence Realty Trust, except that Tennessee and Pennsylvania investors should make checks payable to UMB Bank, N.A., as escrow agent for Independence Realty Trust until we have received and accepted subscriptions for $25 million and $50 million, respectively, in the aggregate.

The subscription agreement requires you to make the following factual representations:

Your tax identification number set forth in the subscription agreement is accurate and you are not subject to backup withholding;

You received a copy of our final prospectus not less than five business days prior to signing the subscription agreement;

You meet the minimum income, net worth and any other applicable suitability standards established for you;

You are purchasing our common stock for your own account; and

You acknowledge that our shares are not liquid.

Each of the above representations is included in the subscription agreement in order to help us satisfy our responsibility, which our dealer manager will undertake as our agent, to make every reasonable effort to determine that the purchase of our common stock is a suitable and appropriate investment for you and that appropriate income tax reporting information is obtained. We will not sell any common stock to you unless you are able to make the above factual representations by executing the subscription agreement. You must separately sign or initial each representation made in the subscription agreement and, except in the case of fiduciary accounts, you may not grant any person a power of attorney to make such representations on your behalf.

By executing the subscription agreement, you will not be waiving any rights under federal or state law.

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Q: If we use only approximately 88.5% of what you pay for your shares to acquire properties, will the net asset value of your shares be immediately less than the $10 per share you pay?

A: Yes. Like other non-listed REITs, we will incur organizational and selling costs, which means we will have less than 100% of your capital to invest in properties. As described under Estimated Use of Proceeds, we expect that approximately 88.5% of our offering proceeds will be used to acquire multifamily properties. It is our objective to compensate for these costs through funds generated from, and the appreciation of, our investments in properties. However, if our properties are purchased at market value, the initial total value of our properties will represent only the amount we invest in them less than the $10 per share you invest. To the extent distributions are paid from offering proceeds, the net asset value of your shares may be further reduced.

Q. How will the payment of fees and expenses affect my invested capital?

A. We will pay selling commissions and dealer manager fees in connection with this offering. In addition, we will reimburse our advisor for our organization and offering expenses (other than selling commissions and dealer manager fees) not to exceed 1.0% of the gross proceeds of our offering. We will not pay any acquisition fees in connection with our purchase of properties. The payment of fees and expenses will reduce the funds available to us for investment in properties.

Q: How does a best efforts offering work?

A: When securities are offered to the public on a best efforts basis, the broker-dealers participating in the offering are only required to use their best efforts to sell the securities and have no firm commitment or obligation to purchase any of the offered securities. Therefore, no specified dollar amount is guaranteed to be raised.

Q: Who can buy shares of your common stock?

A: Generally, you can buy shares of our common stock pursuant to this prospectus provided that you have either (i) a net worth of at least $250,000 or (ii) an annual gross income of at least $70,000 and a net worth of at least $70,000. For this purpose, net worth does not include your home, home furnishings or personal automobiles. Please note that some states impose higher minimum levels than the limits above and/or additional restrictions on your investment. See the more detailed descriptions of investor requirements in the Investor Suitability Standards section of this prospectus.

Q: Is there any minimum investment required?

A: Generally, the required minimum investment is $2,000, except for purchases by our existing stockholders, including purchases made pursuant to our distribution reinvestment program. Please note that certain states have imposed higher minimum investment amounts.

Q: If I buy shares of common stock in this offering, how can I subsequently sell them?

A: At the time you purchase shares of our common stock, they will not be listed for trading on any national securities exchange or national market system. Moreover, there will not be a public market for the shares when you purchase them and a public market may never develop. As a result, it may be difficult to find a buyer for your shares. You may, however, sell your shares to any buyer unless such sale would violate federal or state securities laws or cause any person or entity to directly or indirectly own more than 9.8% in value or in number, whichever is more restrictive, of outstanding shares of our common stock, unless otherwise excepted by our board of directors or charter.

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If you meet the limited qualifications to participate in our share repurchase program, you may be able to sell your shares to us. We may repurchase shares from stockholders through the program, from time to time, at prices ranging from the 92.5% of the then-current share value to 100% of the then-current share value (or the average purchase price per share paid by such stockholder if that is a lesser amount), depending on how long the stockholder has owned shares. Our board of directors, in its sole discretion, may change these repurchase prices. Stockholders who have held their shares for at least one year may request that we repurchase any number of shares by submitting a repurchase request, the form of which is available on our website to our repurchase agent. However, if a stockholder dies prior to or after owning the shares for one year, the one-year holding period will not be applicable, and any shares held for less than one year by the deceased will be repurchased at a price equal to the lesser of 100% of the then-current share value or the purchase price paid per share paid by such stockholder. We will effect all repurchases on the last business day of the calendar month or any other business day that may be established by our board of directors. Please see the section of our prospectus titled Share Repurchase Program for more information.

In the case of any repurchases other than upon the death of a stockholder, we are authorized to use only the proceeds from our distribution reinvestment program during that month and we will limit the number of shares repurchased during any calendar year to 5.0% of the number of shares of common stock outstanding on December 31st of the previous calendar year. In the case of repurchases made upon the death of a stockholder, we are authorized to use any funds to complete the repurchase, and neither the limit regarding funds available from the distribution reinvestment program nor the 5.0% limit will apply. The share repurchase program will immediately terminate if our shares are listed on any national securities exchange. In addition, our board of directors, in its sole discretion, may at any time amend, suspend (in whole or in part), or terminate our share repurchase program, without prior notice to stockholders. Further, our board reserves the right in its sole discretion to reject any requests for repurchases. Our board of directors may reject requests at any point prior to the date of repurchase.

Q: Do you intend to list your common stock? If not, is there any other planned liquidity transaction?

A: We do not intend to hold our acquired assets indefinitely. Our board of directors, in consultation with management, will make a determination of whether it is in our best interests to begin the process of engaging advisors to consider alternatives with respect to a liquidity transaction no later than eighteen months after the termination of our offering stage. A liquidity transaction could include a sale of our assets, a sale or merger of our company, a listing of our common stock on a national securities exchange (provided we meet the then applicable listing requirements) or other similar transaction. Any liquidity transaction is subject to the determination of our board of directors that such liquidity transaction is appropriate to commence and the timing of such a liquidity transaction is likely to vary with market conditions.

We will consider our offering stage complete when we are no longer publicly offering equity securities in a public offering, whether through this offering or follow-on offerings. For this purpose, we do not consider a public offering of equity securities to include offerings on behalf of selling stockholders or offerings related to a distribution reinvestment program, employee benefit plan or the redemption of interests in our operating partnership. While we expect to seek a liquidity transaction in this time frame, there can be no assurance that a suitable transaction will be available or that market conditions for a transaction will be favorable during that time frame. Our board of directors has the discretion to consider a liquidity transaction, such as listing our common stock on a national securities exchange, at any time if it determines such event to be in our best interests.

Q: Will I receive notification as to how my investment is doing?

A: You will receive periodic reports on the performance of your investment with us, including:

- an annual report that updates and details your investment;
- an annual report, including audited financial statements, as filed with the Securities and Exchange Commission;

- an annual IRS Form 1099-DIV; and

- supplements to the prospectus, as may be required by the federal securities laws.

Q: When will I receive my tax information?

A: We intend to mail your IRS Form 1099-DIV tax information by January 31st of each year.

Q: Who can I contact to answer questions I may have?

A: If you have any questions regarding the offering or if you would like additional copies of this prospectus, please contact your registered representative or:

Independence Realty Trust, Inc.

Cira Centre

2929 Arch Street

17th Floor

Philadelphia, Pennsylvania 19104

Tel: (215) 243-9000

Attention: Investor Relations

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PROSPECTUS SUMMARY

This summary highlights some of the material information contained elsewhere in this prospectus. Because it is only a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus and its appendices carefully, including the Risk Factors section and the financial statements, before you decide to invest in our common stock. Except where the context suggests otherwise, the terms company, we, us and our refer to Independence Realty Trust, Inc., a Maryland corporation. We refer to: Independence Realty Advisors, LLC, a Delaware limited liability company, as our advisor; Independence Realty Operating Partnership, LP, a Delaware limited partnership, as our operating partnership; Independence Realty Securities, LLC, a Delaware limited liability company, as our dealer manager; Jupiter Communities, LLC, a Delaware limited liability company, as Jupiter or our property manager; and RAIT Financial Trust, a Maryland REIT, as our sponsor. We, our advisor and our operating partnership were acquired by our sponsor on January 20, 2011 from Empire American Holdings, LLC, or Empire, and our dealer manager was acquired by our sponsor on March 2, 2011 from Empire, and as a result we have no further affiliation with Empire and will not receive any services from Empire, any of its affiliates or any of their directors or executive officers.

Independence Realty Trust, Inc.

We are a Maryland corporation that has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, beginning with the taxable year ending December 31, 2011. As of the date of this prospectus, we own eight properties. We intend to use substantially all of the net proceeds from this offering to acquire a diversified portfolio of multifamily properties with strong and stable cash flows that will generate attractive distributions for our investors, with a primary focus on core and stabilized multifamily properties that are well leased and produce predictable income. We intend to implement a strategy at our multifamily properties that we believe will increase rents, tenant retention and property values.

Our principal executive offices are located at Cira Centre, 2929 Arch Street, 17th Floor, Philadelphia, Pennsylvania 19104, our telephone number is (215) 243-9000, and our website address is *www.irtreit.com*. The contents of that website are not incorporated by reference or otherwise made part of this prospectus.

Our Sponsor

Since 1997, RAIT Financial Trust (NYSE: RAS), our sponsor, has provided debt financing for multifamily owners and operators. As of March 15, 2013, our sponsor employed 376 professionals and staff. Beginning in 2008, it implemented an investment strategy to own multifamily properties by taking ownership of these assets directly, oftentimes subject to the existing financing provided by our sponsor. Multifamily assets were the collateral for 24.8% of our sponsor s $1 billion commercial loan portfolio as of December 31, 2012. In anticipation of investing directly in multifamily assets, our sponsor acquired majority ownership of Jupiter Communities, LLC, our property manager, in May 2009. The expertise and national reach of our property manager s business enabled our sponsor to acquire properties that were operating below acceptable occupancy and net operating income levels with the intent to restore these properties to investment grade performance levels.

Executing on its acquisition strategy, our sponsor increased its multifamily portfolio from nine investments to 34 during the four years ended December 31, 2011 (including our properties which are consolidated in our sponsor s financial statements). As of December 31, 2012, our sponsor owned $558 million of investments in multifamily properties with 8,206 units in 19 states. The occupancy increased from 77.7% at December 31, 2009 to 90.0% at December 31, 2012 with $706 of average effective rent per unit per month.

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Our sponsor, through several wholly owned subsidiaries, owns approximately $56.2 million of limited partner interests in our operating partnership as a result of its contribution to us of seven properties and cash in 2011 and its purchase of $3.5 million in Series B preferred units of our operating partnership in 2012. See Contribution of Our Initial Seven Properties for more information about the contributions and Operating Partnership Agreement Issuance of Series B Preferred Units for more information about the Series B preferred units.

Certain officers and directors of our sponsor and its affiliates also have senior management positions with us. The positions and biographical information for these directors and officers can be found below in Management Our Directors and Officers.

Our Offering

We are offering a maximum of $1,000,000,000 in shares of our common stock in this offering. These shares are being offered on a best efforts basis through our dealer manager at $10.00 per share, subject to volume discounts and other discounts in some cases as described in the Plan of Distribution section of this prospectus. An offering on a best efforts basis is one in which the securities dealers participating in the offering are under no obligation to purchase any of the securities being offered, and therefore, no specified number of securities are guaranteed to be sold and no specified amount of money is guaranteed to be raised from the offering. In addition, we are offering up to 10,000,000 shares of our common stock at $9.50 per share to stockholders who elect to participate in our distribution reinvestment program. We reserve the right to reallocate the shares of common stock registered in this offering between the primary offering and the distribution reinvestment program. On February 29, 2012, we raised the minimum offering amount of $2,500,000 as a result of a $3,000,000 investment by an indirect wholly owned subsidiary of our sponsor.

Summary Risk Factors

An investment in shares of our common stock involves a number of risks which are described in detail in the Risk Factors section. If we are unable to effectively manage the impact of these risks, we may not meet our investment objectives, and therefore, you may lose some or all of your investment. Some of the more significant risks relating to this offering and an investment in our shares include:

- Since this is a blind pool offering and we have a limited operating history, other than the properties identified in this prospectus, you will not have the opportunity to evaluate our investments before we make them, thus making your investment more speculative;

- We acquired seven properties from our sponsor and our sponsor may provide financing for properties we may acquire. As a result, there may be conflicts of interest between our interests and those of our sponsor, as well as risks relating to financing arrangements between us and our sponsor;

- No public market currently exists, or may ever exist, for shares of our common stock and our shares are, and may continue to be, illiquid;

- The amount of distributions we may make, if any, is uncertain. Due to the risks involved in the ownership of real estate, there is no guarantee of any return on your investment in us, and you may lose money;

- There are significant risks associated with maintaining as high level of leverage as permitted under our charter (which permits leverage of up to 75% of the cost of all of our net assets);

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

- We are obligated to pay substantial fees to our advisor and its affiliates, including fees payable upon the sale of properties, and our incentive fee structure may result in our advisor recommending riskier or more speculative investments;

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There are numerous conflicts of interest between the interests of investors and our interests or the interests of our advisor, our sponsor, and their respective affiliates;

If we are unable to make distributions with our cash flows from our operations, we may pay distributions from any other source, including, without limitation, the sale of assets, borrowings or offering proceeds. Subject to certain limited exceptions, there is no limit to the amount of distributions that we may pay from these sources. Distributions not paid from cash flows from operations could reduce the cash available to us, could constitute a return of capital to stockholders and could cause subsequent investors to experience immediate dilution;

As long as we maintain our status as a REIT for U.S. federal income tax purposes, five or fewer individuals are generally prohibited from beneficially owning more than 50% of our outstanding shares during the last half of each taxable year, making it more difficult to sell your shares to large investors;

If we do not raise a substantial amount of proceeds in this offering, our ability to diversify our investments will be limited;

If we fail to continue to qualify as a REIT and no relief provisions apply, our cash available for distribution to our stockholders could materially decrease; and

Our share repurchase program is subject to numerous restrictions, may be cancelled at any time and should not be relied upon as a means of liquidity.

Conflicts of Interest

Conflicts of interest may exist between us and some of our affiliates, including our sponsor and our advisor. Some of these potential conflicts include:

Our acquisition of properties from our sponsor and our sponsor s ability to provide financing to us for acquisitions of properties;

Competition for the time and services of personnel that work for us and our affiliates;

Substantial compensation payable by us to our advisor, property manager, dealer manager and affiliates for their various services, which may not be on market terms and is payable, in some cases, whether or not our stockholders receive distributions;

The possibility that we may acquire or merge with our advisor;

The possibility that we may do business with entities that have pre-existing relationships with our affiliates which may result in a conflict between our business and the business of our affiliates;

The possibility that our advisor, its officers and their respective affiliates will face conflicts of interest relating to the purchase and leasing of properties, 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 your investment in us;

The possibility that our advisor and its affiliates may make recommendations to us that we buy, hold or sell property or other investments in order to increase their own compensation;

The possibility that when we acquire properties from our sponsor, 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 will only do so if our directors, including a majority of our independent directors, approves the investment and only if there is substantial justification for such excess price and such excess is reasonable; and

The possibility that our advisor and its affiliates, including our officers (some of whom are also our directors), will face conflicts of interest caused by their ownership of our advisor and their roles with other programs, resulting in actions that are not in the long-term best interests of our stockholders.

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Conflicts of interest may also arise in connection with the potential sale or refinancing of our properties or the enforcement of agreements. See the Conflicts of Interest section for more details on these and other conflicts of interest.

Investment Objectives

Our primary investment objectives are to:

- pay attractive and consistent cash distributions;
- preserve invested capital; and
- provide a diversified direct investment in multifamily properties.

