BERKSHIRE INCOME REALTY INC
Form 10-K
March 29, 2006
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File number 001-31659

Berkshire Income Realty, Inc.

State of Incorporation - Maryland

Internal Revenue Service Employer Identification No. 32-0024337

One Beacon Street, Boston, Massachusetts 02108

(617) 523-7722

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

Title of Class	Name of each exchange on which registered
Series A 9% Cumulative Redeemable Preferred Stock	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-3 of the Act).

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes[X] No [ ]
?

Aggregate market value of voting securities held by non-affiliates: Not applicable.

There were 1,406,196 shares of Class B common stock outstanding as of March 29, 2006.

Documents incorporated by reference: Certain documents incorporated by reference are listed in the Exhibit Index herein.

The are a total of 110 pages comprising this Form 10-K

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PART IV

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SPECIAL NOTE REGARD FORWARD-LOOKING STATEMENTS

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

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

PART I

ITEM 1. BUSINESS

Executive Summary

Berkshire Income Realty, Inc. (the Company or BIR) sustained its trend of productive operations during 2005. BIR expanded its property holdings with the acquisition of interests in six properties in transactions that approximated $134,000,000 of aggregate market value at the time of purchase. The Company also made a commitment to invest $23,400,000 of capital in the Berkshire Multifamily Value Fund, a limited partnership, and affiliate of the Company, of which approximately $1,500,000 has been invested as of the end of the year.

Additionally, the Company fixed interest rates on more than $120,000,000 of both new and refinanced mortgages, overall occupancies trends at the Same Portfolio Properties (properties acquired or placed in service prior to January 1, 2004) continue to be positive and the Company continued its strategy of exploring and implementing renovation opportunities at the portfolio properties.

For the first time, BIR was successful in acquiring two properties pursuant to winning bids at foreclosure auction, a strategy the Company continues to explore. Additionally, after receiving an unsolicited offer for one of its Florida properties, the Company accepted the offer and sold its first property. The proceeds from the sale were immediately reinvested in the purchase of substitute property. Finally, of the six new multifamily apartment communities acquired during the year, one purchase represented entry into North Carolina, a new market for BIR.

During 2005, in the wake of rising interest rates, the Company continued to aggressively finance and refinanced its portfolio to take advantage of rising, but still historic low mortgage rates. Fixed rate mortgages of $115,949,000 were financed on newly acquired properties during the year at an average interest rate of approximately 5.2% and a

$3,320,000 variable interest rate mortgage was replaced, with a $4,100,000 fixed interest rate mortgage, reducing the then current variable rate of 5.7% to a fixed interest rate of 5.17%.

In 2005, occupancy levels stabilized in the low 90% range which was relatively consistent with average levels from the prior year at the Same Portfolio Properties. Occupancy levels benefit from the Company s strategy for setting rental rates, which generally tries to balance occupancy with rental increases to achieve market level occupancy rates. In periods of market softness, BIR will offer short-term rental concessions to new and renewing tenants to maintain occupancy without producing significant fluctuations in market rental rates. This strategy allows the Company to react more quickly to temporary changes in market conditions without obligating the Company to long-term commitments of lowered rental rates.

The substantial renovation of various portfolio properties continues to yield positive financial results in 2005. Seasons of Laurel in Maryland, which began 2003, was approximately 80% complete at year end and continues to meet targeted expectations with respect to return on capital invested and is currently expected to be completed in the third quarter of 2006. The retro fit of Hannibal Grove in Maryland to provide in unit washer and dryer connections and renovation of kitchens and bathrooms is progressing as well as other major projects approved and implemented during 2005 at the Yorktowne and Brompton properties, in Maryland and Texas, respectively.

In 2006, the Company will continue exploring acquisition sourcing strategies that include market, non-market/seller direct, bank and lender owned real estate and foreclosure auctions. BIR received an offer for the purchase of another of its Florida multifamily apartment communities in early 2006. In relation to the offer, the Company executed an agreement to sell the property and currently expects to close in the second quarter of 2006. The Company intends to reinvest its proceeds from the sale in a substitute property, if a suitable opportunity can be identified.

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

Business

In 2002, the Company filed a registration statement on Form S-11 with the SEC with respect to its offers (the Offering) to issue its 9% Series A Cumulative Redeemable Preferred Stock (Preferred Shares) in exchange for interests (Interests) in the following six mortgage funds: Krupp Government Income Trust (GIT), Krupp Government Income Trust II (GIT II), Krupp Insured Mortgage Limited Partnership (KIM), Krupp Insured Plus Limited Partnership (KIP), Krupp Insured Plus II Limited Partnership (KIP II), and Krupp Insured Plus III Limited Partnership (KIP III) (collectively, the Mortgage Funds). For each Interest in the Mortgage Funds validly tendered and not withdrawn in the Offering, the Company offered to issue its Preferred Shares based on an exchange ratio applicable to each Mortgage Fund. The registration statement was declared effective on January 9, 2003. Offering costs incurred in connection with the Offering have been reflected as a reduction of preferred shares reflected in the financial statements of the Company.

On April 4, 2003 and April 18, 2003, the Company issued 2,667,717 and 310,393 Preferred Shares, with a $25.00 liquidation preference per share. The Preferred Shares were issued in exchange for Interests in the six Mortgage Funds referred to above. For each Interest in the Mortgage Funds that was validly tendered and not withdrawn in the Offering, the Company issued its Preferred Shares based on an exchange ratio applicable to each Mortgage Fund.

Simultaneously with the completion of the Offering on April 4, 2003, KRF Company, L.L.C. (KRF Company), an affiliate of the Company, contributed its ownership interests in five multifamily apartment communities (the Properties) to our operating partnership, Berkshire Income Realty OP, L.P. (the Operating Partnership) in

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exchange for common limited partner interests in the Operating Partnership. KRF Company then contributed an aggregate of $1,283,213, or 1% of the fair value of the total net assets of the Operating Partnership, to the Company, which together with the $100 contributed prior to the Offering, resulted in the issuance of 1,283,313 shares of common stock of the Company to KRF Company. This amount was contributed by the Company to its wholly owned subsidiary, BIR GP, L.L.C., who then contributed the cash to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership.

The Operating Partnership is the successor to the Berkshire Income Realty Predecessor Group (the Predecessor). The merger of the separate businesses into the Company and the Operating Partnership was considered a purchase business combination with the Predecessor being the accounting acquirer. Accordingly, the acquisition or contribution of the various Predecessor interests was accounted for at the interests historical cost. The acquisition of the Interests was accounted for using purchase accounting based upon the fair value of the Interests acquired.

Certain minority ownership interests in three of the contributed multifamily properties are owned by an unaffiliated third party. As the minority interests did not change in connection with the completion of the Offering, the accounting for these interests is based on existing carrying amounts.

As a result of the common control of ownership between the Predecessor and the Company, the Company was not deemed a new reporting entity pursuant to the provisions of Accounting Principles Board Opinion #20 Accounting Changes. Accordingly, the financial statements of the Company did not start fresh upon completion of the Offering in April 2003. Rather, the Company s financial statements are a continuation of the Predecessor s financial statements and have been re-titled to those of the Company effective in April 2003.

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

On March 20, 2003, KRF Company, through a newly formed affiliate, Gables of Texas Limited Partnership (Gables), and its general partner, Gables of Texas, L.L.C., also a newly formed affiliate, acquired The Gables Apartments, a 140-unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party for a purchase price of approximately $6,925,000. On April 24, 2003, the Operating Partnership acquired all of the interests in Gables and Gables of Texas L.L.C. from KRF Company for approximately $6,925,000 plus closing costs of approximately $143,000. The purchase price for Gables and Gables of Texas, L.L.C. was equal to the purchase price KRF Company paid the original seller of The Gables Apartments (including equity payments, transfer taxes, financing and closing costs as applicable). The Gables Apartments is a contiguous property to Walden Pond Apartments; the Company owns both communities and currently operates them as one community under the name Walden Pond/Gable Apartments.

Due to the affiliation of the ownership of the Company and KRF Company, the acquisition of interests in the Gables property has been accounted for as a reorganization of entities under common control, requiring the Company to retroactively restate its financial statements from March 20, 2003, the acquisition date of the property by KRF Company, through the period presented, which is similar to the accounting for a pooling of interests.

On April 29, 2003, the Preferred Shares began trading on the American Stock Exchange, under the symbol BIR.pr.a .

On May 30, 2003, the Operating Partnership and its wholly owned subsidiary, BIR McNab Sub, L.L.C., a newly formed Delaware limited liability Company, acquired all of the outstanding limited and general partner units of McNab KC3 Limited Partnership (McNab) from affiliates of the Company. The acquisition was structured as a contribution of units from an affiliate of the Company in exchange for the issuance by the Operating Partnership of 5,000 common limited partner units valued at $10.00 per unit. McNab is the fee simple owner of a 276-unit multifamily apartment community located in Pompano, Florida that is referred to as Windward Lakes Apartments. The former general and limited partners of McNab are affiliates of the Company, namely George and Douglas Krupp. The acquisition was approved by the audit committee of the Board, which is composed solely of directors who are independent under applicable rules and regulations of the SEC and American Stock Exchange. At the time of the contribution, control of both the Company and McNab rested with George and Douglas Krupp via their 100% ownership interest in the common stock of the Company through KRF Company s ownership of such shares and their 100% indirect ownership interest in the general and limited partnership units of McNab. Therefore, the acquisition or contribution of the general and limited partnership units of McNab by the Operating Partnership in exchange for the issuance by the Operating Partnership of common limited partner units is considered a transfer of net assets between entities under common control.

Due to the affiliation of the ownership of the Company and McNab, the acquisition of the interests in McNab has been accounted for as a reorganization of entities under common control, requiring the Company to retroactively restate its financial statements for the periods presented, which is similar to the accounting for a pooling of interests.

On October 30, 2003, the Operating Partnership, through a newly formed and wholly owned subsidiary, St. Marin/Karrington Limited Partnership (St. Marin/Karrington), whose general partner, SM Karrington, L.L.C., also a newly formed affiliate, acquired The St. Marin/Karrington Apartments, a 600 unit multifamily apartment community located in Coppell, Texas, from a third party for a purchase price of approximately $46,125,000.