Investment Strategy

Using substantially all of the net proceeds from this offering, we intend to achieve our investment objectives by acquiring a diverse portfolio of multifamily properties located in the United States. We plan to diversify our portfolio by size, property location and risk. We will target primarily core and stabilized multifamily properties that are well leased and produce predictable income. To a lesser extent we will seek to acquire properties that require limited capital expenditures, have existing cash flow and offer opportunities for enhanced returns, with a primary focus on multifamily properties and a lesser focus on other asset classes. We believe the probability of meeting our investment objectives will be maximized through the careful selection and underwriting of assets. When considering an investment opportunity, we will generally evaluate the following: the performance and risk characteristics of that investment; how that investment will fit within our target portfolio objectives; and the expected returns of that investment relative to the risk characteristics of that investment and to other investment alternatives.

We intend to allocate approximately 70% of our portfolio to investments in well-located, quality multifamily properties with strong and stable cash flows, typically located in supply constrained sub-markets with relatively high expectations of rent growth. As appropriate, we intend to implement strategies at these properties that we anticipate will create sustainable long-term increases in property value and generate attractive returns for our investors by, among other benefits, generating higher rental revenue and reducing resident turnover. We intend to allocate approximately 30% of our portfolio to investments in properties that require limited capital expenditures, have existing cash flow and offer opportunities for enhanced returns, with a primary focus on multifamily properties and a lesser focus on other asset classes. The above summarizes our targeted portfolio; however, we may make adjustments at any time based on, among other things, prevailing real estate market conditions and the availability of attractive investment opportunities.

Our ability to diversify our portfolio will depend on, among other things, prevailing real estate market conditions, prevailing credit market conditions, our ability to raise funds in this offering and the availability of attractive investment opportunities. Although our focus is on multifamily properties, our charter does not restrict us from acquiring other types of properties and we will not forego an attractive investment because it does not fit within our targeted asset class or portfolio composition. Because this offering is being made on a best efforts basis, our potential profitability and our ability to diversify our investments will be limited by the amount of funds we raise. If we are unable to raise substantial funds, we may not be able to execute our diversification strategy, which may adversely affect your investment. Further, we do not anticipate diversifying our investments in properties by industry, that is, we plan to invest primarily in the multifamily industry. Therefore, a downturn in this industry will likely have a more pronounced effect on the amount of cash available to us for distribution or on the value of our assets than if we had diversified our investments by industry.

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Contribution of Our Initial Seven Properties

As of the date of this prospectus, we own eight multifamily properties, seven of which were contributed by our sponsor. Other properties that we own or may in the future acquire are or will be described in supplements to this prospectus. Wholly owned subsidiaries of our sponsor contributed to us six multifamily properties on April 29, 2011 and one multifamily property on December 16, 2011. These properties, which are located in five states and meet the characteristics of the properties we seek to acquire, were contributed in exchange for our assumption of the indebtedness associated with those properties and limited partner interests in our operating partnership. Our board of directors, including a majority of our independent directors, approved the contribution of these properties as being fair and reasonable to us and at a price no greater than the costs of these properties to our sponsor. The aggregate purchase price for the properties was $134.4 million, of which we assumed $82.2 million in mortgage debt and our operating partnership issued $52.7 million in limited partner interests. The seven properties were appraised by nationally recognized appraisal firms that are independent of us and our sponsor and were selected by our independent directors, and the purchase price of each property did not exceed its appraised value at the time of the contribution.

We completed the contribution for the following reasons:

- in connection with the contribution, our sponsor invested approximately $52.7 million in our operating partnership, which aligns our sponsor s interest with those of our stockholders;
- our property manager successfully leased these properties at an occupancy rate of greater than 90% as of the end of the fiscal year before the contribution;
- the portfolio was generating approximately $15.2 million in annual revenue before the contribution, which has enabled us to pay distributions, and will help us pay additional distributions in the future, to our stockholders; and
- the portfolio is entirely consistent with our investment strategy.

The seven properties acquired from our sponsor are subject to encumbrances based on the $82.2 million of mortgage indebtedness we assumed in connection with their contribution. The weighted average interest rate of this mortgage indebtedness is 3.8%. Each of these mortgages is an interest-only, non-recourse obligation subject to customary exceptions. None of these mortgages are cross-defaulted or cross-collateralized to any other indebtedness. The loans associated with the mortgages may be prepaid but in some cases are subject to prepayment penalties.

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 that 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 limit our aggregate leverage to 65% of the combined initial purchase price of all of our real estate properties after we have acquired a substantial portfolio of diversified investments. During the period when we are beginning our operations, we may employ greater leverage in order to more quickly build a diversified portfolio of assets.

Our secured and unsecured aggregate borrowings will 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

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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, 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 conditions. Pursuant to our charter, the maximum amount of these borrowings in relation to net assets will not exceed 300% of net assets (equivalent to 75% of the cost of our net assets) in the absence of a satisfactory showing that a higher level of borrowing is appropriate, approval by a majority of independent directors and disclosure to our stockholders. Net assets means our total assets, other than intangibles, at cost before deducting depreciation, reserves for bad debts or other non-cash reserves less our total liabilities, calculated at least quarterly on a basis consistently applied. Any excess in borrowing over this 300% level must be approved by a majority of independent directors and disclosed to our stockholders in our next quarterly report, along with justification for such excess. Subject to these limitations set forth in our charter, there is no limitation on the amount that we may borrow for any single investment.

Other than the mortgage financing for our properties, we have no established financing sources as of the date of this prospectus.

Our Dealer Manager

Independence Realty Securities, LLC, a Delaware limited liability company and one of our affiliates, serves as our dealer manager for this offering. Our dealer manager is located at IDS Center, 80 S. 8^{th} Street, Suite 4610, Minneapolis, Minnesota 55402 and its telephone number is (800) 546-9322.

Our Advisor

Our advisor is Independence Realty Advisors, LLC, a Delaware limited liability company formed on March 26, 2009, which is responsible for managing our day-to-day business operations and acquiring investments on our behalf. Under the terms of the advisory agreement, our advisor undertakes to use its best efforts to present to us investment opportunities consistent with our investment policies and objectives as adopted by our board of directors. Our advisor is located at Cira Centre, 2929 Arch Street, 17^{th} Floor, Philadelphia, Pennsylvania 19104 and its telephone number is (215) 243-9000.

Our Management

We are managed by our board of directors, the members of which are accountable to us and our stockholders as fiduciaries. Our board of directors will approve all investment decisions involving the acquisitions of properties upon recommendations made by our advisor and in accordance with our investment guidelines, as set forth in Investment Strategy, Objectives and Policies. We have four board members, three of whom are independent. Our independent directors have responsibility for reviewing, among other things, our advisor s performance.

Our Operating Partnership

We are a holding company and expect to own substantially all of our properties through our operating partnership, Independence Realty Operating Partnership, LP, a Delaware limited partnership. We are the general partner of our operating partnership and have full, exclusive and complete responsibility and discretion in the management and control of the partnership. Our structure is generally referred to as an UPREIT structure. This structure in some cases may enable us to acquire assets from other partnerships and individual owners in a manner that will defer the recognition of gain to the transferors, assuming certain conditions are met. As consideration for the contribution of the properties from our sponsor, our operating partnership issued limited partner interests to our sponsor.

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Our Property Manager

Jupiter Communities, LLC, our property manager, is a Delaware limited liability company formed on April 9, 2009 as an indirect subsidiary of Jupiter Realty Company, a Chicago-based residential and commercial real estate firm established in 1985. Our sponsor owns 75% of our property manager. Our property manager is a full-service multifamily property management company that employs approximately 300 staff and professionals and manages approximately 10,700 multifamily units for our sponsor and third parties, including other public companies, who have recognized the expertise provided by our property manager in the markets in which they operate. Our property manager will provide services to us in connection with the rental, leasing, operation and management of our properties. Kellie A. DeVilbiss, the president of our property manager, is a member of the board of managers for our advisor. In this capacity, our advisor will have insights to multiple market trends and competitive opportunities to acquire and enhance the assets we intend to acquire. Our property manager is located at 401 North Michigan Avenue, Suite 1300, Chicago, Illinois. Its telephone number is (312) 924-1601.

RAIT NTR Holdings, LLC

RAIT NTR Holdings, LLC, a Delaware limited liability company formed on June 3, 2009, holds special limited partnership units, or special units, of our operating partnership described in Compensation below. RAIT NTR Holdings, LLC is an indirect wholly owned subsidiary of our sponsor. Through our sponsor s ownership and control of RAIT NTR Holdings, LLC, our sponsor may be entitled to a subordinated participation right based on the redemption of the special units in connection with our liquidation, or listing on a national stock exchange or the termination of our advisory agreement. These payments to RAIT NTR Holdings, LLC are related to our successful performance and are paid indirectly to the sponsor through this entity for tax reasons that are advantageous to our sponsor and that have no impact on us.

RAIT NTR Holdings, LLC owns 350 limited partnership units designated as Series B preferred units, which it purchased for $10,000 per unit on October 11, 2012 in exchange for $3,500,000 in cash. We used the proceeds from the sale of Series B preferred units to acquire a property.

RAIT NTR Holdings, LLC owns 65,900 common units of our operating partnership as a result of its $2,000 cash contribution in connection with the initial capitalization of our operating partnership and its $657,000 of cash contributions in connection with our acquisitions of multifamily properties from indirect wholly owned subsidiaries of our sponsor.

RAIT NTR Holdings, LLC also owns 320,000 shares of our common stock. Of these shares, 300,000 shares were purchased in this offering for $10.00 per share, and the remaining 20,000 shares were purchased for $10.00 per share in connection with our initial capitalization.

Organizational Structure

The following chart shows our organizational structure as of the date of this prospectus and, alternatively, assuming we raise the maximum offering:

(1) On January 4, 2012, we sold 125 shares of our 12.5% Series A Cumulative Non-Voting Preferred Stock, or our Series A preferred stock, for $1,000 per share, or $125,000 in the aggregate, to 125 accredited, unaffiliated investors. We contributed the proceeds of this offering to our operating partnership in exchange for 125 preferred units of our operating partnership designated as 12.5% Series A preferred units. See Description of Securities Preferred Stock and Operating Partnership Agreement Issuance of Series A Preferred Units.

(2) RAIT Financial Trust directly owns 100% of RAIT General, Inc., which is the general partner of RAIT Partnership, LP, which directly owns 100% of RAIT TRS, LLC. RAIT TRS, LLC directly owns 100% of Independence Realty Advisors, LLC and Independence Realty Securities, LLC.

(3) RAIT Financial Trust directly owns 100% of RAIT General, Inc., which is the general partner of RAIT Partnership, LP, which directly owns 100% of RAIT NTR Holdings, LLC.

(4) RAIT Financial Trust indirectly owns 100% of Belle Creek Member, LLC, Copper Mill Member, LLC, Crestmont Member, LLC, Cumberland Member, LLC, Heritage Trace Member, LLC, Taberna IR Holdings, LLC, Tresa At Arrowhead Member, LLC and IRT Centrepoint Arizona, LLC, each of which is a Delaware limited liability company that owns common units issued by our operating partnership.

(5) RAIT Financial Trust directly owns 100% of RAIT General, Inc., which is the general partner of RAIT Partnership, LP, which directly owns 100% of RAIT Jupiter Holdings, LLC, which directly owns 75% of Jupiter Communities, LLC.

(6) Assumes we will receive general partner units when we contribute the proceeds of this offering to the operating partnership. As of the date of this prospectus, our ownership interest in our operating partnership was comprised of $125,000 in Series A preferred units (0.21%) and $354,259 in common units (5.91%). Assuming we raise the maximum offering amount, our ownership interest in our operating partnership would be comprised of $125,000 in Series A preferred units (0.01%) and $1,095,200,000 in common units (95.11%).

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Estimated Use of Proceeds

The amounts listed in the table below represent our current estimates concerning the use of the offering proceeds. Since these are estimates, they may not accurately reflect the actual receipt or application of the offering proceeds. The first scenario assumes we sell the minimum number of 250,000 shares of common stock in this offering and the second scenario assumes that we sell the maximum number of 100,000,000 shares in this offering, with both scenarios contemplating a price of $10.00 per share. Our advisor or its affiliates may advance, and we will reimburse for, organizational and offering costs incurred on our behalf, but only up to 1.0% of the gross proceeds of our offering. We estimate that at least 88.5% of the money raised in this offering will be used to acquire a diverse portfolio of properties located in the United States. The table below does not give effect to special sales or volume discounts which could reduce selling commissions or any sales pursuant to our distribution reinvestment program and many of the figures represent management s best estimate because they cannot be precisely calculated at this time.

	Minimum Dollar Amount	Percent	Maximum Dollar Amount	Percent
Gross offering proceeds	$ 2,500,000	100.0%	$ 1,000,000,000	100.0%
Less offering expenses:				
Selling commissions and dealer manager fee	250,000	10.0	100,000,000	10.0
Organizational and offering expenses	25,000	1.0	10,000,000	1.0
Net proceeds	2,225,000	89.0	890,000,000	89.0
Acquisition costs:				
Acquisition fees				
Acquisition expenses	11,125	0.5	4,925,000	0.5
Initial working capital reserves				
Total proceeds available for investment	$ 2,213,875	88.5%	$ 885,075,000	88.5%

REIT Status

So long as we remain qualified as a REIT, we generally will not be subject to U.S. federal income or excise tax on income that we distribute to our stockholders. Under the Code, a REIT is subject to numerous organizational and operational requirements, including a requirement that it annually distribute at least 90% of its REIT taxable income (computed without regard to the deduction for dividends paid and excluding net capital gain) to its stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, regardless of our distributions to stockholders, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even though we qualify for treatment as a REIT, we may still be subject to state and local taxes on our income and property and to U.S. federal income and excise taxes on our undistributed income.

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Compensation

We pay our advisor and its affiliates fees and reimburse certain expenses for services rendered to us. The most significant items of compensation and reimbursement are outlined in the table below. For a more complete explanation of the fees and expenses, as well as restrictions on compensation, see the Compensation Table and Management sections.

Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
	Offering Stage	
Selling Commissions	Payable to our dealer manager up to 7% of gross offering proceeds before reallowance of commissions earned by participating broker-dealers. Our dealer manager intends to reallow all or a portion of the commissions earned for those transactions that involve participating broker dealers.	$70,000,000
Dealer Manager Fee	Payable to our dealer manager up to 3% of gross offering proceeds before reallowance to participating broker-dealers. Our dealer manager, in its sole discretion, may reallow a portion of its dealer manager fee of up to 1.5% of the gross offering proceeds to be paid to such participating broker-dealers.	$30,000,000
Organization and Offering Expenses	We pay our advisor up to 1.0% of the gross offering proceeds for organizational and offering expenses (other than dealer manager fees and selling commissions). We currently estimate that $7,261,880 of organizational and offering expenses will be incurred if the maximum offering is achieved. Our advisor and its affiliates are responsible for the payment of organization and offering expenses, other than selling commissions and the dealer manager fee, to the extent they exceed 1.0% of gross offering proceeds, without recourse against or reimbursement by us; provided, however, that in no event will we pay or reimburse organization and offering expenses (including dealer manager fees and selling commissions) in excess of 15% of the gross offering proceeds.	$7,261,880