On January 28, 2004, our Operating Partnership, through its newly formed and wholly owned subsidiary Marina Mile L.L.C., purchased Pond Apple Creek Apartments (subsequently renamed The Berkshires at Marina Mile (Marina Mile)), a 306-unit multifamily apartment community located in Fort Lauderdale, Florida, from Pond Apple Creek Associates Limited Partnership. The seller was an unaffiliated third party. The purchase and sale agreement, as amended, was agreed upon through arms-length negotiations and provided for the purchase price of $23,000,000 to be paid in cash. The purchase price was funded with available cash and new first mortgage financing. Effective May 1, 2004, the Company consummated a multifamily venture relationship (the Multifamily Venture) with an unaffiliated third party (the Venture Partner) whereby each of the parties to the agreement agreed to participate, on a pro rata basis, in the economic benefits of Marina Mile. Under the terms of the limited liability company agreement governing the Multifamily Venture, the Venture Partner contributed, in cash, 65% of the total Multifamily Venture equity in exchange for a 65% interest in the newly formed entity, JV Marina Mile, L.L.C. (the L.L.C.). The Operating Partnership contributed its interest in Marina Mile, L.L.C., the fee simple owner of the property, in exchange for a 35% interest in the L.L.C. and a cash distribution representing a return of capital of approximately $3,594,693 net of $387,236 of additional capital invested by the Operating Partnership. Both parties received proportional distributions of available cash up to an effective 10% internal rate of return on each party s capital (the Preferred Return). After payment of the Preferred Return and the return of each party s capital contribution, the Operating Partnership is entitled to, in addition to its 35% pro rata share, additional distributions equal to approximately 30% of the distributions otherwise payable to the Venture Partner. The Operating Partnership is the managing member of the L.L.C. The Company evaluated its investment in the Multifamily Venture and concluded that the investment did not fall under the requirements of FIN 46R; therefore the Company accounted for the investment under Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9) as an equity method investment.

On March 30, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiary BIR Laurel Woods Limited Partnership, purchased Laurel Woods Apartments (Laurel Woods), a 150-unit multifamily apartment community located in Austin, Texas, from Berkshire Mortgage Finance Limited Partnership (the Seller), an affiliate of the Company. The acquisition was approved by the audit committee of the Board, which is composed solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange. The Seller acquired the property through foreclosure on February 2, 2004. The purchase price of $5,250,000 was funded with available cash.

On March 31, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiary BIR Bear Creek Limited Partnership, purchased Bear Creek Apartments (Bear Creek) from an unaffiliated third party. The purchase price of $4,900,000 was funded with available cash. Bear Creek is a 152-unit multifamily apartment community located in Dallas, Texas. Prior to the sale, the seller had acquired the property through foreclosure.

On November 3, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiaries, BIR Bridgewater, L.L.C. and BIR Trellis L.L.C., purchased Bridgewater on the Lake Apartments (Bridgewater) and Trellis at Lee s Mill Apartments (Trellis), respectively, from an unaffiliated third party. Bridgewater is a 216 unit

multifamily apartment community located in Hampton, Virginia. Trellis is a 176 unit multifamily apartment community located in Newport News, Virginia. The purchase price for Bridgewater and Trellis was $18,590,000 and $8,825,000, respectively, and was funded with available cash and new first mortgage financing.

On November 4, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiaries, BIR Arboretum L.L.C. and BIR Silver Hill L.L.C., purchased Arboretum Place Apartments (Arboretum) and Silver Hill at Arboretum Apartments (Silver Hill), respectively, from an unaffiliated third party. Arboretum is a 184 unit multifamily apartment community located in Newport News, Virginia. Silver Hill is a 153 unit multifamily apartment community also located in Newport News, Virginia. The gross purchase price for Arboretum and Silver Hill was $10,575,000 and $4,350,000, respectively. The properties were purchased subject to the assumption of the existing mortgages outstanding on the properties with a face value of approximately $5,929,000 and $3,444,000, respectively. The purchase price, net of assumed debt, was paid from available cash. Pursuant to the provisions of SFAS No. 141, Business Combinations , the assumed mortgages were recorded at fair value, based on the present value of the amounts to be paid under the obligations. The fair market value of the debt assumed on Arboretum and Silver Hill is $6,894,193 and $4,010,241, respectively. Additionally, on November 4, 2004, the Company acquired the vacant land adjacent to Arboretum for $1,500,000 from F.C. Arboretum Land Associates, L.P., an unaffiliated third party. The purchase of the land was funded with available cash.

Effective September 24, 2004, the Operating Partnership consummated the JV BIR/ERI, L.L.C. multifamily venture agreement (JV BIR/ERI) with Equity Resources Investments, L.L.C. (ERI), an unaffiliated third party, whereby each of the parties to the agreement agreed to participate, on a pro rata basis, in the economic benefits of the partnership interests purchased from Capital Realty Investors-II Limited Partnership (CRI). Under the terms of the limited liability company agreement governing JV BIR/ERI, the Operating Partnership own a 58% interest as the managing member and ERI owns the remaining 42% interest. All profits and losses are shared by the Operating Partnership and ERI on a pro rata basis according to their respective ownership interests. Affiliates of the Operating Partnership are entitled to perform asset management and property management services and receive fees in payment thereof. The Company evaluated its investment in JV BIR/ERI and concluded that the investment did not fall under the requirements of FIN 46R, Emerging Issues Task Force Issue No. 03-16, Accounting for Investments in Limited Liability Companies, Statement of Position 78-9, Accounting for Investments in Real Estate Ventures or Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. Therefore the Company has consolidated the investment under Accounting Research Bulletin 51, Consolidated Financial Statements (ARB 51) based on its controlling interest in the subsidiary.

On November 17, 2004, the Operating Partnership, through JV BIR/ERI, consummated the acquisition of 100% of the outstanding limited and general partner interests of Arrowhead Apartments Associates Limited Partnership, the fee owner of Arrowhead Apartments (Arrowhead), a 200 unit multifamily apartment community located in Palatine, Illinois, and Moorings Apartments Associates Limited Partnership, the fee owner of Moorings Apartments (Moorings), a 216 unit multifamily apartment community located in Roselle, Illinois. The net purchase price for the Arrowhead and Moorings interests was $1,313,392 and $416,455, respectively. The properties owned by the partnerships were subject to existing mortgages at the time of the purchase of the Arrowhead and Moorings interests. These mortgages were recorded at their fair value pursuant to the provisions of SFAS No. 141. The fair value approximates the payoff value of the amounts to be paid under the obligations, including the right of defeasance. JV BIR/ERI exercised its right of defeasance and extinguished the outstanding mortgage obligations of approximately $7,431,000 and $8,801,000, respectively. The purchase price and payoff of the existing mortgages were funded through a combination of new mortgage debt, available cash and contributions from ERI.

On December 28, 2004, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Yorktowne, L.L.C., consummated the acquisition of 100% of the fee simple interest of Yorktowne at Olde Mill Apartments (Yorktowne), a 216 unit multifamily apartment community located in Millersville, Maryland, from EQR-Yorktowne Vistas, Inc., an unaffiliated third party, for $21,500,000, plus customary closing costs. The purchase price was paid from available cash. On January 26, 2005, the Company closed on $16,125,000 of first mortgage debt at a fixed interest rate of 5.13% for ten years collateralized by the Yorktowne property.

On December 29, 2004, the Operating Partnership, through JV BIR/ERI, consummated the acquisition of 100% of the outstanding limited and general partner interests of Blackburn Associates Limited Partnership, the fee owner of

Country Place I Apartments (Country Place I), a 192 unit multifamily apartment community located in Burtonsville, Maryland, and Second Blackburn Associates Limited Partnership, the fee owner of Country Place II Apartments (Country Place II), a 120 unit multifamily apartment community also located in Burtonsville, Maryland. The net purchase price for the Country Place I and Country Place II interests was $7,769,720 and $5,054,677, respectively. The properties owned by the partnerships were subject to existing mortgages at the time of the purchase of the Country Place I and Country Place II interests. These mortgages were recorded at their fair value pursuant to the provisions of SFAS No. 141. The fair value approximates the payoff value of the amounts to be paid under the obligations, including the right of prepayment. JV BIR/ERI exercised its right of prepayment on the purchase date and extinguished the outstanding mortgage obligations of approximately $6,728,000 and $4,078,000, respectively. The purchase price and payoff of the existing mortgages were funded through a combination of new mortgage debt, available cash and contributions from ERI.

On February 15, 2005, the Operating Partnership and its newly formed and wholly owned subsidiary, BIR Westchester West, L.L.C., consummated the acquisition of 100% of the outstanding limited and general partner interests of BRI Westchester Limited Partnership, the fee simple owner of Westchester West Apartments, a 345 unit multifamily apartment community located in Silver Spring, Maryland, from BRH Westchester, L.L.C. and BRI OP Limited Partnership (collectively, the Seller). The Seller is an affiliate of the Company. The purchase price, which was agreed upon through arms-length negotiations, was $39,250,000, subject to normal operating pro rations. The acquisition, which was undertaken in an effort to invest available funds and to increase the number of properties in the Company s portfolio, was approved by the Audit Committee of the Board of the Company, which is comprised solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange. The purchase price and related closing costs were funded through a $29,500,000 first mortgage and available cash. The first mortgage has a fixed interest rate of 5.03% and matures on March 1, 2015.

The net purchase price, including closing costs and acquisition fees, was allocated as follows:

		Total
Multifamily apartment communities	$	38,948,802
In-place leases and tenant relationships		732,219
Replacement reserve accounts		111,000
Deferred expenses		196,547
Prepaid expenses and other assets		343,955
Deferred revenue and other liabilities		(326,246)
New first mortgage		(29,500,000)
Cash paid	$	10,506,277

The transaction was complete and the purchase price allocation was final as of December 31, 2005. There are no contingent payments, options or commitments outstanding associated with the acquisition and the results of operations for Westchester West have been reflected in the consolidated results of the Company for the period February 15, 2005 to December 31, 2005. Amortization of acquired-in-place leases is based on the specific expiration dates of the in-place leases over a period of 12 months and amortization of the tenant relationships is based on the straight line method of amortization over a 24 month period. The Company considers the acquisition of Westchester West an individually significant acquisition and has reflected the acquisition in the proforma financial statements presented in note 16 to the financial statements of this Form 10-K.

On March 1, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Brompton Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Waters on Brompton, a 362 unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party. The Company operates the property under the name Berkshires on Brompton Apartments. The acquisition was consummated pursuant to a winning bid placed on the property at foreclosure auction. The successful bid was $14,400,000 and was immediately paid from available cash.

On March 30, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Westchase Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Antilles Apartment Homes, a 324 unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party. The Company will operate the property under the name The Berkshires at Westchase Apartments. The purchase price was $9,900,000, and was subject to normal operating pro rations. The purchase price was immediately paid from available cash.

On May 31, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR-Charlotte I, LLC, consummated the acquisition of 100% of the fee simple interest of Riverbirch Apartments, a 210 unit multifamily apartment community located in Charlotte, North Carolina, from an unaffiliated third party. The acquisition was consummated pursuant to a bid placed at the May 16, 2005 foreclosure auction of the property. The bid of $8,200,000 was declared the winning bid on May 26, 2005, after a mandatory 10 day waiting period during which the seller was required to accept incrementally higher bids (5%) from other interested parties, as required by North Carolina law. A deposit on the purchase price was paid at the time the bid was accepted, and the balance of the acquisition cost was paid on May 31, 2005 at the closing on the property. Both payments were made from available cash.

On June 22, 2005, the Operating Partnership completed the sale of 100% of the fee simple interest of Windward Lakes Apartments (Windward Lakes), a 276-unit multifamily apartment community located in Pompano, Florida, to an unaffiliated third party for a sale price of $34,725,000. The sale price, which was subject to normal operating pro rations, was received immediately in cash. The operating results of Windward Lakes have been presented in the consolidated statement of operations included in this Form 10-K, as discontinued operations in accordance with FAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets.

On July 1, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Lakeridge, L.L.C., consummated the acquisition of 100% of the fee simple interest of Lake Ridge Apartments, a 282 unit multifamily apartment community located in Hampton, Virginia, from an unaffiliated third party. The purchase price of $34,344,000 was paid in part from an escrow account administered by a qualified intermediary institution in connection with the prior sale of a qualified property structured to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended, and the balance was paid from borrowings under the revolving credit facility available to the Company from an affiliate of the Company. The borrowings under the revolving credit facility were repaid subsequent to the closing on Lakeridge Apartments with proceeds from two new mortgages totaling $25,650,000 which were obtained by the Company and are collateralized by the Lakeridge Apartments property. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement.

The net purchase price, including closing costs and acquisition fees, was allocated as follows:

	Total
Multifamily apartment communities	$ 34,349,380
In-place leases and tenant relationships	502,023
Prepaid expenses and other assets	334,822
Deferred revenue and other liabilities	(137,808)
Cash from Section 1031 escrow account	(21,450,876)
New mortgages	(25,650,000)
Cash received	$ (12,052,459)

As of December 31, 2005, the transaction and the purchase price allocation are subject to final adjustment pursuant to an outstanding commitment under the agreement for the seller to build 18 additional apartment units and 48 garages on the property. The Company is negotiating the final details of the outstanding commitment and currently anticipates finalizing the transaction in the first quarter of 2006.

The results of operations for Lakeridge Apartments have been reflected in the consolidated results of the Company for the period July 1, 2005 to December 31, 2005. Amortization of acquired-in-place leases is based on the specific expiration dates of the in-place leases over a period of 12 months and amortization of the tenant relationships is based on the straight line method of amortization over a 24 month period. The Company considers the acquisition of Lakeridge Apartments an individually significant acquisition and has reflected the acquisition in the proforma financial statements presented in note 16 to the financial statements of this Form 10-K.

On August 12, 2005, the Company, together with affiliates, entered into a subscription agreement to invest in BVF, an affiliate of the Advisor. Under the terms of the agreement and the related limited partnership agreement, the Company will invest up to $23,400,000, or approximately 7%, of the total capital of BVF. The Fund s investment strategy is to acquire middle-market properties where there is an opportunity to add value through repositioning or rehabilitation. Under the terms of the BVF partnership agreement, the Company s ability to acquire additional properties is restricted to the two following conditions: (1) the Company can invest up to $8,000,000 per year in new properties from available cash or cash generated from the refinancing of existing properties, for a period of up to thirty-nine months, and (2) the Company is authorized to sell existing properties and reinvest those proceeds through transactions structured to comply with Section 1031 tax deferred exchanges under the Internal Revenue Code of 1986, as amended, (1031 Exchanges) without limit. The Company has evaluated its investment in the Fund and concluded that the investment, although subject to the requirements of FIN 46R, will not require the Company to consolidate the activity of the Fund. The Company will account for its investments in the Fund under Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9), as an equity method investment.

Management has evaluated these restrictions and believes that they will not materially impact the Company. Management believes the Company had invested substantially all of its available capital, as of the date of the subscription agreement, and due to the Company s ability to consummate 1031 Exchanges with existing properties, will not be significantly restricted in its ability to appropriately manage its investments. As of December 31, 2005, BVF has made an initial capital call, as provided for in the BVF partnership agreement, and as a result the Company has made an investment of $1,540,165 in BVF.

On November 18, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Savannah. L.L.C., consummated the acquisition of 100% of the fee simple interest of Savannah at Citrus Park Apartments, a 264-unit multifamily apartment community located in Tampa, Florida, from two unaffiliated third parties. The purchase price was $27,520,000, and was subject to normal operating prorations, apportionments and adjustments as provided for in the applicable purchase and sale agreement. Additionally, the cash portion of the purchase price was reduced by the $15,720,000 principal balance of an existing first mortgage loan on the property that was assumed by the Company, upon its obtaining all necessary approvals from the lender. The mortgage was recorded at its fair value pursuant to the provisions of SFAS No. 141. The fair value approximates the payoff value of the amounts to be paid under the obligation. The remaining $11,800,000 balance of the purchase price was paid from available cash.

On January 4, 2006, the Operating Partnership, through its subsidiaries JV Marina Mile, LLC, and BIR I, LLC, entered into a purchase and sale agreement to sell The Berkshires at Marina Mile Apartments, a 306 unit multifamily apartment community located in Ft Lauderdale, Florida, to an unaffiliated third party. The sales price of the property is $41,978,700, as amended by an amendment to the purchase and sale agreement, and is subject to normal operating prorations and adjustments as provided for in the agreement. The Company has structured the transaction as a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended, and intends to reinvest its share of the proceeds from the sale of Marina Mile in the purchase of a qualified replacement property. The Company currently expects to close on the sale of the property in the first quarter of 2006, subject to certain conditions.

During 2005, the Company received a final liquidating distribution from GIT II, the last of the Mortgage Funds outstanding. The Company accounted for its investment in the Mortgage Funds using the equity method of accounting and as of December 31, 2005, such investment has been reflected as $0 on the balance sheet.

The Company owns parcels of land held for development at certain of its multifamily apartment communities, which it currently intends to develop. Development of the available land is likely to include additional apartment units as well as other amenities such as private garages that would be available for lease by tenants for an additional fee.

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The Company is currently evaluating the development projects and has not committed to the construction as of December 31, 2005.

The Company does not have any employees. Its day-to-day business is managed by Berkshire Advisor, an affiliate of KRF Company, the holder of the majority of our common stock, which has been retained pursuant to the advisory services agreement described under Item 13. Our properties were managed by BRI OP Limited Partnership pursuant to property management agreements described under Item 13 until December 31, 2004. As of January 1, 2005, Berkshire Advisor assumed property management responsibilities under the various property management agreements.

Our principal executive offices are located at One Beacon Street, Suite 1500, Boston, Massachusetts 02108 and our telephone number at that address is (617) 523-7722.

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

ITEM 1A. RISK FACTORS

RISK FACTORS

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

Risk Factors Relating to the Company

Maintenance of our Investment Company Act exemption imposes limits on our operations.

We intend to conduct our operations so as not to be required to register as an investment company under the Investment Company Act of 1940. We believe that there are exemptions under the Investment Company Act that are applicable to us. The assets that we may acquire are limited by the provisions of the Investment Company Act and the exemption on which we rely. In addition, we could, among other things, be required either to change the manner in which we conduct our operations to avoid being required to register as an investment company, or to register as an investment company. Either of these could have an adverse effect on us and the market price for our publicly traded securities. For example, one exception from the definition of an investment company we believe we could rely on would require us to manage our assets such that no more than 40% of our total assets (exclusive of government securities and cash) are invested in investment securities . Generally speaking, investment securities are all securities except securities issued by majority-owned operating company subsidiaries and government securities. To be able to continue to rely on this exception in the event the value of our investment securities were to increase relative to our total assets, we may need to sell certain investment securities that we otherwise would not want to sell. Furthermore, we may be required to hold other non-investment security assets, such as some of our real property assets that we may otherwise want to sell, in order to avoid increasing the value of our investment securities relative to our total assets.

Certain Federal Income Tax Risks

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

We intend to operate in a manner to allow us to qualify as a REIT for federal income tax purposes. Although we believe that we have been organized and will operate in this manner, we cannot be certain that we will be able to operate so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the Code), or to remain so qualified. Qualification as a REIT involves the application of highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. The complexity of these provisions and of the applicable income tax regulations under the Code is greater in the case of a REIT that holds its assets through a partnership, as we do. Moreover, our qualification as a REIT depends upon the qualification of certain of our investments as REITs. In addition, we cannot be certain that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to the qualification as a REIT or the federal income tax consequences of this qualification. We are not aware of any proposal currently being considered by Congress to amend the tax laws in a manner that would materially and adversely affect our ability to operate as a REIT.

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

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

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

REIT distribution requirements could adversely affect our liquidity.