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
	Operational Stage	
Acquisition Fees	None.	Not applicable.
Acquisition Expenses	Expenses reimbursed to our advisor incurred in connection with the purchase of an asset. We have assumed that acquisition expenses will equal approximately 0.5% of the contract purchase price. The acquisition fees and expenses for any particular asset, including amounts payable to affiliates, will not exceed, in the aggregate, 6% of the contract purchase price (including any mortgage assumed) of the asset. Our advisor will be paid acquisition expenses and we will reimburse our advisor for acquisition expenses only to the extent that acquisition fees and acquisition expenses collectively do not exceed 6% of the contract price of our assets.	$4,925,000 (or $14,071,429 assuming that we incur our targeted leverage or $19,700,000 assuming the maximum amount of leverage permitted by our charter.)
Asset Management Fees	Payable to our advisor in the amount of 0.75% of average invested assets. Average invested assets means the average of the aggregate book value of our assets invested in interests in, and loans secured by, real estate before reserves for depreciation or bad debt or other similar non-cash reserves. We will compute the average invested assets by taking the average of these book values at the end of each month during the quarter for which we are calculating the fee. The fee is payable quarterly in an amount equal to 0.1875% of average invested assets as of the last day of such quarter. We will also reimburse our advisor for expenses that it pays on our behalf.	Not determinable at this time because the fee is based on a fixed percentage of aggregate asset value; there is no maximum dollar amount of this fee.
Property Management and Leasing Fees	Payable to our property manager on a monthly basis in the amount of up to 4% of the gross revenues. Additionally, we may pay our property manager a separate fee for the one-time initial rent-up or leasing-up of newly constructed properties in an amount not to exceed the fee customarily charged in arm s length transactions by others rendering similar services in the same geographic area for similar properties as determined by a survey of brokers and agents in such area.	Not determinable at this time because the fee is based on a fixed percentage of gross revenue and/or market rates; there is no maximum dollar amount of this fee.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
Operating Expenses	We reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services provided to us, subject to the limitation that we do not reimburse our advisor for any amount by which our operating expenses (including the asset management fee and the financing coordination fee) at the end of the four preceding fiscal quarters exceeds the greater of: (A) 2% of our average invested assets, or (B) 25% of our net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of our assets for that period. Notwithstanding the above, we may reimburse our advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. We do not reimburse our advisor or its affiliates for personnel employment costs incurred by our advisor or its affiliates in performing services under the advisory agreement to the extent that such employees perform services for which the advisor receives a separate fee.	Not determinable at this time.
Financing Coordination Fee	If our advisor provides services in connection with the financing of any debt that we obtain, we pay the advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations. We do not pay a financing coordination fee in connection with debt provided by our sponsor. The services our advisor may perform include, without limitation, searching for lenders in connection with a proposed refinancing and negotiating the terms of any proposed refinancing with such lenders. Our advisor may reallow some or all of this fee to reimburse third parties that it retains to procure any such refinancing.	Not determinable at this time because the fee is based on a fixed percentage of any debt financing; there is no maximum dollar amount of this fee.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
	Liquidation Distributions	
Disposition Fee	We may pay our advisor a commission upon the sale of one or more of our properties 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 or (b) 1% of the sale price of the asset. Payment of such fee may be made only if the advisor provides a substantial amount of services in connection with the sale of the asset. 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 the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset or 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 properties and commissions that would be reasonable, customary and competitive at the time of sale.
Subordinated Participation in Net Sale Proceeds	After investors have received a return of their capital contributions invested and a 7% annual cumulative, non-compounded return, then RAIT NTR Holdings, LLC as holder of the special units is entitled to receive 10% of the remaining net sale proceeds. We cannot assure you that we will provide this 7% return, which we have disclosed solely as a measure for our advisor s and its affiliates incentive compensation.	Not determinable at this time because actual amounts are dependent upon the sale proceeds of specific properties.
Subordinated Participation Upon a Listing	Upon listing our common stock on a national securities exchange, RAIT NTR Holdings, LLC as holder of the special units is entitled to an amount based on the redemption of the special units equal to 10% of the amount, if any, by which (a) the market value of our outstanding stock plus distributions paid by us prior to listing, exceeds (b) the aggregate remaining capital contributed by investors plus an amount equal to a 7% annual cumulative, non-compounded return to investors on their aggregate capital contributed. We have no intent to list our shares at this time. We cannot assure you that we will provide this 7% return, which we have disclosed solely as a measure for our advisor s and its affiliates incentive compensation.	Not determinable at this time because actual amounts are dependent upon the future value of our stock and distributions that may be paid by us.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
Subordinated Participation Upon a Termination of Advisory Agreement	Upon termination of the advisory agreement, RAIT NTR Holdings, LLC as holder of the special units will be entitled to a subordinated participation payable in the form of shares of our common stock or a promissory note that does not bear interest. The subordinated participation, if any, will be equal to 10% of the amount, if any, by which (1) the appraised value of our assets on the termination date, less any indebtedness secured by such assets, plus total distributions paid through the termination date, less any amounts distributable as of the termination date to limited partners who received units in the operating partnership in connection with the acquisition of any assets upon the liquidation or sale of such assets (assuming the liquidation or sale of such assets on the termination date) exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to repurchase shares of our common stock pursuant to our share repurchase plan) and the total amount of cash that, if distributed to them as of the termination date, would have provided them a 7% annual cumulative, pre-tax, non-compounded return on the gross proceeds from the sale of shares of our common stock through the termination date. The subordinated participation will be payable solely from the net proceeds from the sale of properties.	Not determinable at this time because actual amounts are dependent upon the future appraised value of our properties.

Distributions

United States federal income tax law requires that a REIT generally distribute annually at least 90% of its REIT taxable income (computed without regard to the deduction for dividends paid and excluding net capital gain). In order to continue to qualify for REIT status, we may be required to make distributions in excess of cash available. 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; however, it may not always be possible to do so. For a discussion of the tax treatment of distributions to you, see   Certain Material U.S. Federal Income Tax Considerations.

Distributions are made at the discretion of the board of directors. We cannot assure that regular distributions will continue to be made nor that we will maintain any particular level of distributions that we may establish. Our ability to pay regular distributions and the size of these distributions will depend upon a variety of factors. For example, our borrowing policy permits us to incur short-term indebtedness, having a maturity of two years or less, to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

We are an accrual basis taxpayer, and as such, our REIT taxable income could be higher than the cash available to us. We may therefore borrow to make distributions, which could reduce the cash available to us, in order to distribute 90% of our REIT taxable income as a condition to our election to be taxed as a REIT. To the extent that distributions to stockholders are not designated as capital gain dividends and exceed our earnings and profits (as determined for U.S. federal income tax purposes), such excess amounts would generally constitute a return of capital for U.S. federal income tax purposes, although such distributions might not reduce stockholders aggregate invested capital. Because our earnings and profits are reduced for depreciation and other non-cash items, a portion of each distribution may constitute a tax-deferred return of capital for U.S. federal income tax purposes.

The amount of distributions will depend upon a variety of factors, including without limitation:

- our cash available for distribution;
- our overall financial condition;
- our capital requirements;
- the annual distribution requirements applicable to REITs under U.S. federal income tax laws; and
- such other considerations as our board of directors may deem relevant.

We may pay distributions from sources other than from our cash flow from operations. 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. Our inability to acquire properties may result in a lower return on your investment than you expect. We generally do not intend to fund such distributions from offering proceeds, however, if we have not generated sufficient cash flow from our operations and other sources, such as from borrowings, sale of additional securities, advances from our advisor, our advisor s deferral, suspension and/or waiver of its fees and expense reimbursements, to fund distributions, we may use the offering proceeds. Moreover, our board of directors may change this policy, in its sole discretion, at any time. If we fund distributions from the proceeds of this offering, we will have less funds available for acquiring properties. Our inability to acquire properties may have a negative affect on our ability to generate sufficient cash flow from operations to pay distributions. As a result, the return you realize on your investment may be reduced and investors who invest in us before we commence significant real estate operations or generate significant cash flow may realize a lower rate of return than later investors. In addition, 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 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 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 transaction, any or all of which may have an adverse affect on your investment. Distributions made from offering proceeds are effectively a return of capital to stockholders upon which we will have used to pay offering and organization expenses in connection with this offering.

Distribution Reinvestment and Share Repurchase Programs

Our distribution reinvestment program provides our stockholders with an opportunity to purchase additional shares of our common stock at a discount by reinvesting distributions. Our share repurchase program may provide our stockholders with limited, interim liquidity by enabling them to sell their shares back to us, subject to restrictions. However, our board of directors reserves the right to terminate either program for any reason without cause by providing written notice.

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Investment Company Act of 1940 Considerations

We intend to conduct our operations so that the 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 U.S. government securities and cash items) on an unconsolidated basis, or the 40% test. Investment securities excludes 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 wholly and majority-owned subsidiaries of the company, each formed to hold a particular asset.

We intend to conduct our operations so that the 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 the company and each wholly owned and majority-owned subsidiary with this test. 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 the 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 the company nor any of its wholly 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 hold themselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, the 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.

Additionally, Rule 3a-1 under the Investment Company Act generally provides than an issuer will not be deemed to be an investment company under the Investment Company Act provided that (1) it does not hold itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, and (2) on an unconsolidated basis except as otherwise provided no more than 45% of the value of its total assets, consolidated with the assets of any wholly owned subsidiary (exclusive of government securities and cash items), consists of, and no more than 45% of its net income after taxes, consolidated with the net income of any wholly owned subsidiary (for the last four fiscal quarters combined), is derived from, securities other than government securities, securities issued by employees securities companies, securities issued by certain majority owned subsidiaries of such company and securities issued by certain companies that are controlled primarily by such company. We believe that we, our operating partnership and the subsidiaries of our operating partnership will satisfy this exclusion, and we will monitor our holdings to ensure continuing and ongoing compliance with Rule 3a-1.

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Qualification for exemption from the definition of investment company under the Investment Company Act will limit our ability to make certain investments. 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.

Listing or Liquidation

Our board of directors, in consultation with management, will make a determination of whether it is in our best interests to begin the process of engaging advisors to consider alternatives with respect to a liquidity transaction no later than eighteen months after the termination of our offering stage. A liquidity transaction could include a sale of our assets, a sale or merger of our company, a listing of our common stock on a national securities exchange (provided we meet the then applicable listing requirements) or other similar transaction. We will consider our offering stage complete when we are no longer publicly offering equity securities in a public offering, whether through this offering or follow-on offerings. For this purpose, we do not consider a public offering of equity securities to include offerings on behalf of selling stockholders or offerings related to a distribution reinvestment program, employee benefit plan or the redemption of interests in our operating partnership. Any liquidity transaction is subject to the determination of our board of directors that such liquidity transaction is appropriate to commence and the timing of such a liquidity transaction is likely to vary with market conditions.

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RISK FACTORS

The purchase of shares of our common stock involves a number of risks. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before purchasing our common stock. The risks discussed in this prospectus could adversely affect our business, operating results, prospects and financial condition. This could cause the value of our common stock 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 may also harm our business.

Investment Risks

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

We and our advisor are both entities with limited prior operating histories and we may both 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 or affiliates of our sponsor may not be indicative of the performance we may achieve. We may not be able to conduct our business as planned or successfully.

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

The past performance of our sponsor may not be indicative of our future results and we may not be able to successfully implement our strategies and operate our business. Our business is different in a number of respects from the operations of our sponsor, resulting in returns to our stockholders that vary from those generated by our sponsor.

This is a blind pool offering, therefore you will not have the opportunity to evaluate most of our investments before we make them, which makes your investment more speculative.

We currently own eight properties and have not identified any additional investments. As a result, we are not able to provide you with information to evaluate most of our investments prior to acquisition. You will be unable to evaluate the economic merit of most of our properties before we invest in them and will be relying on the ability of our advisor to select well-performing investment properties. Additionally, our board of directors will have broad discretion in implementing policies regarding tenant or mortgagor creditworthiness, and you will not have the opportunity to evaluate potential tenants. These factors increase the risk that your investment may not generate the returns that you seek by investing in our shares.

We may not raise sufficient funds from this offering to diversify our investments.

This offering is being made on a best efforts basis whereby our dealer manager is only required to use its best efforts to sell our shares and has no firm commitment or obligation to purchase any of our common stock. Our initial capitalization consists of a $200,000 investment by our sponsor in shares of our common stock. Our sponsor has contributed cash of $5,132,000 and seven multifamily properties to us, in exchange for approximately $52.7 million in operating partnership common units and $3,500,000 in Series B preferred units. See Contribution of Our Initial Seven Properties. Our sponsor also purchased $3,000,000 of our common stock for $10.00 per share in this offering. If we are unable to raise substantial funds in this offering, we will make fewer investments, resulting in less diversification in terms of the number of investments owned and the geographic regions in which our investments are located. In such case, the likelihood that any single property s performance would materially reduce our overall profitability will increase. Any inability to raise substantial funds would increase our fixed operating expenses as a percentage of gross income, and our net income and the distributions we make to stockholders would be reduced. In addition, the more capital we raise in this offering, the greater the proportion of these risks that will be borne by our public stockholders.

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Currently, our common stock is not listed on an exchange and there is no public trading market for it, therefore it may be difficult for you to sell your stock. If you sell your stock, it may be at a substantial discount.

Following this offering, our common stock will not be listed on a stock exchange and there is no current public trading market, nor is there any assurance that a public trading market will ever exist, for our stock. In addition, our charter prohibits the ownership of more than 9.8% in the value of the aggregate of the outstanding shares of our stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of the outstanding shares of our stock by a single investor, unless exempted by our board of directors, which may inhibit your ability to sell your stock. We have adopted a share repurchase program which limits in terms of the number of shares of stock that may be repurchased annually. Our board of directors may also limit, suspend or terminate our share repurchase program at any time. As a result, it may be difficult for you to sell your shares of stock. If you are able to sell your stock, it might be at a substantial discount from the price you paid. This may be the result because, in part, the amount of funds available for investment is expected to be reduced by selling commissions, dealer manager fees, organization and offering expenses, and acquisition expenses. If our offering expenses are higher than we anticipate, we will have a smaller amount available for investment. You should consider our stock as an illiquid investment and must be prepared to hold your stock for an indefinite period of time. See Description of Securities Restrictions on Ownership and Transfer for a more detailed description.

Due to the risks involved in the ownership of real estate, there is no guarantee of any return on your investment in us, and you may lose some or all of your investment.

By owning our shares, stockholders will be subjected to the risks associated with the ownership and operation of real estate properties. The performance of your investment in us will be subject to these risks, which include, without limitation:

- changes in the general economic climate;
- changes in local conditions such as an oversupply of space or reduction in demand for real estate;
- changes in interest rates and the availability of financing;
- changes in property level operating expenses due to inflation or otherwise; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

If our assets decrease in value, the value of your investment will likewise decrease, and you could lose some or all of your investment.

Our dealer manager has no experience in public offerings, which may affect the amount of funds it raises in this offering.

Our dealer manager was formed on March 26, 2009 and has not conducted any public offering such as this. As a result, our dealer manager has not had the opportunity, other than through this offering, to establish relationships with registered broker dealers, registered investment advisors or bank trust departments, which may adversely affect our ability to raise capital in this offering. This lack of experience may affect the way in which our dealer manager conducts this offering.

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 advisor 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

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for properties that meet our investment objectives is highly competitive as is the leasing market for such properties. The more shares we sell in this offering, the greater our challenge will be to invest all of the net offering proceeds on attractive terms. You will not have the opportunity to evaluate the terms of most of our transactions or other economic or financial data concerning most of our investments. You must rely entirely on the oversight of our board of directors, the management ability of our advisor and the performance of the property manager. We cannot be sure that our advisor will be successful in obtaining suitable investments on financially attractive terms.

Additionally, as a public company, we are subject to the 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. 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 that otherwise would be a suitable investment. We could suffer delays in our investment acquisitions due to these reporting requirements.

Delays we encounter in the selection and acquisition of properties could adversely affect your returns. In addition, if we are unable to invest our offering proceeds in real properties in a timely manner, we may invest the proceeds in short-term, investment-grade investments or ultimately liquidate. In such an event, our ability to make distributions and pay returns to our stockholders would be 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, including the amount of cash available for distribution, capital expenditure and reserve requirements and general operational requirements. We cannot assure you that sufficient cash will be available to make distributions to you. We may borrow funds, return capital or sell assets to make distributions. 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.

As we raise proceeds from this offering, the sufficiency of cash flow to fund future distributions with respect to an increased number of outstanding shares will depend on the pace at which we are able to identify and close on suitable cash-generating real property investments. Because the accrual of offering proceeds may outpace the investment of these funds in real property acquisitions, cash generated from such investments may become insufficient to fund operating expenses and distributions. Also, because we may receive income from rents or interest at various times during our fiscal year, distributions paid may not reflect our income earned in that particular distribution period. The amount of cash available for distributions will be affected by many factors, including without limitation, our ability to acquire properties as offering proceeds become available, the income from those investments and our operating expense levels. 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 either be (i) a return of capital or (ii) 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 in the event we make distributions other than from funds from operations, please see Certain Material U.S. Federal Income Tax Considerations.

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

As mentioned above, we may pay distributions from sources other than from our cash flow from operations. If we have not generated sufficient cash flow from our operations and other sources, such as from borrowings, sale of additional securities, advances from our advisor, our advisor s deferral, suspension and/or waiver of its

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fees and expense reimbursements, to fund distributions, we may use the offering proceeds. Moreover, our board of directors may change this policy, in its sole discretion, at any time. Distributions made from offering proceeds are a return of capital to stockholders upon which we will have used to pay offering and organization 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. See the section of this prospectus titled Description of Securities Distributions for more information. If we fund distributions from the proceeds of this offering, we will have less funds available for acquiring properties. Our inability to acquire properties may have a negative affect on our ability to generate sufficient cash flow from operations to pay distributions. As a result, the return you realize on your investment may be reduced and investors who invest in us before we commence significant real estate operations or generate significant cash flow may realize a lower rate of return than later investors. 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 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 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 transaction, any or all of which may have an adverse effect on your investment. In addition, subsequent investors may experience immediate dilution in their investment because a portion of our net offering proceeds may have been used to fund distributions instead of retained in our company and used to make investments.