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

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

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

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

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

Risk Factors Relating to Our Business

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

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

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

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

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

In many of the markets where we may seek to acquire multifamily apartment communities we may face significant competition from well capitalized real estate investors, including private investors, publicly traded REITs and institutional investors. This competition can result in sellers obtaining premiums on their real estate, which sometimes pushes the price beyond what we may consider to be a prudent purchase price. We have thus begun expanding our sourcing strategy to include non-market/seller direct deals, bank and lender owned real estate and foreclosure auctions. Some of these acquisition strategies can involve more risk than market rate core and core-plus acquisitions, but may allow the Company to realize higher returns if the underlying assumptions are achieved. However, if the underlying assumptions are not achieved, the additional risks associated with these broader sourcing strategies could result in lower profits, or higher losses, than would be realized in market rate acquisitions.

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

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

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

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

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

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

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

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

We may face significant competition in seeking investments including our affiliate Berkshire Multifamily Value Fund. We may be unable to acquire a desired property because of competition from other well capitalized real estate investors, such as publicly traded REIT s, institutional investors and other investors, including companies that may be affiliated with the Advisor. When we are successful in acquiring a desired property, competition from other real estate investors may significantly increase our purchase price. Some of our competitors may have greater financial and other resources than us and may have better relationships with lenders and sellers, and we may not be able to compete successfully for investments.

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

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

Under our current investment policies, we may not incur indebtedness if by doing so our ratio of debt to total assets, at fair market value, exceeds 75%. However, we may reevaluate our borrowing policies from time to time, and the Board may change our investment policies without the consent of our stockholders. At December 31, 2005 and 2004, our ratio of debt to total assets, at fair market value, was 60.77% and 70.00%, respectively.

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

We carry comprehensive liability, fire, extended coverage and rental loss insurance covering all of our properties, with policy specifications and insured limits that we believe are adequate and appropriate under the circumstances. Some types of losses, such as from terrorism, are uninsurable or not insurable on economically feasible terms. In addition, many insurance carriers are excluding asbestos-related claims and most mold-related claims from standard policies, pricing asbestos and mold endorsements at prohibitively high rates or adding significant restrictions to this coverage. Because of our inability to obtain specialized coverage at rates that correspond to the perceived level of risk, we have not obtained insurance for asbestos-related claims or all mold-related risks. We have obtained a limited amount of terrorism insurance, which we determined was economically feasible, that would cover losses at any of our properties according to the policy specifications and up to the insured limit. We continue to evaluate the availability and cost of additional insurance coverage from the insurance market. If we decide in the future to purchase additional levels of coverage for terrorism, or insurance for asbestos or mold, 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, we would remain obligated for any mortgage debt or other financial obligations related to the property. Any loss of this nature could adversely affect us.

Additionally, the policy specifications of our insurance coverage on our properties include deductibles related to an insured loss. The deductibles applicable to an insured loss caused by Named Storms , as defined in the insurance policy, which are usually in the form of a hurricane, at certain of the properties we operate, are higher than deductibles for other insured losses covered by the policy. Specifically, the deductibles for Named Storms are based on a percentage of the insured property value with a specific minimum amount. Both the percentage and the related minimum amounts are higher than the standard policy deductibles for insured losses caused by a Named Storm in certain higher risk counties of certain states, including Florida, North Carolina, Texas and Virginia and even higher amounts for insured losses caused by a Named Storm in the counties of Dade, Broward and Palm Beach, Florida. In addition to the higher deductibles, coverage also differs as some types of losses are specifically excluded when the cause of the loss is a Named Storm . Examples of items excluded from coverage include fencing and landscape items, such as trees. Losses resulting from Named storms could adversely affect us.

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

Our operating costs may be affected by our obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation with respect to the assets, or loans collateralized by assets, with environmental problems that materially impair the value of assets. Under various federal, state or local environmental laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of hazardous or toxic substances located on or in the property. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. The costs of any required remediation or removal of these substances may be substantial. In addition, the owner s liability as to any property is generally not limited under these laws, ordinances and regulations and could exceed the value of the property and/or the aggregate assets of the owner. The presence of hazardous or toxic substances, or the failure to remediate properly, may also adversely affect the owner s ability to sell or rent the property or to borrow using the property as collateral. Under these laws, ordinances and regulations, an owner or any entity who arranges for the disposal of hazardous or toxic substances, such as asbestos, at a disposal facility may also be liable for the costs of any required remediation or removal of the hazardous or toxic substances at the facility, whether or not the facility is owned or operated by the owner or entity. In connection with the ownership of any of our properties, or participation in ventures, or the disposal of hazardous or toxic substances, we may be liable for any of these costs.

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

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

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

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

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

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

Our multifamily residential properties must comply with Title II of the Americans with Disabilities Act (the ADA) to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the ADA. Compliance with the ADA requires removal of structural barriers to handicapped access in certain public areas of our properties where such removal is "readily achievable." The ADA does not, however, consider residential properties to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as a leasing office, are open to the public. We believe that our properties comply in all material respects with all current requirements under the ADA and applicable state laws. Noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The cost of defending against any claims of liability under the ADA or the payment of any fines or damages could adversely affect our financial condition.

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

We face risks associated with property acquisitions.

We intend to acquire additional properties in the future, either directly or by acquiring entities that own properties. These acquisition activities are subject to many risks. We may acquire properties or entities that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes, or other legal requirements. In each case, our acquisition may be without any recourse, or with only limited recourse, with respect to unknown liabilities or conditions. As a result, if any liability were asserted against us relating to those properties or entities, or if any adverse condition existed with respect to the properties or entities, we might have to pay substantial sums to settle or cure it, which could adversely affect our cash flow and operating results. However, some of these liabilities may be covered by insurance. In addition, we intend to perform customary due diligence regarding each property or entity we acquire. We also intend to obtain appropriate representations and indemnities 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: liabilities for clean-up of undisclosed environmental contamination; claims by tenants, vendors or other persons dealing with the former owners of the properties; liabilities incurred in the ordinary course of business; and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

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

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

Risk Factors Relating to Our Management

We are dependent on Berkshire Advisor and may not find a suitable replacement at the same cost if Berkshire Advisor terminates the advisory services agreement.

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

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

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

Through December 31, 2005, our property manager, an affiliate of Berkshire Advisor, in most cases provided on-site management services for our properties. Our directors who are affiliates of our property manager might be subject to conflicts of interest in their dealings with our property manager. In order to mitigate these conflicts, the renegotiation, renewal or termination of the property management agreements requires the approval of the audit committee of the Board (which committee is comprised of our three directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange). As of January 1, 2005, Berkshire Advisor assumed the role of property manager for our properties, under the same terms as the agreements with the prior property manager.

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

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

We have adopted policies to ensure that Berkshire Advisor does not enter into investments on our behalf involving its affiliates that could be less favorable to us than investments involving unaffiliated third parties. For example, any transaction between us and Berkshire Advisor or any of its affiliates requires the prior approval of the audit committee of the Board (which committee is comprised of our three directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange). Members of our audit committee are also required under our bylaws to be unaffiliated with Berkshire Advisors and its affiliates. We cannot be certain that these policies will be successful in eliminating the influence of any conflicts.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A summary of the multifamily apartment communities in which the Company had an interest as of December 31, 2005 is presented below. Schedule III included in Item 15 to this report contains additional detailed information with respect to individual properties consolidated by the Company in the financial statements contained herein and is incorporated by reference herein.

			(Unaudited)		(Unaudited)
		Year	Total	Ownership	2005
Description	Location	Acquired	Units	Interest	Occupancy (2)
Century	Cockeysville, Maryland	1984	468	75.82%	95.09%
Dorsey s Forge	Columbia, Maryland	1983	251	91.38%	95.64%
Hannibal Grove	Columbia, Maryland	1983	316	91.38%	93.62%
Seasons of Laurel	Laurel, Maryland	1985	1,088	100.00%	90.31%
Walden Pond/Gables	Houston, Texas	1983/2003	556	100.00%	89.36%
St. Marin/Karrington	Coppell, Texas	2003	600	100.00%	94.07%
Laurel Woods	Austin, Texas	2004	150	100.00%	92.76%
Bear Creek	Dallas, Texas	2004	152	100.00%	84.73%
Bridgewater	Hampton, Virginia	2004	216	100.00%	96.55%
Trellis	Newport News, Virginia	2004	176	100.00%	93.61%
Arboretum	Newport News, Virginia	2004	184	100.00%	96.65%
Silver Hill	Newport News, Virginia	2004	153	100.00%	96.79%
Arrowhead	Palatine, Illinois	2004	200	58.00%	92.58%
Moorings	Roselle, Illinois	2004	216	58.00%	94.77%
Country Place I	Burtonsville, Maryland	2004	192	58.00%	96.60%
Country Place II	Burtonsville, Maryland	2004	120	58.00%	97.10%
Yorktowne	Millersville, Maryland	2004	216	100.00%	84.70%
Westchester West	Silver Spring, Maryland	2005	345	100.00%	96.71%
Berkshires on Brompton	Houston, Texas	2005	362	100.00%	77.52%

Berkshires at Westchase	Houston, Texas	2005	324	100.00%	81.17%
Riverbirch	Charlotte, North Carolina	2005	210	100.00%	81.79%
Lakeridge	Hampton, Virginia	2005	282	100.00%	96.54%
Savannah at Citrus Park	Tampa, Florida	2005	264	100.00%	95.93%
			7,041		
Marina Mile (1)	Fort Lauderdale, Florida	2004	306	35.00%	98.30%
Total			7,347		

All of the properties in the above table, with the exception of Bear Creek and the Arboretum Land, are encumbered by mortgages as of December 31, 2005.

(1) The Company owns a 35% interest in Marina Mile, an unconsolidated multifamily venture.

(2) Represents the average year-to-date physical occupancy.

ITEM 3. LEGAL PROCEEDINGS

We currently are not party, and none of our properties is subject, to any material pending legal proceedings and do not know of any such proceedings contemplated by governmental authorities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

There is no established public trading market for the outstanding common stock of the Company, the majority of which is held by KRF Company. During 2005, the Company declared a cash dividend on its common stock for each of the quarters ended March 31, June 30, September 30, and December 31, 2005. The per share amount of the dividends paid in the quarters ended March 31 and June 30 was $0.004656, $0.004249 for the quarter ended September 30 and $0.101977 for the quarter ended December 31, 2005. The Company plans to declare cash dividends on its outstanding common stock in the future.

Refer to Item 12 herein for disclosures relating to the Company's equity compensation plans.

On June 20, 2005, the Company issued and sold an aggregate of 122,883 shares of its Class B Common Stock (the Stock) to individuals deemed to be executive officers of the Company for an aggregate purchase price of approximately $290,000, paid in cash, in a transaction made in compliance with Rule 506 promulgated under the Securities Act of 1933, as amended (the Act), and therefore exempt from the registration requirements of Section 5 of the Act. The exemption was available with respect to the sale and issuance of the Stock due to the limited number of purchasers of the Stock and their status as accredited investors.

During the period October 1, 2005 to December 31, 2005, no purchases of any of the Company's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, were made by or on behalf of the Company or any "affiliated purchaser."

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data regarding the financial position and operating results of the Company. See Management s Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc. for a discussion of the entities that comprise the Company. The following financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc. and the financial statements of the Company (including the related notes contained therein). See the Index to Financial Statements and Financial Statement Schedule on page 69 to this report.

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Selected financial data for the years ended December 31, 2004 and 2003 have been revised to reflect the sale of Windward Lakes in 2005. The operating results of Windward Lakes for 2004 and 2003 have been reclassed to discontinued operations to provide comparable information to 2005. No reclass of operating results was required for the years ended 2002 and 2001 as there was no activity related to Windward Lakes as the Company acquired the property in 2003.

	Berkshire Income Realty, Inc. December 31, Company 2005	Company 2004	Company 2003	Predecessor 2002	Predecessor 2001
Operating Data:					
Revenue	$ 63,991,266	$ 37,541,446	$ 28,581,412	$ 28,359,756	$ 27,788,117
Equity in income of Mortgage Funds	3,040,732	3,392,585	6,720,746	-	-
Depreciation	21,107,820	10,823,256	7,508,833	5,877,594	5,379,034
Income (loss) before minority interest in properties, equity in loss of Multifamily Venture and Limited Partnership, equity in income of Mortgage Funds, minority common interest in Operating Partnership, discontinued operations and gain on transfer of property to Multifamily Venture	(13,391,978)	(7,119,015)	(1,911,768)	1,557,596	(5,028,901)
Net income (loss) from continuing operations	(17,722,083)	(7,911,187)	3,933,385	37,596	(4,800,901)
Income (loss) from discontinued operations	24,110,830	(133,168)	(291,125)	-	-
Net income (loss)	6,388,747	(7,811,651)	3,642,260	37,596	(4,800,901)
Net loss available to common shareholders	(312,049)	(14,512,465)	(1,308,998)	-	-
Net income (loss) from continuing operations per common share, basic and diluted	$ (13.14)	$ (6.16)	$ 4.15	$ -	$ -
Net income (loss) from discontinued operations per common share, basic and diluted	$ 17.87	$ (0.10)	$ (0.31)	$ -	$ -
Net loss per common share basic and diluted	$ (0.23)	$ (11.31)	$ (1.38)	$ -	$ -
Weighted average common shares outstanding - basic and diluted	1,348,963	1,283,313	948,733	-	-
Cash dividends declared on common OP Units and Shares	$ 7,500,000	$ 1,000,000	$ 750,000	$ -	$ -
Balance Sheet Data, at year end:					
Real estate, before accumulated depreciation	$ 510,957,049	$ 374,508,276	$ 247,832,637	$ 189,055,522	$ 185,759,899
Real estate, after accumulated depreciation	384,046,110	260,554,434	145,222,916	94,343,424	96,925,395
Cash and cash equivalents	22,134,658	31,913,045	42,145,947	4,852,257	4,395,110
Total assets	425,661,892	321,105,499	238,875,093	105,472,654	107,099,133
Total long term obligations	370,521,700	268,716,955	184,471,204	122,318,027	93,380,165
Minority interest in properties	7,003,446	7,422,481	-	-	619,000

Stockholders equity (deficit)	32,923,388	33,235,183	47,757,319	(22,526,662)	8,454,523
Other Data:					
Total multifamily apartment communities (at end of year)	24	18	7	6	6
Total apartment units (at end of year)	7,347	5,836	3,555	2,815	2,815
Funds from operations (1)	$ 8,233,802	$ 6,532,120	$ 10,623,663	$ 5,903,432	$ -
Cash flows (used in) provided by operating activities	$ 14,115,221	$ 9,638,906	$ 7,809,045	$ 7,552,654	$ (3,916,442)
Cash flows used in investing activities	(109,371,965)	(76,698,381)	(24,189,632)	(3,497,694)	(33,240,651)
Cash flows (used in) provided by financing activities	85,478,357	56,826,573	53,674,277	(3,597,813)	33,359,493

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

The Company s calculation of FFO may not be directly comparable to FFO reported by other REITs or similar real estate companies that have not adopted the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance; FFO should be compared with our reported net income and considered in addition to cash flows in accordance with GAAP, as presented in our financial statements. The Company did not have common shares or Operating Partnership units and shares outstanding for the years ended December 31, 2000, 2001 and 2002.

The following is a reconciliation of GAAP net income (loss) to FFO:

	December 31,		
	2005	**2004**	**2003**
Net income (loss)	$ 6,388,747	$ (7,811,651)	$ 3,642,260
Add:			
Depreciation of real property	16,727,642	8,964,346	6,288,282
Depreciation of real property included in results of discontinued operations	388,541	-	-
Minority interest in Operating Partnership	7,320,750	976,100	732,075
Minority interest in properties	-	2,932,572	143,518
Amortization of acquired in-place leases and tenant relationships	3,321,236	1,603,612	212,200
Equity in loss of Multifamily Venture	163,587	276,085	-
Funds from operations of Multifamily Venture	230,445	-	-
Less:			
Minority interest in properties	(83,063)	-	-
Funds from operations of Multifamily Venture	-	(1,260)	-
Minority interest in properties share of funds from operations	(1,008,978)	(174,980)	(394,672)
Gain on transfer of property to Multifamily Venture	-	(232,704)	-
Gain on disposition of real estate assets	(25,215,105)	-	-
Funds from Operations	$ 8,233,802	$ 6,532,120	$ 10,623,663

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF BERKSHIRE INCOME REALTY, INC. (FORMERLY BERKSHIRE INCOME REALTY PREDECESSOR GROUP)

The following discussion should be read in conjunction with the consolidated financial statements, the notes thereto and the selected financial data appearing elsewhere in this report. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as indicative of future operations. The Company considers portions of the information to be forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, with respect to the Company s expectations for future periods. Forward-looking statements include, without limitation, statements related to acquisition, (including any related pro forma financial information) future capital expenditures, financing sources and availability and the effects of environmental and other regulations. Although the Company believes that the expectations reflected in those forward-looking statements are based upon reasonable assumptions, we cannot be certain that our expectation will be achieved. Factors that may cause actual results to differ include general economic and local real estate conditions, the weather and other conditions that might affect operating expenses, the timely completion of repositioning activities within anticipated budgets, the actual pace of future acquisitions and sales, the acquisition restrictions placed on the Company by its investment in Berkshire Multifamily Value Fund, LP and continued access to capital to fund growth. For this purpose, any statements contained herein that are not statements of historical fact should be deemed to be forward-looking statements. Without limiting the foregoing, the words believes , anticipates , plans , expects , seeks , estimates similar expressions are intended to identify forward-looking statements. Readers should exercise caution in interpreting and relying on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Company s control and could materially affect the Company s actual results, performance or achievements.

Overview

The Company is engaged primarily in the ownership, acquisition and rehabilitation of multifamily apartment communities in the Baltimore/Washington D.C., Southeast, Southwest and Midwest areas of the United States. We conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets through the Operating Partnership, a Delaware limited partnership. The Company s wholly owned subsidiary, BIR GP, L.L.C., a Delaware limited liability company, is the sole general partner of the Operating Partnership. As of March 24, 2006, the Company is the owner of 100% of the preferred limited partner units of the Operating Partnership, whose terms mirror the terms of the Company s Preferred Shares and, through BIR GP, L.L.C., owns 100% of the general partner interest of the Operating Partnership, which represents approximately 2.39% of the common economic interest of the Operating Partnership.

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

Our highlights of the year ended December 31, 2005 included the following:

On January 26, 2005, the Company closed on the financing of $16,125,000 of first mortgage debt on the Yorktowne property. The interest rate is fixed at 5.13% for a term of 10 years.

On February 15, 2005, the Company completed the acquisition of Westchester West Apartments in Silver Spring, Maryland from an affiliate for $39,250,000. The multifamily apartment community has 345 units. The Company also obtained first mortgage financing of $29,500,000 on the property at a fixed rate of interest of 5.03% for a term of 10 years.

On March 1, 2005, the Company completed the acquisition of Waters on Brompton Apartments in Houston, Texas, from a third party for $14,400,000 pursuant to a winning bid at foreclosure auction. The multifamily apartment community has 362 units. The Company operates the property under the name Berkshires on Brompton.

On March 30, 2005, the Company completed the acquisition of Antilles Apartment Homes in Houston, Texas from a third party for $9,900,000. The multifamily apartment community has 324 units. The Company operates the property under the name The Berkshires at Westchase.

On May 31, 2005, the Company completed the acquisition of Riverbirch Apartments in Charlotte, North Carolina, from a third party for $8,200,000 pursuant to a winning bid at foreclosure auction. The multifamily apartment community has 210 units.

On June 20, 2005, the Company issued and sold an aggregate of 122,883 shares of its Class B Common Stock to individuals deemed to be executive officers of the Company for an aggregate purchase price of $290,004, paid in cash, in a transaction made in compliance with Rule 506 promulgated under the Securities Act of 1933, as amended, and therefore exempt from the registration requirements of Section 5 of the Act.

On June 22, 2005, the Company completed the sale of Windward Lakes Apartments in Pompano, Florida to a third party for $34,725,000. Pursuant to a transaction structured to comply with a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended, the Company reinvested the proceeds from the sale of Windward Lakes in the acquisition of Lake Ridge Apartments on July 1, 2005.