Your percentage of ownership may become diluted if we issue new shares of stock.

Stockholders have no rights to buy additional shares of stock in the event we issue new shares of stock. 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 common stock 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.

Investors who invest later in this offering may realize a lower rate of return than investors who invest earlier in the offering to the extent we fund distributions from sources other than operating cash flow.

To the extent we incur debt to fund distributions earlier in this offering, the amount of cash available for distributions in future periods will be decreased by the repayment of such debt. Similarly, if we use offering proceeds to fund distributions, later investors may experience immediate dilution in their investment because a portion of our net assets would have been used to fund distributions instead of retained in our company and used to make real estate investments. Earlier investors will benefit from the investments made with funds raised later in the offering, however, later investors may not share in all of the net offering proceeds raised from earlier investors.

The properties we own or in the future 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 such 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.

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

To continue to qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, 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

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

We are dependent on our advisor and affiliates to manage our operations and acquire and manage our portfolio of real estate assets. Our advisor will make all decisions with respect to the management of our company. Our advisor will depend upon the fees and other compensation that it will receive from us in connection with the management and sale of our properties to conduct its operations. Any adverse changes in the financial condition of, or our relationship with, our sponsor, advisor or property manager could hinder their ability to successfully manage our operations and our portfolio of investments.

The nature of our sponsor s business, and our dependence on our sponsor and advisor, makes us subject to certain risks that we would not ordinarily be subject to based on our targeted investments.

Our sponsor, as part of the operation of its business, provides a comprehensive set of debt financing options to the commercial real estate industry along with asset and property management services. In addition to its investments in real estate, its investments also include real estate mortgages, mezzanine loans, other loans and preferred equity investments, debt securities issued by real estate companies, subordinated debentures, mortgage-backed securities, collateralized debt obligations, or CDOs, and other real estate-related debt, none of which we intend to acquire as part of our investment strategy. As a result of our dependence on our sponsor and advisor, we are indirectly subject to some of the same investment risks as our advisor, including risk of payment defaults and credit risks in our sponsor s investment portfolio, the illiquidity of longer-term, subordinate and non-traditional loans, risk of loss from our sponsor s subordinated real estate investments such as mezzanine loans and preferred equity interests, exposure to interest rate risk, risks associated with its use of derivatives and hedging instruments and the risk of loss in its commercial mortgage loans from delinquency and foreclosure. We would not be subject to these risks if we were not dependent upon our sponsor and advisor, and therefore investors may not be able to avoid these risks by investing in us.

In addition, our sponsor engages in securitization strategies that seek to match the payment terms, interest rate and maturity dates of its financings with the payment terms, interest rate and maturity dates of its investments. In particular, our sponsor financed the majority of its commercial real estate loan portfolio through two non-recourse loan securitizations which aggregated $1.85 billion of loan capacity. Our sponsor retained all of the most junior debt tranche and all of the preferred equity issued by these securitizations. Our sponsor also financed most of its debt securities portfolio in a series of non-recourse CDOs, which provide long-dated, interest-only, match funded financing to the debt investments. These securitizations typically require that the principal amount of the assets must exceed the principal balance of the related securities issued by them by a certain amount, a practice known as over-collateralization. The securitization terms provide that if delinquencies or losses exceed specified levels, the required levels of over-collateralization may be increased or may be prevented from decreasing. In addition, failure by a securitization entity to satisfy an over-collateralization test typically results in accelerated distributions to the holders of the senior debt securities issued by the securitization entity, and a reduction in payment to the holders of the junior debt tranche and preferred

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equity of the type our sponsor holds. As a result, our sponsor is in a first-loss position because the rights of the securities it holds are subordinate in right of payment and in liquidation to the rights of senior security holders issued by the securitization entities. In addition, the failure of the securitization financings of our sponsor to meet their performance tests, including these over-collateralization requirements, may reduce our sponsor s net income and its cash flow generated by these securitizations and may trigger certain termination provisions in the related collateral management agreements under which our sponsor manages these securitizations and may cause an event of default under the remaining securitizations. This would increase the likelihood of a reduction or elimination of cash flow to our sponsor, upon which we are dependent, and may result in adverse consequences to our operations. Our sponsor s remaining consolidated securitizations collateralized primarily by investments in debt securities have not passed some of their over-collateralization tests. As a result, distributions to senior debt have been accelerated, resulting in the cessation of distributions on the subordinated debt and equity our sponsor holds in these securitizations as well as our sponsor s subordinated management fees from these securitizations. This has substantially reduced the cash flow our sponsor receives from these securitizations. Because these securitizations may not meet these tests for the foreseeable future, our sponsor s cash flows from these transactions may remain limited to the senior management fees received from them.

As a public company, our sponsor may be subject to more litigation than a privately held sponsor with a limited number of investors. Any such litigation may distract our management team.

Our sponsor, RAIT Financial Trust, is a public company and, as a result, may be subject to more litigation than a privately held sponsor with a limited number of investors. For example, our sponsor and certain of its executive officers and trustees were named defendants in class action securities lawsuits filed in 2007. The lawsuits alleged, among other things, that certain defendants violated the Securities Act and the Exchange Act by making materially false and misleading statements and material omissions in registration statements and prospectuses. The lawsuits were settled by written agreement, which was approved by a federal district court in 2009. The settlement was funded within the limits of our sponsor s directors and officers insurance. Under the terms of the settlement, the lawsuits were dismissed with prejudice and all defendants received a full release of all claims asserted against them. There can be no assurance that our sponsor or any of its officers will not be subject to additional litigation in the future, which may distract our management team from our business.

If our advisor loses or is unable to obtain 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 advisor. We cannot guarantee that all, or any, will remain affiliated with us or our advisor. If any of our key personnel were to cease their affiliation with our advisor, 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 death or disability of any of our key personnel.

We believe our future success depends upon our advisor 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 advisor will be successful in attracting and retaining such skilled personnel. If our advisor 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.

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

Under 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.

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 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. 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. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. See Description of Securities Provisions of Maryland Law and of Our Charter and Bylaws.

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

Our board of directors determines our major policies, including regarding 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. Our charter sets forth the stockholder voting rights required under the Statement of Policy Regarding Real Estate Investment Trusts, as revised and adopted by the North American Securities Administrators Association on May 7, 2007, or the NASAA REIT Guidelines. Under our charter and the Maryland General Corporation Law, our stockholders generally have a right to vote only on the following matters:

- the election or removal of directors;
- any amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
  - 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;
  - increase or decrease the aggregate number of our shares;
  - increase or decrease the number of our shares of any class or series of stock that we have the authority to issue; and
  - effect certain reverse stock splits;

our liquidation and dissolution; and

our being a party to any merger, consolidation, sale or other disposition of substantially all of our assets or similar reorganization.
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. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of shares of our common 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 series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders.

Because of our holding company structure, we depend on our operating partnership and its subsidiaries for cash flow and we will be structurally subordinated in right of payment to the obligations of our operating partnership 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 partnership interests of our operating partnership. We conduct, and intend to conduct, all of 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 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 of our and our operating partnerships and its subsidiaries liabilities and obligations have been paid in full.

Our board of directors may amend or terminate our share repurchase program, which may impact your ability to liquidate your investment.

Our share repurchase program includes limitations on participation. In addition, our board of directors has the ability, in its sole discretion, to reject any request for repurchase and to amend, suspend or terminate the program. As a result, your ability to participate in and receive liquidity on your investment through this program may be restricted. You should not rely on our share repurchase program to provide you with liquidity.

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

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

Our charter prohibits us from indemnifying our directors, our advisor and its affiliates for any loss or liability that they suffer or holding harmless our directors, the advisor and its affiliates for any loss or liability that we suffer unless certain conditions are met. For details regarding these restrictions, their effect on our ability to indemnify or hold harmless for liability and circumstances under which we are required or authorized to indemnify and to advance expenses to our directors, officers or our advisor, see Limitation of Liability and Indemnification of Directors, Officers and Our Advisor.

As a result of the foregoing, our directors and officers will not be liable 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.

If we internalize our management functions, the percentage of our outstanding common stock owned by our other stockholders could be reduced, and we could incur other significant costs associated with being self-managed.

In the future, our board of directors may consider internalizing the functions performed for us by our advisor by, among other methods, acquiring our advisor s assets. The method by which we could internalize these functions could take many forms, subject to certain limitations set forth in our advisory agreement and described under Management Our Advisory Agreement Potential Acquisition of Our Advisor. There is no assurance that internalizing our management functions will be beneficial to us and our stockholders. An acquisition of our advisor could also result in dilution of your interests as a stockholder and could reduce earnings per share and funds from operation per share. Additionally, 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 advisor, property manager or their affiliates. Internalization transactions, including without limitation, transactions involving the acquisition of advisors or property 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 money defending claims which would reduce the amount of funds available for us to invest in properties or other investments and to pay distributions. All of these factors could have a material adverse effect on our results of operations, financial condition and ability to pay distributions. See the section of this prospectus titled Management Our Advisory Agreement Potential Acquisition of Our Advisor for more information about the potential internalization of our management functions.

If we do not successfully implement a liquidity transaction, you may have to hold your investment for an indefinite period.

Our charter does not require our board of directors to pursue a transaction providing liquidity to our stockholders. If our board of directors does determine to pursue a liquidity transaction, we would be under no obligation to conclude the process within a set time. If we adopt a plan of liquidation, the timing of the sale of assets will depend on real estate and financial markets, economic conditions in areas in which properties are located, and federal income tax effects on stockholders, that may prevail in the future. We cannot guarantee that we will be able to liquidate our assets. After we adopt a plan of liquidation, we would likely remain in existence until all our investments are liquidated. If we do not pursue a liquidity transaction, or delay such a transaction due to market conditions, your shares may continue to be illiquid and you may, for an indefinite period of time, be unable to convert your investment to cash easily and could suffer losses on your investment.

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We will not calculate our net asset value per share until up to 18 months after completion of our offering stage. In addition, the methodologies we will use to calculate net asset value are uncertain. Therefore, you will not be able to determine the net asset value of your shares for a substantial period of time and may not be able to meaningfully compare our net asset value to the net asset value of other non-listed REITs.

We do not intend to calculate the net asset value per share for our shares until up to 18 months after the completion of our offering stage. We will consider our offering stage complete when we are no longer publicly offering equity securities in a continuous offering, whether through our initial public offering or any future offerings (excluding offers to sell under our distribution reinvestment program). Thereafter, our advisor, or another firm it chooses for that purpose, will determine the value of our properties and our other assets based on such information as our advisor determines appropriate, which may or may not include independent valuations of our properties and our other assets or of our enterprise as a whole. We will disclose our net asset value and the methodologies we use to calculate our net asset value to stockholders in our filings with the SEC. Therefore, you will not be able to determine the net asset value of your shares on an on-going basis during this offering and for a substantial period of time thereafter. In addition, we may utilize net asset value calculation methodologies which differ from methodologies utilized by other public, non-listed REITs. As a result, a comparison of our net asset value with the net asset value of other public, non-listed REITs may not be meaningful. Therefore, it is important that you carefully consider how our calculation methodologies differ, if at all, from other non-listed REITs.

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

Except for the investment limitations contained in our charter, which require stockholder consent to amend, we may change our investment objectives and strategies, and our policies with respect to investments, operations, indebtedness, capitalization and distributions, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier or more highly leveraged than, the types of investments described in this prospectus. A change in our investment strategy may, among other things, increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could materially affect our ability to achieve our investment objectives.

Risks Related to Conflicts of Interest

Our executive officers have interests that may conflict with the interests of stockholders.

Our executive officers are also affiliated with or are executive officers and shareholders of our sponsor. These individuals may have personal and professional interests that conflict with the interests of our stockholders with respect to business decisions affecting us and our operating partnership. As a result, the effect of these conflicts of interest on these individuals may influence their decisions affecting the negotiation and consummation of the transactions whereby we acquire multifamily properties in the future from our sponsor.

We may have assumed unknown liabilities in connection with the acquisition of the multifamily properties contributed by our sponsor.

We acquired seven multifamily properties contributed by our sponsor subject to existing liabilities, some of which may be unknown at the time of contribution. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with such entities prior to this offering (that had not been asserted or threatened prior to this offering), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. As part of the contribution to us of the multifamily properties in our portfolio, our sponsor made limited representations and warranties to us regarding the properties. Because many liabilities may not be identified at the time of contribution, we may have no recourse against our sponsor.

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We may pursue less vigorous enforcement of terms of the contribution agreements for the multifamily properties we acquired from our sponsor because of conflicts of interest with certain members of our senior management team.

Our senior management team has ownership interests in and professional responsibilities with our sponsor, which contributed multifamily properties to our operating partnership. As part of the contribution of these properties, our sponsor made limited representations and warranties to us regarding the properties and interests acquired. Any indemnification from our sponsor related to the contribution is limited. We may choose not to enforce, or to enforce less vigorously, our rights under the contribution agreements due to our ongoing relationship with the principals and executive officers of our sponsor.

We face risks relating to financing arrangements with our sponsor for multifamily properties we acquired from our sponsor that would not be present with third-party financing.

In connection with our acquisition of multifamily properties from our sponsor, our sponsor has made, and in the future may make, financing available to us. Such financing arrangements may involve risks not otherwise present with other methods of financing, including, for example:

- the possibility that our sponsor may sell or securitize our loan agreements with a third party, in which case our loan would become subject to the rights of the assignee or transferee whose interests may not be the same as our sponsor s interests;

- that our sponsor may in the future have interests that are or that become inconsistent with our interests, which may cause us to disagree with our sponsor as to the best course of action with respect to the payment terms, remedies available under and refinancing of the loan and which disagreement may not be resolved to our satisfaction;

- that in the event of our default on the loan, our sponsor may determine to foreclose upon the collateral without pursuing alternative remedies such as renegotiation of loan terms or workouts that a third-party lender might pursue; and

- that our executive officers are also executive officers or employees of our sponsor and would be responsible for negotiating the terms of any loan agreement on our behalf as well as on our sponsor s behalf.

Our sponsor may also make a loan as part of a lending syndicate with third parties, in which case we expect our sponsor would enter into an inter-creditor agreement that will define its rights and priority with respect to the underlying collateral. The third-party lending syndicate may also have interests that differ with our interests as well as the interests of our sponsor.

Our advisor, executive officers and their affiliates may face conflicts of interest and competing demands on their time, which could adversely impact your investment.

We do not have any employees, and as a result, will rely on the employees of our advisor and its affiliates for the day-to-day operation of our business. The employees of our sponsor and its affiliates currently control our sponsor, which owns properties in the markets in which we may seek to invest, and they spend a material amount of time managing these properties and other assets that are unrelated to our business. Each of our executive officers is also an officer or employee of our sponsor and/or its affiliates, and as a result, these individuals owe fiduciary duties to these other entities and their stockholders, members and limited partners. Because our sponsor and its affiliates engage in other business activities, the employees of our sponsor and its affiliates may experience conflicts of interest in allocating their time and resources among our business and these other activities. The amount of time that our advisor 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 properties. 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 advisor will attempt to hire additional employees who would devote substantially all of their time to our business. There is no assurance that our advisor will devote adequate time to our business. If our advisor suffers or is distracted by

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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.

Some of these individuals 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 effect on our operations and your investment. Our advisor, property manager and their respective 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 may compete with us for the acquisition and/or refinancing of properties.

Our advisor and its affiliates will receive substantial fees from us. These fees could influence our advisor s advice to us, as well as the judgment of the affiliates of our advisor who serve as our officers and directors. Among other matters, the compensation arrangements, which might entitle affiliates of our advisor to disposition fees and other possible fees in connection with its services for the seller, could affect the judgment of our advisor 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 a decline in the value of your investment.

Property management services are being provided by an affiliated party, which may impact our sale of properties, and as a result, affect your investment.