On June 30, 2005, the Company obtained new financing in the form of a revolving credit facility. The revolving credit facility, in the amount of $20,000,000, was provided by an affiliate of the Company. The facility provides for interest on borrowings at a rate of 5% above the 30 day LIBOR rate, as announced by Reuter s, fees based on borrowings under the facility and various operational and financial covenants, including a maximum leverage ratio and a maximum debt service ratio. The facility has a maturity date of December 31, 2006, with a one-time six-month extension available at the option of the Company. The terms of the facility were agreed upon through arms-length negotiations and were approved by the Audit Committee of the Board of Directors of the Company, which is comprised solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange.

On July 1, 2005, the Company completed the acquisition of Lake Ridge Apartments in Hampton, Virginia, from a third party for $34,344,000. The multifamily apartment community has 282 units. The Company operates the property under the name Lakeridge Apartments.

On July 8, 2005 and August 1, 2005, the Company closed on the financing of $13,130,000 and $12,520,000 of first and second mortgage debt on the Lakeridge property. The interest rates are fixed at 5.07% and 5.08%, respectively, and both loans are for a term of 9 years.

On July 22, 2005, the Company closed on the financing of $6,500,000 and $6,400,000 of first mortgage debt on the Berkshires at Westchase and Berkshires on Brompton properties, respectively. The interest rates are fixed at 5.08% and 5.11%, respectively, and both loans are for a term of 10 years.

On August 12, 2005, the Company, together with affiliates, entered into a subscription agreement to invest in BVF, an affiliate of the Advisor. Under the terms of the agreement and the related limited partnership agreement, the Company will invest up to $23,400,000, or approximately 7%, of the total capital of BVF.

On September 30, 2005, the Company, through its wholly owned subsidiary, BIR Laurel Woods, GP L.C., executed a non-recourse mortgage note payable on Laurel Woods Apartments for $4,100,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.17% for a term of 10 years. The note is interest only for two years and matures on October 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. The new mortgage note payable replaces an existing variable interest rate mortgage note payable, which was extinguished simultaneously with the closing on the new financing. The previous loan was for a period of 7 years with a current monthly variable interest rate of 5.523%. The Company did not incur any prepayment penalty related to the extinguishment of the loan.

On November 4, 2005, the Company closed on the financing of $3,417,000, $2,324,000 and $4,563,000 of second mortgage debt on the Century, Dorsey s Forge and Hannibal Grove properties, respectively. The interest rates are fixed at 6.12% for each loan and all loans are for a term of 8 years. The loans mature contemporaneously with the first mortgage debt of each property.

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On November 18, 2005, the Company completed the acquisition of Savannah at Citrus Park in Tampa, Florida from an unaffiliated third party for $27,250,000. The multifamily apartment community has 264 units. The cash portion of the purchase price was reduced by $15,720,000 of principal of first mortgage debt that was assumed by the Company. The interest rate is fixed at 5.21% for the remaining term of approximately 4 years.

On December 16, 2005, the Company closed on the financing of $5,750,000 of first mortgage debt on the Riverbirch property. The interest rate is fixed at 5.57% for a term of 10 years.

On December 21, 2005, the Company made its initial contribution of capital to Berkshire Multifamily Value Fund, L.P. pursuant to a capital call by BVF. The contribution amounted to $1,540,165.

Acquisition Strategy

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

Financing and Capital Strategy

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

On January 28, 2005, the Board approved the investment of up to $25,000,000 in, or 10% of the total equity raised by, the Berkshire Multifamily Value Fund, L.P. (the Fund). The investment was also approved by the audit committee of the Board, which is composed solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange. The Fund, which was sponsored by our affiliate, Berkshire Advisors, was formed in August of 2005 and successfully raised equity in excess of expectations. The Company has committed to invest $23,400,000, or approximately 7%, in the Fund and has made an initial contribution of $1,540,165 as of December 31, 2005. The Company has evaluated its investment in the Fund and concluded that the investment, although subject to the requirements of FIN 46R, will not require the Company to consolidate the activity of the Fund. The Company will account for its investments in the Fund under Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9), as an equity method investment.

The investment objectives of the Fund are similar to those of the Company and under the terms of the Fund, Berkshire Advisors is generally required to present investment opportunities, which meet the Fund s investment criteria, only to the Fund. However, the Company has invested the bulk of its available capital by the end of the third quarter of 2005 and intends to finance its commitment to the Fund with proceeds from the refinancing of properties in its portfolio. Under the proposed terms of the Fund, the Company has the right to acquire assets that: (i) satisfy the requirements of Section 1031 of the Internal Revenue Code for like-kind exchanges for properties held by the Company or (ii) involve less than $8,000,000 of equity capital in any 12-month period if such capital is generated as a result of refinancing of debts of the Company.

The Company owns parcels of land held for development at certain of its multifamily apartment communities, which it currently intends to develop. Development of the available land is likely to include additional apartment units as well as other amenities such as private garages that would be available for lease by tenants for an additional fee. The Company is currently evaluating the development projects and has not committed to the construction as of December 31, 2005.

Critical Accounting Policies

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

Purchase Accounting for Acquisition of Real Estate

The Company accounts for its acquisitions of investments in real estate in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, furniture, fixtures and equipment and identified intangible assets and liabilities, consisting of the value of the above-market and below-market leases, other value of in-place leases and value of other tenant relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in Emerging Issues Task Force Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.

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

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

Management may engage independent third-party appraisers to perform these valuations and those appraisals use commonly employed valuation techniques, such as discounted cash flow analyses. Factors considered in these analyses may include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods depending on specific local market conditions and depending on the type of property acquired.

The total amount of other intangible assets acquired is further allocated to in-place leases and tenant relationships, which includes other tenant relationship intangible values based on management s evaluation of the specific characteristics of the residential leases and the Company s tenant retention history. The value of in-place leases and tenant relationships are amortized over the initial term of the respective leases and any expected renewal period.

Impairment of Long-Lived Assets

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The Company reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future rental occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. No such losses have been recognized to date.

Capital Improvements

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

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

Revenue Recognition

The properties are leased under terms of leases that are generally one year or less. Rental revenue is recognized when earned. Recoveries from tenants for utility expenses are recognized in the period the applicable costs are incurred. Other income, which consists primarily of income from damages, laundry, cable, phone, pool, month to month tenants, relet fees and pet fees, are recognized when earned.

Investments in Multifamily Venture and Multifamily Limited Partnership

The Company s investments in the Multifamily Venture, Multifamily Limited Partnership, or ownership arrangements with unaffiliated third parties, were evaluated pursuant to the requirements of FIN46R Consolidation of Variable Interest Entities and none were determined to require the Company to consolidate the operating results of the investee. The Company has accounted for the investments in accordance with Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9) as an equity method investment. The investments are carried as an asset on the balance sheet as Investment in Multifamily Venture and Limited Partnership and the Company s equity in the income or loss of the venture is reflected as a single line item in the income statement as Equity in loss of Multifamily Venture and Limited Partnership.

Corporate Governance

Since the creation of our newly formed Company, we have implemented the following corporate governance initiatives to address certain legal requirements promulgated under the Sarbanes-Oxley Act of 2002, as well as American Stock Exchange corporate governance listing standards:

We elected three new independent directors, Messrs. Robert Kaufman, Richard Peiser and Randolph Hawthorne, each of whom the Board determined to be independent under applicable SEC and American Stock Exchange rules and regulations;
The Board determined that Robert Kaufman, the Chairman of our Audit Committee, qualifies as an "audit committee financial expert" under applicable rules and regulations of the SEC;
The Board s Audit Committee adopted our Audit and Non-Audit Services Pre-Approval Policy, which sets forth the procedures and the conditions pursuant to which permissible services to be performed by our independent public accountants must be pre-approved;

The Board s Audit Committee established "Audit Committee Complaint Procedures" for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including the anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
The Board adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees. A copy of this Code is available in print to stockholders upon written request addressed to Investor Relations, One Beacon Street, Suite 1500, Boston, MA 02108;
The Board established an Ethics Hotline that employees may use to anonymously report possible violations of the Code of Business Conduct and Ethics, including concerns regarding questionable accounting, internal accounting controls or auditing matters.

Recent Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS 123(R)"). The statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123(R) requires that entities recognize the cost of employee services received in exchange for awards of equity instruments (i.e. stock options) based on the grant-date fair value of those awards. The Statement is effective for the first fiscal year beginning after June 15, 2005. The Company has not awarded any compensation to employees in the form of equity instruments and therefore does not anticipate that the adoption of SFAS 123(R) will have a material impact on the Company's financial condition or results of operations.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143, *Asset Retirement Obligations*. FIN 47 provides clarification of the term conditional asset retirement obligation as used in SFAS 143, defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the company. Under this standard, a company must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 became effective and was adopted by the Company as required effective December 31, 2005. The adoption of FIN 47 did not have a material impact on the financial position or operating results of the Company.

On June 1, 2005, The Financial Accounting Standards Board (FASB) issued Statement No. 154, Accounting Changes and Error Corrections (FAS 154) which is a replacement of APB Opinion No. 20 and FASB Statement No. 3. FAS 154 addresses the accounting for voluntary changes in accounting principles and changes the requirements of the accounting for and reporting of a change in accounting principles. The Statement requires the retrospective application, to prior periods financial statements, of voluntary changes in accounting principles unless it is impracticable to do so. APB Opinion 20 previously required that most voluntary changes in accounting principle be included in the net income of the period of the change the cumulative effect of changing to the new accounting principles. The FASB believes that FAS 154 improves financial reporting because its requirements enhance the consistency of financial information between accounting periods. FAS 154 is effective for changes and corrections made in fiscal years beginning after December 15, 2005. The Company is not currently contemplating any changes in accounting principles and is not aware of any errors that would require correction as promulgated by Statement No. 154. The Company does not anticipate that the adoption of FAS 154 will have a material impact on the Company's financial condition or results of operations.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) regarding EITF 04-5, Investor s Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights . The conclusion provides a framework for addressing the question of when a sole general partner, as defined in EITF 04-5, should consolidate a limited partnership or similar entity. The EITF has concluded that the general partner of a limited partnership should consolidate a limited partnership unless the limited partners have either (a) the substantive ability to dissolve the limited partnership or otherwise remove the general partners without cause, or (b) substantive participating rights. In addition, the EITF concluded that the guidance should be expanded to include all limited partnerships, including those with multiple

general partners. EITF 04-5 was effective after June 29, 2005 for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified. The EITF also reached a consensus that for general partners in all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company will adopt EITF 04-5 as of January 1, 2006. The Company has assessed its investments in unconsolidated real estate ventures and has determined that EITF 04-5 will not have an impact on its financial condition or results of operations.

Liquidity and Capital Resources

Cash and Cash Flows

As of December 31, 2005, 2004 and 2003, the Company had approximately, $22,134,658, $31,913,045 and $42,145,947 of cash and cash equivalents, respectively.

	Year ended December 31, 2005	2004	2003
Cash provided by operating activities	$ 14,115,221	$ 9,638,906	$ 7,809,045
Cash used in investing activities	(109,371,965)	(76,698,381)	(24,189,632)
Cash provided by financing activities	85,478,357	56,826,573	53,674,277

During 2005, cash decreased by $9,778,387. The main component of the overall decrease was $109,371,965 used in the investing activities of the Company. The activities relate mainly to the acquisition of multifamily apartment communities, the acquisition of partnership interests that own such multifamily apartment communities and capital expenditures for the renovation and rehabilitation of the Company s properties. The acquisitions were partially offset by other investing activities, which included distributions, including a liquidating distribution from the final remaining Mortgage Fund and the sale of the Windward Lakes property. The investing activities were partially offset by an increase of approximately $85,478,357 provided by financing activities, principally from proceeds of new mortgage loans which were partially offset by the prepayment of the outstanding balance of the Windward Lakes and Laurel Woods mortgages, including a prepayment penalty of approximately $900,000 on Windward Lakes, payments of principal on existing mortgage loans and distributions to our preferred and common shareholders, including a special

distribution of $6,000,000 to common shareholders and an increase of approximately $14,115,221 provided by the operating activities of the Company.

The Company s principal liquidity demands are expected to be distributions to our preferred and common shareholders and Operating Partnership unitholders, capital improvements, rehabilitation projects and repairs and maintenance for the properties, acquisition of additional properties within the investment restrictions placed on it by Berkshire Multifamily Value Fund, debt repayment and investment in the affiliated Berkshire Multifamily Value Fund. (See footnote 6 to the consolidated financial statements in Item IV herein for additional information).

The Company intends to meet its short-term liquidity requirements through net cash flows provided by operating activities, cash distributions from its investments, including the Company s investments in the Multifamily Ventures, and advances from the revolving credit facility. The Company considers its ability to generate cash to be adequate to meet all operating requirements and make distributions to its stockholders in accordance with the provisions of the Internal Revenue Code of 1986, as amended, applicable to REITs.

The Company intends to meet its long-term liquidity requirements through property debt financing and refinancing, and, to a lesser degree, advances from the revolving credit facility. The Company may seek to expand its purchasing power through the use of venture relationships with other companies.

The Company has obtained fixed interest rate mortgage financing on all of the properties in the portfolio with the exception of the Bear Creek property and the Arboretum land. The Company currently anticipates closing on the Bear Creek financing in the first quarter of 2006, which will provide the Company with additional liquidity.

On June 30, 2005, the Company closed on a new credit facility in the form of a $20,000,000 revolving credit agreement. The financing was obtained from an affiliate of the Board, was based on arms-length negotiations and was approved by the Audit Committee of the Board, which is comprised solely of directors who are independent under applicable rules and regulations of the SEC and AMEX. Concurrently with the closing, the Company borrowed $16,000,000. The proceeds from the borrowing were used to fund the July 1, 2005 acquisition of Lake Ridge Apartments as well as ongoing rehabilitation projects at certain of the Company s existing properties. The Company repaid the advance from the credit facility in the third quarter and there are no borrowings outstanding as of December 31, 2005. The Company currently expects that repayment of future advances from the credit facility, if any, will be funded by proceeds from conventional mortgages on newly acquired properties and potential re-financing of existing properties, including those properties undergoing substantial rehabilitation projects where resulting increases in value, if any, would allow refinancing of the properties at increased levels from the existing mortgages currently outstanding on the rehabilitated properties.

The Company s mortgage debt on its Seasons of Laurel property is due in 2009, which includes the additional $20,378,000 of mortgage debt obtained in fiscal year 2003 that is coterminous with the first mortgage. Total long term obligations due in 2009 are $86,944,544, which the Company plans to pay through the refinancing of the respective property, although we cannot be certain that such financing will be available.

Indebtedness

The following table provides summary information with respect to the mortgage debt incurred by the Company during the year ended December 31, 2005:

Property Name	Previous Balance	New Balance	Closing Date	InterestRate	Term
Fixed Rate Mortgages:					
Yorktowne	$ -	$ 16,125,000	Jan. 26, 2005	5.13%	10 Years
Westchester West	-	29,500,000	Feb. 15, 2005	5.03%	10 Years
Lakeridge	-	13,130,000	Jul. 8, 2005	5.07%	9 Years
Berkshires on Brompton	-	6,400,000	Jul. 22, 2005	5.11%	10 Years
Berkshires at Westchase	-	6,500,000	Jul. 22, 2005	5.08%	10 Years
Lakeridge	-	12,520,000	Aug. 1, 2005	5.08%	9 Years
Laurel Woods (1)	3,269,967	4,100,000	Sep. 30, 2005	5.17%	10 Years
Century (2)	-	3,417,000	Nov. 4, 2005	6.12%	8 Years
Dorsey s Forge (2)	-	2,324,000	Nov. 4, 2005	6.12%	8 Years
Hannibal Grove (2)	-	4,563,000	Nov. 4, 2005	6.12%	8 Years
Savannah at Citrus Park (3)	-	15,720,000	Nov. 18, 2005	5.21%	4 Years
Riverbirch	-	5,750,000	Dec. 16, 2005	5.57%	10 Years
	$ 3,269,967	$ 120,049,000			

(1) The mortgage of Laurel Woods that was refinanced in 2005 was a variable rate mortgage that was replaced by a fixed rate mortgage.

(2) The mortgage was obtained as supplemental debt in addition to debt already outstanding and collateralized by the property.

(3) The mortgage was assumed pursuant to the acquisition of the Savannah at Citrus Park property. The original term of the mortgage was five years and had four years remaining upon assumption of the debt by the Company.

Capital Expenditures

The Company paid or accrued $7,090,580 and $3,282,678 in recurring capital expenditures during the year ended December 31, 2005 and 2004, respectively. Recurring capital expenditures typically include items such as appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements.

The Company paid or accrued $14,796,780 and $6,115,568 in renovation related capital expenditures during the year ended December 31, 2005 and 2004, respectively. Renovation related capital expenditures generally include capital expenditures of a significant non-recurring nature, including construction management fees payable to an affiliate of the Company, where the Company expects to see a financial return on the expenditure or where the Company believes the expenditure preserves the status of a property within its sub-market.

In April 2003, the Company began a significant renovation project at its Seasons of Laurel property. The renovation involved substantial upgrades to the kitchens and bathrooms in all of the property s 1,088 apartment units and was originally expected to cost approximately $8,100,000, or $7,444 per apartment unit. In 2004, the original contractor sent notification to the Company of its desire to renegotiate the contract. As a result of that notification, the Company sought new bids from several contractors and ultimately dismissed the original contractor and awarded the contract to a new company based on the new bids. The current cost estimate is now approximately $8,450,000, an increase of approximately 5% over the original cost estimate. As of December 31, 2005, the project is approximately 80% complete, approximately $6,284,000 of costs has been incurred to date and the project continues to be on track to meet the adjusted cost estimate. The Company currently anticipates spending, and has budgeted, approximately $3,928,000 for continued renovations to the Seasons of Laurel property in 2006 in accordance with the renovation project currently in process as well as other anticipated renovations, including the installation of gas and electric meters for each apartment unit. The Company currently anticipates completion of the ongoing upgrade project to occur by June 30, 2006.

In January 2004, the Company authorized the renovation of 252 apartment units at its Hannibal Grove property to provide for in-unit washer and dryer hookups. The total cost of the project was estimated to be approximately $1,455,000, or $5,775 per apartment unit. As of December 31, 2005, the project is approximately 63% complete, approximately $912,000 has been spent to date and the project is tracking to meet original cost estimates. The Company believes the renovations are necessary to maintain the property s competitiveness in its sub-market and that the property will also achieve significant growth in rental rates as a result of the renovations.

In September 2005, in addition to the washer and dryer program, the Company approved, after a successful trial project on a certain number of units, the internal renovation of all 252 units at the Hannibal Grove property at anticipated cost of $5,292,000, or $21,000 per unit. As of December 31, 2005, 59 or 23%, of the 252 total apartment units at the Hannibal Grove property have been renovated at a cost of approximately $980,000, which is below original estimates. The Company currently anticipates spending, and has budgeted, approximately $2,467,000 for continued renovations at the Hannibal Grove property and currently anticipates completing the project in early 2007.

In May 2005, the Company authorized the interior renovation of 216 apartment units as well as significant renovation to the exterior siding and decks of its Yorktowne property. The interior renovation includes the replacement and upgrade of the kitchens, bathrooms and doors of each unit. The total cost of the project is currently estimated at approximately $5,881,000. As of December 31, 2005, the interior unit renovation project is ongoing and is approximately 59% complete, approximately $4,441,000 has been spent to date and the project is substantially on track to meet original cost estimates. The Company believes the renovations will yield significant growth in rental rates and must be undertaken in order to maintain its competitiveness in its sub-market.

Also in May 2005, the Company authorized the renovation of its Berkshires on Brompton property. The renovations at the 362 unit property include significant rehabilitation to the interior and exterior common areas as well as individual interior unit renovations. The total cost of the project, including interior and exterior renovations, is currently estimated at approximately $6,614,000. The Company has tested the interior rehabilitation plan on 100 units, at a cost of approximately $6,300 per unit or $630,000, and has determined that the financial returns estimated in the plan are achievable. Based on the successful financial returns of the 100 unit test, the Company has decided to move forward with the renovation of the remaining 262 units and has presented the full recommendation as part of the 2006 capital budget, which includes a per unit estimated cost of $7,300 or $1,912,600.