Our property manager is controlled by our sponsor, and is thus subject to an inherent conflict of interest. Specifically, because the property manager will receive significant fees for managing our properties, our advisor may face a conflict of interest when determining whether we should sell properties under circumstances where the property manager 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 advisor, the price may be higher than we would pay if the transaction was the result of arm s length negotiations.

The prices we pay to affiliates of our advisor 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 advisor 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 current appraised value as determined by an independent appraiser selected by our independent directors not otherwise interested in the transaction. An appraisal is current if obtained within the prior year. 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 an independent third-party appraiser to determine fair market value when acquiring properties from our advisor 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 investment in other properties or distribution to our stockholders.

Payment of fees to our advisor and its affiliates will result in immediate dilution of the value of your investment and reduce cash available for investment and distribution.

Our advisor and its affiliates will perform services for us in connection with the management and leasing of our properties. They will be paid significant fees for these services, which will result in immediate dilution of the value of your investment and reduce the amount of cash available for investment and for distribution to

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stockholders. Compensation to be paid to our advisor may be increased subject to approval by our independent directors and the limitations in our charter, which would further dilute your investment and reduce the amount of cash available for investment or distribution to stockholders. Depending primarily upon the number of shares we sell in our primary offering and assuming a $10.00 purchase price for shares sold in the primary offering, we estimate that we will use 88.5% of the gross proceeds from the primary offering, or $8.85 per share, for investments after fees and expenses.

The agreements between us and our advisor or its affiliates, and the fees paid to them pursuant to such agreements, were not reached through arm s length negotiations and may not reflect the terms that would be available from a third party; that is, a third party unaffiliated with our advisor may be willing to provide such services to us at a lower price. These fees increase the risk that the amount available for payment of distributions to our stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares of stock in this offering. Substantial up-front fees also increase the risk that you will not be able to resell your shares of stock at a profit, even if our stock is listed on a national securities exchange. See Compensation Table and Management.

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

Our advisor and its affiliates receive fees and other compensation based on our investments, and are in a position to make decisions about our investments in ways that could maximize fees payable to our advisor and its affiliates. Some compensation is payable to our advisor whether or not there is cash available to make distributions to our stockholders. To the extent this occurs, our advisor 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 advisor are based on total assets under management, including assets purchased using debt, our advisor 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 advisor s ability to receive fees and reimbursements depends on our continued investment in real properties. Therefore, the interest of our advisor and its affiliates in receiving fees may conflict with the interest of our stockholders in earning income on their investment in our common stock.

Our advisor may receive substantial fees in connection with the refinancing of any debt that we use to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties.

In connection with any refinancing of our debt that we use to acquire properties or to make other permitted investments, including any indebtedness assumed by us in connection with the acquisition of properties, we will pay our advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations. There is no limit on our ability to refinance our indebtedness. As a result, our advisor has an incentive to recommend that we refinance our existing indebtedness, regardless of whether the structure, terms or conditions are favorable to us given our then-existing debt levels and current market conditions. Although our charter limits the amount of indebtedness that we may incur, our advisor may have an incentive to recommend that we refinance our indebtedness and incur additional indebtedness in connection with such refinancing.

You will not have the benefit of an independent due diligence review in connection with this offering.

Because the dealer manager, Independence Realty Securities, LLC, is an affiliate, investors will not have the benefit of an independent due diligence review and investigation of the type normally performed by an unaffiliated, independent underwriter in connection with a securities offering. The lack of an independent due diligence review and investigation increases the risk of your investment because it may not have uncovered facts that would be important to a potential investor.

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

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

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. Investments in joint ventures which own real properties may involve risks otherwise not present when we purchase real properties directly. For example, our co-venturer may file for bankruptcy protection, have economic or business interests or goals which are inconsistent with our interests or goals, or take actions contrary to our instructions, requests, policies or objectives. Among other things, actions by a co-venturer might subject real properties owned by the joint venture to liabilities greater than those contemplated by the terms of the joint venture or other adverse consequences.

These diverging interests 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 that the co-venturers may not be able to agree on matters relating to the property they jointly own. 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.

General Risks Related to Investments in Real Estate

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

A residential property s income and value may be adversely affected by international, national and regional economic conditions. Recently, the U.S. and international markets have experienced 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, and a national and global recession. If such conditions exist in the future, the residential real estate industry may experience a significant decline in business caused by a reduction in overall renters. Renewed adverse economic conditions may also have an adverse affect on our operations if the tenants occupying the residential 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 estate taxes), the attractiveness and location of the property and changes in market rental rates, may adversely affect a property s income and value. A rise in energy costs could result in higher operating costs, which may 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, plant 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.

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 the expenses; however, renewals of leases or future leases may not be negotiated on that basis, in which event we will have to pay those expenses. 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. If our properties 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 residential 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 residential real estate market may experience substantial influxes of capital from investors. This substantial flow of capital, combined with significant competition for real estate, may result in inflated purchase prices for such assets. 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 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 properties may not be diversified by geographic location or by type, which may increase the risk of your investment.

Because this offering is being made on a best efforts basis, our potential profitability and our ability to diversify our investments, both geographically and by type of properties purchased, will be limited by the amount of funds we raise. If we are unable to raise a substantial amount of proceeds in this offering, we may not be able to execute our diversification strategy, which may adversely affect your investment. Moreover, even if we sell 100,000,000 shares of common stock for $1,000,000,000, our properties may not be well diversified and their economic performance could be affected by changes in local economic conditions.

If we are unable to diversify our investments by region, our performance will be linked to a greater extent to economic conditions in the regions in which we acquire properties. Therefore, to the extent that there are adverse economic conditions in the regions in which our properties are located and in the market for real estate properties, such conditions could result in a reduction of our income, and thus affect the amount of distributions

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we can make to you. Further, we do not anticipate diversifying our investments in properties by industry, that is, we plan to invest primarily in the multifamily industry. Therefore, a downturn in such industry will likely have a more pronounced effect on the amount of cash available to us for distribution or on the value of our assets than if we had diversified our investments by property type.

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, as mentioned above, absent a determination that an expedited acquisition is necessary, 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.

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 cause comprehensive insurance to be obtained for our properties, including casualty, liability, fire, extended coverage and rental loss customarily obtained for similar properties in amounts which our advisor 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.

Insurance companies have recently begun to exclude acts of terrorism from standard coverage. Terrorism insurance is currently available at an increased premium, and it is possible that the premium will increase in the future or that terrorism coverage will become unavailable. In some cases, mortgage lenders have begun to insist that specific coverage against terrorism be purchased by owners as a condition for 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, 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. In such instances, 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.

In addition, many insurance carriers are excluding asbestos-related claims from standard policies, pricing asbestos endorsements at prohibitively high rates or adding 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 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 cash 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. 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 cash distributions to our stockholders may be adversely affected.

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

We expect that most of our 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 standards established for the market position intended for that property may prove inaccurate.

We will face competition from third parties, including other multifamily communities, which may limit our profitability and the return on your investment.

The multifamily industry is highly competitive. This competition could reduce occupancy levels and revenues at our multifamily properties, which would adversely affect our operations. 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. Our competitors include those in other apartment communities both in the immediate vicinity where our multifamily properties will be located and the broader geographic market. Such competition may also result in overbuilding of multifamily communities, causing an increase in the number of apartment units available and potentially decreasing our occupancy and apartment rental rates. We may also 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.

The large quantity of foreclosed homes and low residential mortgage rates may result in potential renters purchasing residences rather than leasing them, and as a result, cause a decline in occupancy rates.

The large quantity of foreclosed homes, 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 lease them, thereby causing a decline in the occupancy rates of our properties.

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

We may make acquisitions outside of our existing market areas or the property classes of our primary focus if appropriate opportunities arise. Our sponsor s, advisor s or any of our affiliates historical experience in their existing markets in owning and operating certain classes of property does not ensure that we will be able to operate successfully in new markets, should we choose to enter them, or that we will be successful in new property classes. 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 personnel, and a lack of familiarity with local governmental and permitting procedures. In addition, we may abandon opportunities to enter new markets or acquire new classes of property 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 may also 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 expect the returns that we can earn on such cash to 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.

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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 will likely 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.

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 will also 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.

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Our ability to sell our properties may also 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.

We may acquire 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 acquire properties 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 owners of such properties who sell them to us. Additionally, we may agree to lock-out provisions in connection with obtaining financing for the acquisition of properties. Lock-out provisions could materially restrict us from selling, otherwise disposing of or 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 the shares, relative to the value that would result if the lock-out provisions did not exist. 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.

Actions of our joint venture partners could subject us to liabilities in excess of those contemplated or prevent us from taking actions which are in the best interests of our stockholders, which could result in lower investment returns to our stockholders.

We may enter into joint ventures with affiliates and other third parties to acquire or improve properties. We may also 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;
- the possibility that our co-venturer, co-owner or partner in an investment might become insolvent or bankrupt;
- the possibility that we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;
- that such 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
- that 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 might subject us to liabilities in excess of those contemplated and thus reduce your investment returns. 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

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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.

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 intend to incur or increase our mortgage debt by obtaining loans secured by selected, or all of our, real properties to obtain funds to acquire additional real properties and/or make capital improvements to properties. We may also 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 for U.S. federal income tax purposes.

We intend to incur mortgage debt on a particular property 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 real 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.

We may also 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 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 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 or, subject to the limitations in our charter, on the amount we can borrow for the purchase of any individual property or other investment. Under our charter, the maximum amount of our secured and unsecured borrowings in relation to net assets cannot exceed 300% of net assets (the equivalent of 75% of the cost of our net assets) on the date of any

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borrowing in the absence of a satisfactory showing that a higher level of borrowing is appropriate, approval by a majority of independent directors and disclosure to our stockholders. Net assets means our total assets, other than intangibles, at cost before deducting depreciation, reserves for bad debts or other non-cash reserves less our total liabilities, calculated at least quarterly on a basis consistently applied. This restriction does not, however, apply to individual properties, and therefore, does not limit our ability to borrow more than 75% of the contract purchase price for any individual property.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make.

When we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when the properties are refinanced, we may not be able to finance the properties at reasonable rates and our income could be reduced. If this occurs, it would reduce cash available for distribution to our stockholders, and it may prevent us from borrowing more money.

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 have also experienced volatility as a result of certain factors including the tightening of underwriting standards by lenders and credit rating agencies and the restricted Collateralized Mortgage Backed Securities market. Credit spreads for major sources of capital widened significantly as investors have demanded a higher risk premium. This resulted in lenders increasing the cost for debt financing. Should the overall cost of borrowings increase again as it did in recent years, either by increases in the index rates or by increases in lender spreads, we would 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 reduced the amount of capital that was available to finance real estate, which, in turn, (a) prevented real estate investors from relying on capitalization rate compression to generate returns and (b) slowed real estate transaction activity. If these or similar dislocations in debt markets were renewed, they could have a material 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.

Consequently, in light of recent volatility in the credit markets, there is 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.

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 our company 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 or 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 deemed to be an

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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 U.S. government securities and cash items) on an unconsolidated basis. We believe that our company and most, if not all, of our wholly 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.

Additionally, Rule 3a-1 under the Investment Company Act generally provides than an issuer will not be deemed to be an investment company under the Investment Company Act provided that (1) it does not hold itself out as being engaged primarily, or propose to engage primarily, in the business of investing, reinvesting or trading in securities, and (2) on an unconsolidated basis except as otherwise provided no more than 45% of the value of its total assets, consolidated with the assets of any wholly owned subsidiary (exclusive of government securities and cash items), consists of, and no more than 45% of its net income after taxes, consolidated with the net income of any wholly owned subsidiary (for the last four fiscal quarters combined), is derived from, securities other than government securities, securities issued by employees securities companies, securities issued by certain majority owned subsidiaries of such company and securities issued by certain companies that are controlled primarily by such company. We believe that we, our operating partnership and the subsidiaries of our operating partnership will satisfy this exclusion, and we will monitor our holdings to ensure continuing and ongoing compliance with Rule 3a-1.

A change in the value of any of our assets could cause us 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 the company or any of its 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.

If we were required to register our company 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.

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 intend 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

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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 advisor 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 maintain our qualification as a REIT for U.S. federal income tax purposes.

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 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.

If we are required to make payments under any bad boy carve-out guaranties that we may provide in connection with certain mortgages and related loans, our business and financial results could be materially adversely affected.

In obtaining certain nonrecourse loans, we may provide standard carve-out guaranties. These guaranties are only applicable if and when the borrower directly, or indirectly through agreement with an affiliate, joint venture partner or other third party, voluntarily files a bankruptcy or similar liquidation or reorganization action or takes other actions that are fraudulent or improper (commonly referred to as bad boy guaranties). Although we believe that bad boy carve-out guaranties are not guaranties of payment in the event of foreclosure or other actions of the foreclosing lender that are beyond the borrower s control, some lenders in the real estate industry have recently sought to make claims for payment under such guaranties. In the event such a claim were made against us under a bad boy carve-out guaranty, following foreclosure on mortgages or related loan, and such claim were successful, our business and financial results could be materially adversely affected.

We may be subject to risks related to interest rate fluctuations, and the derivative financial instruments that we may use may be costly and ineffective and may reduce the overall returns on your investment.

We may be subject to risks related to interest rate fluctuations if any of our debt is subject to a floating interest rate. 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

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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.

Complying with REIT requirements may limit our ability to hedge risk effectively.

The REIT provisions of the Code may limit our ability to hedge the risks inherent to our operations. As mentioned above, from time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Any income or gain derived by us from transactions that hedge certain risks, such as the risk of changes in interest rates, will not be treated as gross income for purposes of either the 75% or the 95% Gross Income Test, as defined below in Certain Material U.S. Federal Income Tax Considerations, unless specific requirements are met. Such requirements include that the hedging transaction be properly identified within prescribed time periods and that the transaction either (i) hedges risks associated with indebtedness issued by us that is incurred to acquire or carry real estate assets or (ii) manages the risks of currency fluctuations with respect to income or gain that qualifies under the 75% or 95% Gross Income Test (or assets that generate such income). To the extent that we do not properly identify such transactions as hedges, hedge with other types of financial instruments, or hedge other types of indebtedness, the income from those transactions is not likely to be treated as qualifying income for purposes of the 75% and 95% Gross Income Tests. As a result of these rules, we may have to limit the use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

Compliance with Laws

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 may also 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.

Properties values may also 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

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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 may also incur unexpected expenses relating to the abatement of mold on properties that we may 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.

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 advisor 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.

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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.

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

Our properties are generally expected to be subject to the Americans with Disabilities Act of 1990, as amended, or the Disabilities Act. Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act 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 Disabilities Act 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 Disabilities Act 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 properties we acquire must comply with Title III of the Disabilities Act, to the extent that such properties are public accommodations and/or commercial facilities as defined by the Disabilities Act. Compliance with the Disabilities Act could require removal of structural barriers to handicapped access in certain public areas of our multifamily properties where such removal is readily achievable. The Disabilities Act does not, however, consider residential properties, such as multifamily properties 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.

United States Federal Income Tax Risks

If we fail to continue 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 continue to qualify as a REIT under the Code. A REIT generally is not taxed at the corporate level on income and gains that it distributes to its stockholders on a timely basis. Although we do not intend to request a ruling from the Internal Revenue Service, or the IRS, as to our REIT status, we have received the opinion of our tax counsel, Alston & Bird LLP, with respect to our qualification as a REIT. This opinion has been issued in connection with this offering. Investors should be aware, however, that opinions of counsel are not binding on the IRS or on any court. The opinion of Alston & Bird 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

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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. Alston & Bird 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, new legislation, 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 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;
- 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.

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.

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

To continue to qualify as a REIT, we must meet annual distribution requirements, which may result in us distributing amounts that may otherwise be used for our operations.

To obtain the favorable tax treatment accorded to REITs, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income (excluding net capital gain), determined without regard to the deduction for distributions paid. We are 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, it is possible that we might not always be able to do so. See Certain Material U.S. Federal Income Tax Considerations.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To continue to qualify as a REIT, we must continually satisfy various tests regarding sources of income, nature and diversification of assets, amounts distributed to shareholders and the ownership of common shares. In order to satisfy these tests, we may be required to forgo investments that might otherwise be made. Accordingly, compliance with the REIT requirements may hinder our investment performance.

In particular, at least 75% of our total assets at the end of each calendar quarter must consist of real estate assets, government securities, and cash or cash items. For this purpose, real estate assets generally include interests in real property, such as land, buildings, leasehold interests in real property, stock of other entities that qualify as REITs, interests in mortgage loans secured by real property, investments in stock or debt instruments during the one-year period following the receipt of new capital and regular or residual interests in a real estate mortgage investment conduit, or REMIC. In addition, the amount of securities of a single issuer that we hold, other than securities qualifying under the 75% asset test and certain other securities, must generally not exceed either 5% of the value of such issuer s gross assets or 10% of the vote or value of such issuer s outstanding securities.

A REIT s net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including any mortgage loans, held in inventory or primarily for sale to customers in the ordinary course of business. The prohibited transaction tax may apply to any sale of assets to a securitization and to any sale of securitization securities and, therefore, may limit our ability to sell assets to or equity in securitizations and other assets.

It may be possible to reduce the impact of the prohibited transaction tax and the holding of assets not qualifying as real estate assets for purposes of the REIT asset tests by conducting certain activities, holding non-qualifying REIT assets or engaging in securitization transactions through our TRSs, subject to certain limitations as described below. To the extent that we engage in such activities through TRSs, the income associated with such activities may be subject to full U.S. federal corporate income tax.

You may have current tax liability on distributions that you elect to reinvest in shares of our common stock.

If you participate in our distribution reinvestment program, you will be deemed to have received a cash distribution equal to the fair market value of the stock received pursuant to the program. For U.S. federal income tax purposes, you will be taxed on this amount in the same manner as if you have received cash. Further, to the extent that we have current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), you will have ordinary taxable income except to the extent, if any, we have designated such amount as a capital gain dividend. To the extent that we make a distribution in excess of such earnings and profits, the distribution will be treated first as a tax-free return of capital, which will reduce the tax basis in your stock, and the amount of the distribution in excess of such basis will be taxable as a gain realized from the sale of your common stock. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the common stock received. See Certain Material U.S. Federal Income Tax Considerations.

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 status. Under applicable provisions of the Code regarding prohibited transactions by REITs, we will be subject to a 100% 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 excluding our taxable REIT subsidiaries, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of trade or business. Whether 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. No assurance can be given that any particular property we own, directly or through any subsidiary entity, including our operating partnership, but excluding our taxable REIT subsidiaries, 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 taxable REIT subsidiaries would increase our overall tax liability.

Some of our assets may need to be owned or sold, or some of our operations may need to be conducted, by taxable REIT subsidiaries. Any of our taxable REIT subsidiaries will be subject to U.S. federal and state income

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tax on their taxable income. The after-tax net income of our taxable REIT subsidiaries would be available for distribution to us. Further, we will incur a 100% excise tax on transactions with our taxable REIT subsidiaries that are not conducted on an arm s length basis. For example, to the extent that the rent paid by one of our taxable REIT subsidiaries 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 taxable REIT subsidiaries will be conducted on an arm s length basis, and, therefore, any amounts paid by our taxable REIT subsidiaries to us will not be subject to the excise tax; provided, however, no assurance can be given that no excise tax would arise from such transactions.

Legislative or regulatory action could adversely affect the returns to our investors.

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 continue to receive substantially better tax treatment than entities taxed as 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 taxed 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 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 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 REIT status.

Distributions to tax-exempt investors may be classified as unrelated business taxable income, or UBTI, and tax-exempt investors would be required to pay tax on such income and to file income tax returns.

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of stock should generally constitute UBTI to a tax-exempt investor. However, there are certain exceptions to this rule, including:

- under certain circumstances, part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as UBTI if our stock is predominately held by qualified employee pension trusts, such that we are a pension-held REIT (which we do not expect to be the case);

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part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute UBTI if such investor incurs debt in order to acquire the common stock; and

part or all of the income or gain recognized with respect to our stock held by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from U.S. federal income taxation under Sections 501(c)(7), (9), (17) or (20) of the Code may be treated as UBTI.

We encourage you to consult your own tax advisor to determine the tax consequences applicable to you if you are a tax-exempt investor. See Certain Material U.S. Federal Income Tax Considerations Taxation of Tax-Exempt Stockholders.

Distributions to foreign investors may be treated as an ordinary income distribution to the extent that it is made out of current or accumulated earnings and profits.

In general, foreign investors will be subject to regular U.S. federal income tax with respect to their investment in our stock if the income derived therefrom is effectively connected with the foreign investor s conduct of a trade or business in the United States. A distribution to a foreign investor that is not attributable to gain realized by us from the sale or exchange of a U.S. real property interest within the meaning of the Foreign Investment in Real Property Tax Act of 1980, as amended, or FIRPTA, will be treated as an ordinary income distribution to the extent that it is made out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Generally, any ordinary income distribution will be subject to a U.S. federal income tax equal to 30% of the gross amount of the distribution, unless this tax is reduced by the provisions of an applicable treaty. See the Certain Material U.S. Federal Income Tax Considerations Taxation of Non-U.S. Stockholders section below.

Foreign investors may be subject to FIRPTA tax upon the sale of their shares of our stock.

A foreign investor disposing of a U.S. real property interest, including shares of stock of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to FIRPTA tax, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is domestically controlled. A REIT is domestically controlled if less than 50% of the REIT s stock, by value, has been owned directly or indirectly by persons who are not U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT s existence. While we intend to qualify as domestically controlled, we cannot assure you that we will. If we were to fail to so qualify, gain realized by foreign investors on a sale of shares of our stock would be subject to FIRPTA tax, unless the shares of our stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 5% of the value of our outstanding common stock. See the Certain Material U.S. Federal Income Tax Considerations Taxation of Non-U.S. Stockholders section below.

Foreign investors may be subject to FIRPTA tax upon a capital gain dividend.

A foreign investor would be subject to FIRPTA tax upon the payment of any capital gain dividend by us if such dividend is attributable to gain from sales or exchanges of U.S. real property interests. See the Certain Material U.S. Federal Income Tax Considerations Taxation of Non-U.S. Stockholders section below for further discussion.

We encourage you to consult your own tax advisor to determine the tax consequences applicable to you if you are a foreign investor.

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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 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 plans, or 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 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 constitutes a 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 is suitable for any particular plan. Rather, we will accept entities as stockholders if an entity otherwise meets the suitability standards set forth in Investor Suitability Standards.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements included in this prospectus that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as may, should, expect, could, intend, plan, anticipate, e believe, continue, predict, potential or the negative of such terms and other comparable terminology.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to effectively utilize the proceeds raised in this offering;
- changes in economic conditions generally and the real estate and debt markets specifically;
- legislative or regulatory changes (including changes to the laws governing the taxation of REITs);
- the availability of capital;
- interest rates; and
- changes to U.S. generally accepted accounting principles, or GAAP.

Any of the assumptions underlying forward-looking statements could be inaccurate. You are cautioned not to place undue reliance on any forward-looking statements included in this prospectus. All forward-looking statements are made as of the date of this prospectus and the risk that actual results will differ materially from the expectations expressed in this prospectus will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements after the date of this prospectus, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward-looking statements included in this prospectus, including without limitation, the risks described under Risk Factors, the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this prospectus will be achieved.

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CONFLICTS OF INTEREST

We are subject to conflicts of interest arising out of our relationships with our sponsor, advisor, property manager and their affiliates. All of our agreements and arrangements with such parties, including those relating to compensation, are not the result of arm s length negotiations. Some of the conflicts inherent in our transactions with our sponsor, advisor, property manager and their affiliates, and the limitations on such parties adopted to address these conflicts, are described below. Our sponsor, advisor, property manager and their affiliates will try to balance our interests with their own. However, to the extent that such parties take actions that are more favorable to other entities than to us, these actions could have a negative impact on our financial performance, and as a result, on distributions to you and the value of our stock.

Our advisor, executive officers and their affiliates may face conflicts of interest.

We do not have any employees, and, as a result, will rely on the employees of our advisor and its affiliates for the day-to-day operation of our business. Each of our executive officers is also an officer or employee of our sponsor and/or its affiliates, and as a result, these individuals owe fiduciary duties to these other entities and their stockholders, members and limited partners. Because our sponsor and its affiliates engage in other business activities, the employees of our sponsor and its affiliates may experience conflicts of interest in allocating their time and resources among our business and these other activities. The amount of time that our advisor 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 properties. 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 advisor will attempt to hire additional employees who would devote substantially all of their time to our business. There is no assurance that our advisor will devote adequate time to our business; however, our advisor believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to us and all of the other activities for which they are responsible.

If our advisor 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 these things occur, the returns on our investments, our ability to make distributions to stockholders and the value of your investment may suffer. Some of these individuals 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 effect on our operations and your investment. Our advisor, property manager and their respective affiliates may, in the future, be engaged in other activities that could result in potential conflicts of interest with the services that they provide to us. In addition, our sponsor may compete with us for the acquisition and/or refinancing of properties of a type suitable for our investment following the final closing of this offering.

Property management services are being provided by an affiliated party.

Our property manager is controlled by our sponsor, and is thus subject to an inherent conflict of interest. Specifically, because the property manager will receive significant fees for managing our properties, our advisor may face a conflict of interest when determining whether we should sell properties under circumstances where the property manager 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.

The consideration paid for properties that we acquired from our sponsor and for other properties we may acquire from our affiliates may be higher than we would pay if the transaction were the result of arm s length negotiations.

The consideration paid for the properties that we acquired from our sponsor did not exceed appraisals from independent appraisers selected by our independent directors. In no event will we acquire any additional property from an affiliate at an amount in excess of its current appraised value as determined by an independent appraiser selected by our independent directors not otherwise interested in the transaction. An appraisal is current if obtained within the prior year. 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 an independent third-party appraiser to determine fair market value when acquiring properties from our advisor, our sponsor or their affiliates, we may pay more for particular properties than we would have paid in an arm s length transaction, which would reduce our cash available for investment in other properties or distribution to our stockholders. Notwithstanding the foregoing, we will not enter into transactions with our affiliates to purchase property at a higher price than the cost of the property to our affiliate unless substantial justification for the excess exists and such excess is reasonable (and in no event shall the cost of such asset to us exceed its current appraised value).

Our sponsor and its affiliates face a conflict of interest with respect to their interest in our operating partnership.

We are the sole general partner of our operating partnership. Wholly owned subsidiaries of our sponsor contributed seven multifamily properties to us in exchange for the assumption by us of mortgage indebtedness associated with those properties and issuance of limited partner interests. Because our sponsor and its affiliates are also limited partners in the operating partnership, our sponsor and its affiliates face a conflict of interest with respect to their interest in our operating partnership.

Our properties that were contributed by our sponsor are subject to financing provided by our sponsor, and our sponsor may provide financing arrangements to us for the acquisition of additional properties.

As part of our acquisition of multifamily properties from our sponsor, our operating partnership issued limited partner interests and assumed mortgage indebtedness provided by our sponsor associated with the properties. Our sponsor may make certain financing available to us in connection with the acquisition of the future multifamily properties we intend to acquire. As a result, we will face conflicts of interests because our executive officers are also executive officers or employees of our sponsor and would be responsible for negotiating the terms of any loan agreement on our behalf as well as on our sponsor s behalf. In addition, our sponsor may have interests that are or that become inconsistent with our interests, which may cause us to disagree with our sponsor as to the best course of action with respect to the payment terms, remedies available under and refinancing of the loan and which disagreement may not be resolved to our satisfaction. Our sponsor may also take or fail to take certain steps in the event of default without pursuing alternative remedies which may be in our best interests, such as renegotiation of loan terms or workouts that a third-party lender might pursue.

Our sponsor may provide loan financing to us through the use of a CDO or other special purpose vehicle.

Our sponsor invests in, manages and services real estate assets through a comprehensive set of debt financing options to the commercial real estate industry, including mortgages, mezzanine loans, other loans and preferred equity interests. Our sponsor finances this portfolio primarily through securitizations in which it has a retained interest, in which it seeks to match the payment terms, interest rate and maturity dates of its financings with the payment terms, interest rate and maturity date of its investments. Our sponsor s retained interests consist of the subordinated notes and equity. Our sponsor uses a CDO which provides long-dated, interest-only, match funded financing. Our sponsor is permitted to replace maturing loan collateral with new loans through the fifth anniversary of each financing. The cash flows represented by the loans made available by our sponsor are combined and sold to investors in the CDO. The tranche purchased by an investor in the CDO determines the priority of payment from the future cash flows, with senior tranche holders being paid first, followed by mezzanine tranche holders and finally the junior or equity tranche holders. Similarly, the risk of loss by the loans in the CDO is divided among tranches in reverse order of seniority, with losses first affecting the equity holder, then the mezzanine holder and finally the senior holder. The entity that is responsible for ensuring timely payments under the loans in the CDO is the collateral manager.

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Our sponsor may make loan financing available to us. The loans between us and our sponsor may replace certain maturing loans in the existing CDO or may be securitized in the future in a non-recourse special purpose vehicle, or SPV. The cash flows from our loan would be included in the CDO or SPV and distributed to investors in the CDO or SPV according to the priority of payment based on the tranche held. The collateral manager, which would be an entity not affiliated with our sponsor, would be responsible for ensuring timely payments under the terms of the loans. If we are unable to make payments on the loans from our sponsor, we may not be able to amend the loans from our sponsor on terms acceptable to us as a result of the securitization of the loans in the CDO.

Payment of fees to our advisor and its affiliates will reduce cash available for investment and distribution.

Our advisor and its affiliates will perform services for us in connection with the selection and acquisition of our properties and other investments. They will be paid significant fees for these services, which will reduce the amount of cash available for investment and for distribution to stockholders. Although our board of directors will review the compensation of our advisor on an annual basis, the agreements between us and our advisor or its affiliates, and the fees paid to them pursuant to such agreements, will not be reached through arm s length negotiations and may not reflect the terms that would be available from a third party. These fees increase the risk that the amount available for payment of distributions to our stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares of stock in this offering. Substantial up-front fees also increase the risk that you will not be able to resell your shares of stock at a profit, even if our stock is listed on a national securities exchange. See Compensation Table and Management.

Our advisor and its affiliates receive fees and other compensation based upon our investments.

Some compensation is payable to our affiliates whether or not there is cash available to make distributions to our stockholders. To the extent this occurs, our advisor 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 advisor are based on total assets under management, including assets purchased using debt, our advisor may have an incentive to incur a high level of leverage in order to increase the total amount of assets under management. These fees could influence our advisor s advice to us. In addition, our advisor s ability to receive fees and reimbursements depends on our continued investment in real properties. Therefore, the interest of our advisor and its affiliates in receiving fees may conflict with the interest of our stockholders in earning income on their investment in our common stock.

Our advisor may receive substantial fees in connection with the refinancing of any debt that we use to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties.

In connection with any refinancing of our debt that we use to acquire properties or to make other permitted investments, including any indebtedness assumed by us in connection with the acquisition of properties, we will pay our advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations. There is no limit on our ability to refinance our indebtedness. As a result, our advisor has an incentive to recommend that we refinance our existing indebtedness, regardless of whether the structure, terms or conditions are favorable to us given our then-existing debt levels and current market conditions. Although our charter limits the amount of indebtedness that we may incur, our advisor may have an incentive to recommend that we refinance our indebtedness and incur additional indebtedness in connection with such refinancing.

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

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

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. Investments in joint ventures which own real properties may involve risks otherwise not present when we purchase real properties directly. For example, our co-venturer may file for bankruptcy protection, have economic or business interests or goals which are inconsistent with our interests or goals, or take actions contrary to our instructions, requests, policies or objectives. Among other things, actions by a co-venturer might subject real properties owned by the joint venture to liabilities greater than those contemplated by the terms of the joint venture or other adverse consequences.

These diverging interests 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 that the co-venturers may not be able to agree on matters relating to the property they jointly own. 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.

Certain Conflict Resolution Measures

Allocation of Investment Opportunities

As previously mentioned, we rely on our sponsor and its executive officers, and real estate professionals acting on behalf of our advisor, to identify suitable investments. Such executive officers and real estate professionals currently serve as officers of the sponsor and may in the future serve as advisors and managers for other real estate investment programs sponsored by our sponsor. As such, many investment opportunities may be suitable for us as well as other real estate programs sponsored by our sponsor or affiliates of our sponsor, and we will rely upon the same executive officers and real estate professionals to identify suitable investments for us as such other programs. Subject to the allocation methodology described below, such real estate professionals have complete discretion in allocating investment opportunities, and as a result, could direct attractive investment opportunities to other entities or investors. Our board of directors has a duty to ensure that the method used by our advisor 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.

Before our sponsor or advisor may take advantage of an investment opportunity for its own account or recommend it to others, the advisor is obligated to present such opportunity to us if (a) such opportunity is a fee simple interest in a multifamily property and compatible with our investment objectives and policies, (b) such opportunity is of a character which could be taken by us, and (c) we have financial resources to take advantage of such opportunity. In the event that an investment opportunity becomes available that is suitable for both us and a public or private entity with which the advisor or its affiliates are affiliated for which both entities have sufficient uninvested funds, and the requirements of the preceding sentence have been satisfied, then the entity that has had the longest period of time elapse since it was offered an investment opportunity will first be offered the investment opportunity.

In determining whether or not an investment opportunity is suitable for more than one entity, our advisor will examine such factors, among others, as the cash requirements of each entity, the effect of the acquisition

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both on diversification of each entity s investments by type of property and geographic area and on diversification of the tenants of its properties, the policy of each entity relating to leverage of properties, the anticipated cash flow of each entity, the income tax effects of the purchase to each entity, 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 the acquisition of such investment or a delay in the construction of a property, causes any such investment, in the opinion of our board of directors and the advisor, to be more appropriate for an entity other than the entity that committed to make the investment, the advisor may determine that the other entity affiliated with the advisor or its affiliates will make the investment. It shall be the duty of our board of directors, including our independent directors, to ensure that the method used by the advisor for the allocation of the acquisition of investments by two or more affiliated programs seeking to acquire similar types of assets is reasonable and applied fairly to us.

Independent Directors

In order to reduce the risks created by conflicts of interest, our charter requires our board to be comprised of a majority of persons who are independent directors. Our charter also empowers the independent directors to retain their own legal and financial advisors. Among the matters we expect the independent directors to act upon are:

- the continuation, renewal or enforcement of our agreements with our advisor and its affiliates;
- offerings of our securities;
- sales of properties and other investments;
- investments in properties;
- borrowings;
- transactions with affiliates;
- compensation of our officers and directors who are affiliated with our sponsor and advisor;
- whether and when we seek to list our shares of common stock on a national securities exchange;
- whether and when we seek to become self-managed, which decision could lead to our acquisition of our advisor and affiliates at a substantial price; and
- whether and when our company or its assets are sold.

A majority of our board of directors, including a majority of our independent directors, will approve any investments we acquire from our sponsor, advisor, directors or any of their respective affiliates.

Charter Provisions Relating to Conflicts of Interest

In order to reduce or eliminate certain potential conflicts of interest, our charter contains a number of restrictions relating to conflicts of interest, including the following:

Advisor Compensation

Our charter requires that our independent directors evaluate at least annually whether the compensation that we contract to pay to our advisor and its affiliates is reasonable in relation to the nature and quality of services performed and whether such compensation is within the limits prescribed by our charter. Each such determination will be reflected in the minutes of the meeting of the board of directors. Our independent directors will supervise the performance of our advisor and its affiliates and the compensation we pay to them to determine whether the provisions of our compensation arrangements are being carried out. This evaluation will be based on the following factors as well as any other factors deemed relevant by the independent directors:

- the amount of the advisory fee in relation to the size, composition and performance of our investments;

- the success of our advisor in generating appropriate investment opportunities;
- the rates charged to other REITs, especially similarly structured REITs, and to investors other than REITs, by advisors performing similar services;
- additional revenues realized by our advisor and its affiliates through their relationship with us;
- the quality and extent of service and advice furnished by our advisor and its affiliates;
- the performance of our investment portfolio; and
- the quality of our portfolio relative to the investments generated by our advisor and its affiliates for the account of its other clients.

Term of Advisory Agreement

Each contract for the services of our advisor may not exceed one year, although there is no limit on the number of times that we may retain a particular advisor. Either a majority of our independent directors or our advisor may terminate our advisory agreement without cause or penalty on 60 days written notice.

Acquisitions, Leases and Sales to Affiliates

We will not purchase or lease properties in which our sponsor, our advisor, any of our directors or any of their respective affiliates has an interest without a determination by a majority of the directors, including a majority of the independent directors, 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 substantial justification for any amount that exceeds such cost and such excess amount is determined to be reasonable. In no event will we acquire any such property at an amount in excess of its current appraised value as determined by an independent appraiser selected by our independent directors not otherwise interested in the transaction. An appraisal is current if obtained within the prior year. We will not sell or lease properties to our sponsor, our advisor, any of our directors or any of their respective affiliates unless a majority of the directors, including a majority of the independent directors, not otherwise interested in the transaction, determines the transaction is fair and reasonable to us. We expect that, from time to time, our advisor or its affiliates will temporarily enter into contracts relating to investment in properties and other assets, all or a portion of which is to be assigned to us prior to closing, or may purchase property or other investments in their own name and temporarily hold title for us. There is no dollar or number limitation on transactions with our affiliates.

Other Transactions Involving Affiliates

A majority of our independent directors must conclude that all other transactions with affiliates, including joint ventures, between us and our sponsor, our advisor, any of our officers or directors or any of their affiliates are fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties or, in the case of joint ventures, on substantially the same terms and conditions as those received by the other joint venturers.

Limitation on Operating Expenses

For each calendar quarter, our advisor must reimburse us the amount by which our aggregate total operating expenses for the four fiscal quarters then ended exceed the greater of 2% of our average invested assets or 25% of our net income, unless our independent directors have determined that such excess expenses were justified based on unusual and non-recurring factors. Our limitation on operating expenses is an ongoing limitation. Average invested assets means the average monthly book value of our assets during the 12-month period before deducting depreciation, bad debts or other non-cash reserves. Total operating expenses means all expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (i) the expenses of raising capital such as organization and offering

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expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (ii) interest payments; (iii) taxes; (iv) non-cash expenditures such as depreciation, amortization and bad debt reserves; (v) reasonable incentive fees based on the gain from the sale of our assets; and (vi) acquisition fees and expenses (including expenses relating to potential investments that we do not close), disposition fees on the resale of property and other expenses connected with the acquisition, disposition and ownership of real estate interests, loans or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property). Our advisor will reimburse us from time to time on an annual basis after the completion of our annual audit and no later than March 31 of any such year. Our board of directors measures our aggregate total net income by reviewing our annual report and the financial statements included therein. Our board of directors measures our average invested assets on a quarterly basis by reviewing our quarterly financial statements. If our independent directors do not determine that any excess is justified, our advisor will reimburse us for the amount by which the aggregate expenses exceeded the limitation.

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COMPENSATION TABLE

The compensation arrangements between us, our advisor, property manager, dealer manager, sponsor and their affiliates were not determined by arm s length negotiations. The following table discloses the compensation which we may pay to such parties. In those instances in which there are maximum amounts on the compensation which may be received, our affiliates may not recover any excess amounts for those services by reclassifying them under a different compensation or fee category. See the Conflicts of Interest section of this prospectus for more information about the conflicts of interest with our affiliates.

Except as otherwise described in the table below, the following aggregate amounts of compensation, allowances and fees we may pay to our affiliates are not subordinated to the returns on initial investments that we are required to pay to our stockholders.

Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
	Offering Stage	
Selling Commissions	Payable to our dealer manager up to 7% of gross offering proceeds before reallowance of commissions earned by participating broker-dealers. Our dealer manager intends to reallow all or a portion of commissions earned for those transactions that involve participating broker dealers.	$70,000,000
Dealer Manager Fee	Payable to our dealer manager up to 3% of gross offering proceeds before reallowance to participating broker-dealers. Our dealer manager, in its sole discretion, may reallow a portion of its dealer manager fee of up to 1.5% of the gross offering proceeds to be paid to such participating broker-dealers.	$30,000,000
Organization and Offering Expenses(1)	We pay our advisor up to 1.0% of the gross offering proceeds for organizational and offering expenses (other than dealer manager fees and selling commissions). We currently estimate that $7,261,880 of organizational and offering expenses will be incurred if the maximum offering is achieved. Our advisor and its affiliates are responsible for the payment of organization and offering expenses, other than selling commissions and the dealer manager fee, to the extent they exceed 1.0% of gross offering proceeds, without recourse against or reimbursement by us; provided, however, that in no event will we pay or reimburse organization and offering expenses (including dealer manager fees and selling commissions) in excess of 15% of the gross offering proceeds.	$7,261,880

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
	Operational Stage	
Acquisition Fees	None.	Not applicable.
Acquisition Expenses	Expenses reimbursed to our advisor incurred in connection with the purchase of an asset. We have assumed that acquisition expenses will equal approximately 0.5% of the contract purchase price. The acquisition fees and expenses for any particular asset, including amounts payable to affiliates, will not exceed, in the aggregate, 6% of the contract purchase price (including any mortgage assumed) of the asset. Our advisor will be paid acquisition expenses and we will reimburse our advisor for acquisition expenses only to the extent that acquisition fees and acquisition expenses collectively do not exceed 6% of the contract price of our assets.	$4,925,000 (or $14,071,429 assuming that we incur our targeted leverage or $19,700,000 assuming the maximum amount of leverage permitted by our charter.)
Asset Management Fees	Payable to our advisor in the amount of 0.75% of average invested assets. Average invested assets means the average of the aggregate book value of our assets invested in interests in, and loans secured by, real estate before reserves for depreciation or bad debt or other similar non-cash reserves. We will compute the average invested assets by taking the average of these book values at the end of each month during the quarter for which we are calculating the fee. The fee is payable quarterly in an amount equal to 0.1875% of average invested assets as of the last day of such quarter. We will also reimburse our advisor for expenses that it pays on our behalf.	Not determinable at this time because the fee is based on a fixed percentage of aggregate asset value; there is no maximum dollar amount of this fee.
Property Management and Leasing Fees	Payable to our property manager on a monthly basis in the amount of up to 4% of the gross revenues. Additionally, we may pay our property manager a separate fee for the one-time initial rent-up or leasing-up of newly constructed properties in an amount not to exceed the fee customarily charged in arm s length transactions by others rendering similar services in the same geographic area for similar properties as determined by a survey of brokers and agents in such area.	Not determinable at this time because the fee is based on a fixed percentage of gross revenue and/or market rates; there is no maximum dollar amount of this fee.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
Operating Expenses	We reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services provided to us, subject to the limitation that we will not reimburse our advisor for any amount by which our operating expenses (including the asset management fee and the financing coordination fee) at the end of the four preceding fiscal quarters exceeds the greater of: (A) 2% of our average invested assets, or (B) 25% of our net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of our assets for that period. Notwithstanding the above, we may reimburse our advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. We do not reimburse our advisor or its affiliates for personnel employment costs incurred by our advisor or its affiliates in performing services under the advisory agreement to the extent that such employees perform services for which the advisor receives a separate fee.	Not determinable at this time.
Financing Coordination Fee	If our advisor provides services in connection with the financing of any debt that we obtain, we pay the advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations. We do not pay a financing coordination fee in connection with debt provided by our sponsor. The services our advisor may perform include, without limitation, searching for lenders in connection with a proposed refinancing and negotiating the terms of any proposed refinancing with such lenders. Our advisor may reallow some or all of this fee to reimburse third parties that it retains to procure any such refinancing.	Not determinable at this time because the fee is based on a fixed percentage of any debt financing; there is no maximum dollar amount of this fee.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
	Liquidation Distributions	
Disposition Fee	We may pay our advisor a commission upon the sale of one or more of our properties 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 or (b) 1% of the sale price of the asset. Payment of such fee may be made only if the advisor provides a substantial amount of services in connection with the sale of the asset. 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 the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset or 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 properties and commissions that would be reasonable, customary and competitive at the time of sale.
Subordinated Participation in Net Sale Proceeds	After investors have received a return of their capital contributions invested and a 7% annual cumulative, non-compounded return, then RAIT NTR Holdings, LLC as holder of the special units is entitled to receive 10% of the remaining net sale proceeds. We cannot assure you that we will provide this 7% return, which we have disclosed solely as a measure for our advisor s and its affiliates incentive compensation.	Not determinable at this time because actual amounts are dependent upon the sale proceeds of specific properties.
Subordinated Participation Upon a Listing	Upon listing our common stock on a national securities exchange, RAIT NTR Holdings, LLC as holder of the special units is entitled to a fee based on the redemption of the special units equal to 10% of the amount, if any, by which (a) the market value of our outstanding stock plus distributions paid by us prior to listing, exceeds (b) the aggregate remaining capital contributed by investors plus an amount equal to a 7% annual cumulative, non-compounded return to investors on their aggregate capital contributed. We have no intent to list our shares at this time. We cannot assure you that we will provide this 7% return, which we have disclosed solely as a measure for our advisor s and its affiliates incentive compensation.	Not determinable at this time because actual amounts are dependent upon the future value of our stock and distributions that may be paid by us.

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Type of Compensation	Determination of Amount	Estimated Amount for Maximum Offering (100,000,000 Shares)
Subordinated Participation Upon a Termination of Advisory Agreement	Upon termination of the advisory agreement, RAIT NTR Holdings, LLC as holder of the special units will be entitled to a subordinated participation payable in the form of shares of our common stock or a promissory note that does not bear interest. The subordinated participation, if any, will be equal to 10% of the amount, if any, by which (1) the appraised value of our assets on the termination date, less any indebtedness secured by such assets, plus total distributions paid through the termination date, less any amounts distributable as of the termination date to limited partners who received units in the operating partnership in connection with the acquisition of any assets upon the liquidation or sale of such assets (assuming the liquidation or sale of such assets on the termination date) exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to repurchase shares of our common stock pursuant to our share repurchase plan) and the total amount of cash that, if distributed to them as of the termination date, would have provided them a 7% annual cumulative, pre-tax, non-compounded return on the gross proceeds from the sale of shares of our common stock through the termination date. The subordinated participation will be payable solely from the net proceeds from the sale of properties.	Not determinable at this time because actual amounts are dependent upon the future appraised value of our properties.

(1) Organization and offering expenses other than selling commissions and the dealer manager fee consist of actual legal, accounting, printing and other accountable offering expenses, including without limitation, amounts to reimburse our advisor for marketing, salaries and direct expenses of its employees, employees of its affiliates and others while engaged in registering and marketing the shares of our common stock to be sold in connection with this offering, which includes without limitation, development of marketing materials and marketing presentations, *bona fide* due diligence expenses of broker-dealers included in a detailed and itemized invoice, and coordinating generally the marketing process for this offering in addition to certain oversight costs.

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PRIOR PERFORMANCE OF OUR SPONSOR

The information presented in this section represents the historical operating results for our sponsor. Other than its own operations, our sponsor has not sponsored any other real estate programs. Investors in our shares of common stock should not assume that they will experience returns, if any, comparable to those experienced by investors in our sponsor. Investors who purchase our shares of common stock will not thereby acquire any ownership interest in our sponsor.

The returns to our stockholders will depend in part on the properties in which we invest. Because our sponsor invests primarily in debt instruments, our portfolio will differ significantly from the portfolio of our sponsor and the returns to our stockholders will vary from those generated by our sponsor. In addition, our sponsor is a self-managed, publicly-traded company with an indefinite duration. As a result, you should not assume the past performance of our sponsor described below will be indicative of our future performance.

Overview of Our Sponsor

Our sponsor is a vertically integrated commercial real estate company capable of originating, investing in, managing, servicing, trading and advising on commercial real estate-related assets. Our sponsor offers a comprehensive set of debt financing options to the commercial real estate industry. Our sponsor also owns and manages a portfolio of commercial real estate properties and manages commercial real estate properties and real estate-related assets for third parties. Our sponsor is a self-managed and self-advised Maryland REIT formed in August 1997, that commenced operations in January 1998. Since its formation, our sponsor has raised approximately $2.5 billion in various forms of debt securities, preferred equity securities and common equity.

Our sponsor s objective is to provide its shareholders with total returns over time while managing the risks associated with its investment strategy. Our sponsor s management team is positioning our sponsor for future growth in the area of its historical core competency, commercial real estate lending and direct ownership of real estate, while diversifying the revenue generated from its commercial real estate loans and properties and reducing or removing other non-core assets and activities.

The core components of our sponsor s business strategy are described as follows:

Provide commercial real estate financing. Our sponsor provides a comprehensive set of debt financing options to the commercial real estate industry, including commercial mortgages, mezzanine loans, other loans and preferred equity interests.

Own commercial real estate. As of December 31, 2012, our sponsor owned investments in 59 real estate properties throughout the United States. Its portfolio consisted of 8,206 multifamily units (including our properties, which are consolidated in our sponsor s financial statements), 3,438,096 square feet of office and retail and 21 acres of land. As of December 31, 2012, the properties were 85.1% occupied.

Asset Management and Loan Servicing. Our sponsor manages a portfolio of real estate related assets. As of December 31, 2012, our sponsor had $3.6 billion of assets under management. Assets under management are comprised of our sponsor s consolidated assets and assets it manages but does not consolidate. At December 31, 2012, our sponsor served as the collateral manager on five securitizations that were collateralized by U.S. commercial real estate investments, trust preferred securities, or TruPS, and various real-estate related debt securities. Our sponsor generates fee income from its asset management efforts, primarily from serving as collateral manager. Our sponsor also generates fee income from its subsidiaries that serve as the advisor and dealer manager for companies it sponsors, including our company. Our sponsor also services its U.S. commercial real estate investments. Our sponsor is rated as a commercial mortgage primary servicer and special servicer by Standard & Poor s and by Morningstar.

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Manage its portfolio of debt securities issued by real estate companies. Included in our sponsor s assets are subordinated debt securities issued by real estate companies. Our sponsor has not sought to originate new investments in this portfolio in order to focus on commercial real estate loans and properties. Our sponsor continues to manage the debt securities remaining in its portfolio and earns senior management fees.

Our Sponsor s Investment Portfolios

Our sponsor s investment portfolios are currently comprised of the following asset classes:

Commercial mortgages, mezzanine loans, other loans and preferred equity interests. Our sponsor owns and originates senior long-term mortgage loans, short-term bridge loans, subordinated, or mezzanine, financing and preferred equity interests. These assets are in most cases non-recourse or limited recourse loans secured by commercial real estate assets or real estate entities. This means that our sponsor looks primarily to the assets securing the payment of the loan, subject to certain standard exceptions, for ultimate payment. Our sponsor originates loans that are eligible to be sold to securitizations issuing commercial mortgage backed securities, or CMBS, which we refer to as CMBS eligible loans. Our sponsor may from time to time acquire existing commercial real estate loans from third parties who have originated such loans, including commercial banks, other institutional lenders or third-party investors. Where possible, our sponsor seeks to maintain direct lending relationships with borrowers, as opposed to investing in loans originated by third party lenders.

The tables below describe certain characteristics of our sponsor s commercial real estate loans and other loans as of December 31, 2012 (dollars in thousands):

	Book Value	Weighted-Average Coupon	Range of Maturities	Number of Loans
Commercial Real Estate (CRE) Loans:				
Commercial mortgages	$ 702,967	6.4%	Mar. 2013 to Jan. 2023	50
Mezzanine loans	271,102	9.3	Mar. 2013 to Nov. 2038	83
Preferred equity interests	63,721	9.7	Mar. 2014 to Aug. 2025	15
Total CRE Loans	1,037,790	7.4		148
Other loans	38,570	4.9	Mar. 2013 to Oct. 2016	2
Total investments in loans	$ 1,076,360	7.3%		150

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The charts below describe the property types and the geographic breakdown of our sponsor s commercial real estate loans and other loans as of December 31, 2012:

(a) Based on book value.

Investments in real estate. Our sponsor invests in real estate properties, primarily multifamily properties, throughout the United States. The table below describes certain characteristics of our sponsor s investments in real estate as of December 31, 2012 (dollars in thousands, except average effective rent):

	Investments in Real Estate	Average Physical Occupancy	Units/ Square Feet/ Acres	Number of Properties	Average Effective Rent[(a)] For the Year Ended December 31, 2012	Average Effective Rent[(a)] For the Year Ended December 31, 2011
Multifamily real estate properties[(b)]	$ 557,729	90.0%	8,206	34	$ 706	$ 680
Office real estate properties[(c)]	236,887	72.8%	2,015,524	11	19.64	19.41
Retail real estate properties[(c)]	75,808	73.2%	1,422,572	4	12.32	9.08
Parcels of land	47,765	N/A	21.92	10	N/A	N/A
Total	$ 918,189	85.1%		59		

(a) Based on properties owned as of December 31, 2012.
(b) Average effective rent is rent per unit per month.
(c) Average effective rent is rent per square foot per year.

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The charts below describe the property types and the geographic breakdown of our sponsor s directly-owned investments in real estate as of December 31, 2012:

(a) Based on book value.

Investments in debt securities TruPS and subordinated debentures. Historically, our sponsor provided REITs and real estate operating companies the ability to raise subordinated debt capital through TruPS and subordinated debentures. TruPS are long-term instruments, with maturities ranging from five to 30 years, which are priced based on short-term variable rates, such as the three-month London Inter-Bank Offered Rate, or LIBOR. TruPS are unsecured and generally contain minimal financial and operating covenants. Our sponsor financed most of its debt securities portfolio in a series of non-recourse securitizations which provided long-dated, interest-only, match funded financing to the TruPS and subordinated debenture investments. As of December 31, 2012, our sponsor retained a controlling interest in two such securitizations: Taberna Preferred Funding VIII, Ltd., or Taberna VIII, and Taberna Preferred Funding IX, Ltd, or Taberna IX. During 2012, due to credit performance of the underlying collateral, our sponsor received only its senior collateral management fees from these two securitizations. Our sponsor does not expect to add investments in this asset category for the foreseeable future due to market conditions.

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The table below describes investments in TruPS and subordinated debentures included in our sponsor s consolidated financial statements as of December 31, 2012 (dollars in thousands):

			Issuer Statistics	
Industry Sector	Estimated Fair Value	Weighted-Average Coupon	Weighted Average Ratio of Debt to Total Capitalization	Weighted Average Interest Coverage Ratio
Commercial Mortgage	$ 107,949	1.6%	64.5%	3.0x
Office	134,086	7.5	62.3	1.5x
Residential Mortgage	49,194	2.7	79.6	2.0x
Specialty Finance	77,177	5.1	83.8	(0.8)x
Homebuilders	73,272	7.8	62.6	1.6x
Retail	76,160	4.0	61.8	1.7x
Hospitality	32,468	6.4	99.6	3.0x
Storage	26,045	8.0	74.2	3.9x
Total	$ 576,351	4.6%	69.7%	1.8x

The chart below describes the equity capitalization of investments in TruPS and subordinated debentures included in our consolidated financial statements as of December 31, 2012:

(a) Based on the most recent information available to management as provided by our TruPS issuers or through public filings.

(b) Based on estimated fair value.

Investments in debt securities other real estate related debt securities. Our sponsor has invested, and expects to continue to invest, in CMBS, unsecured REIT notes and other real estate-related debt securities.

Unsecured REIT notes are publicly traded debentures issued by large public reporting REITs and other real estate companies. These debentures generally pay interest semi-annually. CMBS generally are multi-class debt or pass-through certificates secured or backed by single loans or pools of mortgage loans on commercial real estate properties. These investments may include loans and securities that are rated investment grade by one or more nationally-recognized rating agencies, as well as both unrated and non-investment grade loans and securities.

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The table and the chart below describe certain characteristics of our sponsor s real estate-related debt securities as of December 31, 2012 (dollars in thousands):

	Estimated Fair Value	Weighted-Average Coupon	Weighted-Average Years to Maturity	Book Value
Unsecured REIT note receivables	$ 30,000	6.7%	4.1	$ 32,769
CMBS receivables	83,342	5.6%	32.2	43,810
Other securities	53,962	2.9%	35.9	2,579
Total	$ 167,034	4.8%	28.9	$ 79,158

(a) S&P Ratings as of December 31, 2012.

Our Sponsor s Other Investment Program

Our sponsor serves as the sponsor for Independence Mortgage Trust, Inc., or IMT, a Maryland corporation that intends to qualify and elect to be taxed as a REIT for U.S. federal income tax purposes. IMT was formed to originate, acquire and manage a portfolio of commercial real estate loans, CMBS and other commercial real estate-related securities. IMT filed its registration statement on Form S-11 (SEC File No. 333-178088), registering an initial public offering of up to $1.65 billion in shares of common stock, with the SEC on November 21, 2011. IMT s registration statement has not yet been declared effective by the SEC.

Adverse Business Developments

The business of our sponsor has been adversely affected by recessionary economic conditions that began in the second half of 2007.

Our sponsor took a number of strategic steps in 2009 to adapt its business to economic conditions, including engaging in a series of transactions intended to focus on opportunities in financing and owning commercial real estate by removing non-core assets from its balance sheet. These transactions contributed to our sponsor s losses in 2009 because they generated losses on sales of assets. Our sponsor s losses in 2009 were caused by these divestures, increases in the provision for loan losses and asset impairment charges. During 2009, our sponsor sold its interests in four debt securities securitizations and its entire residential mortgage portfolio, comprised of interests in six residential mortgage securitizations. Upon completion of these sales, our sponsor removed the associated assets and liabilities from its consolidated balance sheet. The disposition of the debt securities securitizations resulted in a loss of $313.8 million and the disposition of the residential mortgage securitizations resulted in a loss of $61.8 million. Our sponsor s provision for losses recorded during 2009 was $226.6 million, which was comprised of $130.1 million associated with its commercial real estate loan portfolio and $96.5 million related to residential mortgages and mortgage-related receivables held by the residential mortgage securitizations prior to their disposition. Our sponsor recorded asset impairment charges of $46.0 million during 2009. These asset impairments were comprised of investments in securities whose carrying values were reduced due to overall credit conditions and increased delinquencies of the underlying collateral.

Our sponsor s net losses in 2008 and 2007 were primarily caused by increases to our sponsor s allowance for loan losses, changes in the fair value of our sponsor s financial instruments and asset impairments. Our sponsor increased its allowance for loan losses to $172.0 million as of December 31, 2008 from $26.4 million as of December 31, 2007. The provision for losses recorded during 2008 was $162.8 million and resulted from increased delinquencies in its residential mortgage loans and increases in its non-performing loans. During 2008, the change in fair value of our sponsor s financial instruments fluctuated significantly from historical levels due to the status of the credit markets at the time. The change in fair value of our sponsor s financial instruments was a net decrease of $552.4 million during 2008, before allocations of $206.0 million to noncontrolling interests. This change was comprised of a decrease in the fair value of our sponsor s financial assets totaling $1.7 billion, a decrease in the fair value of our sponsor s financial liabilities totaling $1.6 billion and a decrease in the fair value of our sponsor s interest rate derivatives totaling $394.8 million. Our sponsor recorded asset impairments of $67.1 million during 2008. These asset impairments were comprised of $22.6 million associated with investments in securities whose cash flows were reduced during 2008 from collateral defaults, $29.1 million associated with intangible assets, and $15.4 million associated with direct real estate investments where the expected recovery value of the property diminished below our sponsor s investment basis.

Our sponsor, certain of its executive officers and trustees and the lead underwriters involved in its public offering of common shares in January 2007 were named defendants in class action securities lawsuits filed in 2007. The lawsuits alleged, among other things, that certain defendants violated the Securities Act and the Exchange Act by making materially false and misleading statements and material omissions in registration statements and prospectuses about our sponsor s credit underwriting, exposure to certain issuers through investments in debt securities, and its loan loss reserves and other financial items. The lawsuits were settled by written agreement in July 2009, which was approved by a federal district court in December 2009. The settlement was funded within the limits of our sponsor s directors and officers insurance. Under the terms of the settlement, the lawsuits were dismissed with prejudice and all defendants received a full release of all claims asserted against them.

Further information concerning the operating results of our sponsor is provided in Table III of Appendix A.

Liquidity of Public Programs

FINRA Rule 2310(b)(3)(D) requires that we disclose the liquidity of prior public programs sponsored by RAIT Financial Trust, our sponsor. As discussed above, our sponsor sponsors one prior public program, Independence Mortgage Trust, Inc., which has not yet commenced operations.

ESTIMATED USE OF PROCEEDS

The amounts listed in the table below represent our current estimates concerning the use of the offering proceeds. Since these are estimates, they may not accurately reflect the actual receipt or application of the offering proceeds. The first scenario assumes we sell the minimum number of 250,000 shares of common stock in this offering and the second scenario assumes that we sell the maximum number of 100,000,000 shares in this offering, with both scenarios contemplating a price of $10.00 per share. Our advisor or its affiliates may advance, and we will reimburse for, organizational and offering costs incurred on our behalf, but only up to 1.0% of the gross proceeds of our offering. Assuming the maximum number of shares is sold, we estimate that at least 88.5% of the money raised in this offering will be used to acquire a diverse portfolio of multifamily properties located in the United States. The table below does not give effect to special sales or volume discounts which could reduce selling commissions or sales of our shares pursuant to our distribution reinvestment program and many of the figures represent management s best estimate because they cannot be precisely calculated at this time.

	Minimum Dollar Amount	Percent	Maximum Dollar Amount	Percent
Gross offering proceeds	$ 2,500,000	100.0%	$ 1,000,000,000	100.0%
Less offering expenses:				
Selling commissions and dealer manager fee(2)	250,000	10.0	100,000,000	10.0
Organizational and offering expenses(3)	25,000	1.0	10,000,000	1.0
Net proceeds	2,225,000	89.0	890,000,000	89.0
Acquisition costs:				
Acquisition fees(4)				
Acquisition expenses(4)	11,125	0.5	4,925,000	0.5
Initial working capital reserves(5)				
Total proceeds available for investment(1)	$ 2,213,875	88.5%	$ 885,075,000	88.5%

(1) 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. Our ability to pay regular distributions and the size of these distributions will depend upon a variety of factors. If we pay such distributions from offering proceeds, then we will have less offering proceeds available for investment. We commenced monthly distributions in July 2011. We generally do not intend to fund such distributions from offering proceeds; however, if we have not generated sufficient cash flow from our operations and other sources, such as from borrowings, advances from our advisor, our advisor s deferral, suspension and/or waiver of its fees and expense reimbursements, to fund distributions, we may use the offering proceeds. Moreover, our board of directors may change this policy, in its sole discretion, at any time.

(2) Includes selling commissions equal to 7% of aggregate gross offering proceeds and a dealer manager fee equal to 3% of aggregate gross offering proceeds, both of which are payable to the dealer manager, our affiliate. See Plan of Distribution Volume Discounts for a description of volume discounts. Our dealer manager, in its sole discretion, intends to reallow selling commissions of up to 7% of aggregate gross offering proceeds to unaffiliated broker-dealers participating in this offering attributable to the amount of shares sold by them. In addition, our dealer manager may reallow a portion of its dealer manager fee to participating dealers in the aggregate amount of up to 1.5% of gross offering proceeds to be paid to such participating dealers as marketing fees, based upon such factors as the volume of sales of such participating dealers, the level of marketing support provided by such participating dealers and the assistance of such participating dealers in marketing the offering, or to reimburse representatives of such participating dealers for the costs and expenses of attending our educational conferences and seminars. The amount of selling commissions may often be reduced under certain circumstances for volume discounts.

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(3) Organization and offering expenses, other than selling commissions and the dealer manager fee, consist of reimbursement of actual legal, accounting, printing and other accountable offering expenses, including amounts to reimburse our advisor for marketing, salaries and direct expenses of its employees, and employees of its affiliates while engaged in registering and marketing the shares (including, without limitation, reimbursement of *bona fide* due diligence expenses of broker-dealers included in a detailed and itemized invoice), reimbursement of our advisor for costs in connection with preparing supplemental sales materials, and other marketing, coordination, administrative oversight and organization costs. Our advisor and its affiliates are responsible for the payment of organization and offering expenses, other than selling commissions and the dealer manager fee, to the extent they exceed 1.0% of gross offering proceeds, without recourse against or reimbursement by us; provided, however, that in no event will we pay or reimburse organization and offering expenses (including selling commissions and dealer manager fees) in excess of 15% of the gross offering proceeds. We currently estimate that approximately $7,261,880 of organization and offering expenses (excluding dealer manager fees and selling commissions) will be incurred if the maximum offering of 100,000,000 shares is sold.

(4) We will not pay any acquisition fees in connection with our acquisition of properties. Acquisition expenses are estimated by us, for illustrative purposes, based on the