Other properties have undergone limited scope renovation projects during 2005. The projects include the Trellis at Lee s Mill and the Countryplace I & II properties where a window replacement program has been completed, the Century property where a HVAC unit replacement project is complete and Dorsey s Forge where an in-unit washer and dryer hookup test has been conducted. The results of the test were successful and consideration for the conversion of additional units has been considered in the 2006 capital budgets.

The Company has completed the development of capital budgets for 2006 and currently anticipates spending approximately $17,652,000 for ongoing rehabilitation and development of current portfolio properties, subject to approval of the 2006 budgets by the Board. As of December 31, 2005, the Company has not committed to any new significant rehabilitation projects.

Acquisitions and Dispositions

On March 20, 2003, KRF Company, through a newly formed affiliate, Gables of Texas Limited Partnership (Gables), and its general partner, Gables of Texas, L.L.C., also a newly formed affiliate, acquired The Gables Apartments, a 140-unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party for a purchase price of approximately $6,925,000. On April 24, 2003, the Operating Partnership acquired all of the interests in Gables and Gables of Texas L.L.C. from KRF Company for approximately $6,925,000 plus closing costs of approximately $143,000. The purchase price for Gables and Gables of Texas, L.L.C. was equal to the purchase price KRF Company paid the original seller of The Gables Apartments (including equity payments, transfer taxes, financing and closing costs as applicable). The Gables Apartments is a contiguous property to Walden Pond Apartments; the Company owns both communities and currently operates them as one community under the name Walden Pond/Gable Apartments.

Due to affiliation of the ownership of the Company and KRF Company, the acquisition of interests in the Gables property has been accounted for as a reorganization of entities under common control, requiring the Company to retroactively restate its financial statements from March 20, 2003, the acquisition date of the property by KRF Company, through the period presented.

On May 30, 2003, the Operating Partnership and its wholly owned subsidiary, BIR McNab Sub L.L.C., a newly formed Delaware limited liability company, acquired all of the outstanding limited and general partner units of McNab KC3 Limited Partnership (McNab) from affiliates of the Company. The acquisition was structured as a contribution of units from an affiliate of the Company in exchange for the issuance by the Operating Partnership of 5,000 common limited partner units valued at $10.00 per unit. McNab is the fee simple owner of a 276-unit multifamily apartment community located in Pompano, Florida that is known as Windward Lakes Apartments. The general and limited partners of McNab were affiliates of the Company, namely George and Douglas Krupp. Prior to the acquisition, control of both the Company and McNab rested with George and Douglas Krupp via their 100% ownership interest in the common stock of the Company thru KRF Company s ownership of such shares and their 100% ownership interest in the general and limited partnership units of McNab. Therefore, the acquisition or contribution of the general and limited partnership units of McNab by the Operating Partnership in exchange for the issuance by the Operating Partnership of common limited partner units is considered a transfer of net assets between entities under common control.

Due to the affiliation of the ownership of the Company and McNab, the acquisition of the interests in McNab has been accounted for as a reorganization of entities under common control, requiring the Company to retroactively restate its financial statements for the periods presented, which is similar to the accounting for a pooling of interests.

On October 30, 2003, the Operating Partnership, through a newly formed affiliate, St. Marin/Karrington Limited Partnership, whose general partner, SM Karrington, L.L.C., is also a newly formed affiliate, acquired The St. Marin/Karrington Apartments, a 600-unit multifamily apartment community located in Coppell, Texas from a third party for a purchase price of approximately $46,125,000 plus closing costs.

On January 28, 2004, our Operating Partnership, through its newly formed and wholly owned subsidiary Marina Mile L.L.C., purchased Pond Apple Creek Apartments (subsequently renamed The Berkshires at Marina Mile (Marina Mile)), a 306-unit multifamily apartment community located in Fort Lauderdale, Florida, from Pond Apple Creek Associates Limited Partnership. The seller was an unaffiliated third party. The purchase and sale agreement, as amended, was agreed upon through arms-length negotiations and provided for the purchase price of $23,000,000 to be paid in cash. The purchase price was funded with available cash and new first mortgage financing. Effective May 1, 2004, the Company consummated a multifamily venture relationship (the Multifamily Venture) with an unaffiliated third party (the Venture Partner) whereby each of the parties to the agreement agreed to participate, on a pro rata basis, in the economic benefits of Marina Mile. Under the terms of the limited liability company agreement governing the Multifamily Venture, the Venture Partner contributed, in cash, 65% of the total Multifamily Venture equity in exchange for a 65% interest in the newly formed entity, JV Marina Mile, L.L.C. (the L.L.C.). The Operating Partnership contributed its interest in Marina Mile, L.L.C., the fee simple owner of the property, in exchange for a 35% interest in the L.L.C. and a cash distribution representing a return of capital, of approximately $3,594,693 net of $387,236 of additional capital invested by the Operating Partnership. Both parties receive proportional distributions of available cash up to an effective 10% internal rate of return on each party s capital (the Preferred Return). After payment of the Preferred Return and the return of each party s capital contribution, the Operating Partnership is entitled to, in addition to its 35% pro rata share, additional distributions equal to approximately 30% of the distributions otherwise payable to the Venture Partner. The Operating Partnership is the managing member of the L.L.C. The Company evaluated its investment in the Multifamily Venture and concluded that the investment did not fall under the requirements of FIN 46R; therefore the Company accounted for the investment under Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9) as an equity method investment.

On March 30, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiary BIR Laurel Woods Limited Partnership, purchased Laurel Woods Apartments (Laurel Woods), a 150-unit multifamily apartment community located in Austin, Texas, from Berkshire Mortgage Finance Limited Partnership (the Seller), an affiliate of the Company. The acquisition was approved by the audit committee of the Board, which is composed solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange. The Seller acquired the property through foreclosure on February 2, 2004. The purchase price of $5,250,000 was funded with available cash.

On March 31, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiary BIR Bear Creek Limited Partnership, purchased Bear Creek Apartments (Bear Creek) from an unaffiliated third party. The purchase price of $4,900,000 was funded with available cash. Bear Creek is a 152-unit multifamily apartment community located in Dallas, Texas. Prior to the sale, the seller had acquired the property through foreclosure.

On November 3, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiaries, BIR Bridgewater, L.L.C. and BIR Trellis L.L.C., purchased Bridgewater on the Lake Apartments (Bridgewater) and Trellis at Lee s Mill Apartments (Trellis), respectively, from an unaffiliated third party. Bridgewater is a 216 unit multifamily apartment community located in Hampton, Virginia. Trellis is a 176 unit multifamily apartment community located in Newport News, Virginia. The purchase price for Bridgewater and Trellis was $18,590,000 and $8,825,000, respectively, and was funded with available cash and new first mortgage financing.

On November 4, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiaries, BIR Arboretum L.L.C. and BIR Silver Hill L.L.C., purchased Arboretum Place Apartments (Arboretum) and Silver Hill at Arboretum Apartments (Silver Hill), respectively, from an unaffiliated third party. Arboretum is a 184 unit multifamily apartment community located in Newport News, Virginia. Silver Hill is a 153 unit multifamily apartment community also located in Newport News, Virginia. The gross purchase price for Arboretum and Silver Hill was $10,575,000 and $4,350,000, respectively. The properties were purchased subject to the assumption of the existing mortgages outstanding on the properties with a face value of approximately $5,929,000 and $3,444,000, respectively. The purchase price, net of assumed debt, was paid from available cash. Pursuant to the provisions of SFAS No. 141, Business Combinations , the assumed mortgages were recorded at fair value, based on the present value of the amounts to be paid under the obligations. The fair market value of the debt assumed on Arboretum and Silver Hill is $6,894,193 and $4,010,241, respectively. Additionally, on November 4, 2004, the Company acquired the vacant land adjacent to Arboretum for $1,500,000 from F.C. Arboretum Land Associates, L.P. The purchase of the land was funded with available cash.

Effective September 24, 2004, the Operating Partnership consummated the JV BIR/ERI, L.L.C. multifamily venture agreement (JV BIR/ERI) with Equity Resources Investments, L.L.C. (ERI), an unaffiliated third party, whereby each of the parties to the agreement agreed to participate, on a pro rata basis, in the economic benefits of the partnership interests purchased from Capital Realty Investors-II Limited Partnership (CRI). Under the terms of the limited liability company agreement governing JV BIR/ERI, the Operating Partnership owns a 58% interest as the managing member and ERI will own the remaining 42% interest. All profits and losses are shared by the Operating Partnership and ERI on a pro rata basis according to their respective ownership interests. Affiliates of the Operating Partnership are entitled to perform asset management and property management services and receive fees in payment thereof. The Company evaluated its investment in the JV BIR/ERI and concluded that the investment did not fall under the requirements of FIN 46R, Emerging Issues Task Force Issue No. 03-16, Accounting for Investments in Limited Liability Companies, Statement of Position 78-9, Accounting for Investments in Real Estate Ventures or Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock; therefore the Company accounted for the investment under Accounting Research Bulletin 51, Consolidated Financial Statements (ARB 51) based on its controlling interest in the subsidiary.

On November 17, 2004, the Operating Partnership, through JV BIR/ERI, completed the acquisition of 100% of the outstanding limited and general partner interests of Arrowhead Apartments Associates Limited Partnership, the fee owner of Arrowhead Apartments (Arrowhead), a 200 unit multifamily apartment community located in Palatine, Illinois and Moorings Apartments Associates Limited Partnership, the fee owner of Moorings Apartments (Moorings), a 216 unit multifamily apartment community located in Roselle, Illinois. The net purchase price for the Arrowhead and Moorings interests was $1,313,392 and $416,455, respectively. The properties owned by the partnerships were subject to existing mortgages at the time of the purchase of the Arrowhead and Moorings interests. These mortgages were recorded at their fair value pursuant to the provisions of SFAS No. 141. The fair value approximates the payoff value of the amounts to be paid under the obligations, including the right of defeasance. JV BIR/ERI exercised its right of defeasance and extinguished the outstanding mortgage obligations of approximately $7,431,000 and $8,801,000, respectively. The purchase price and payoff of the existing mortgages were funded through a combination of new mortgage debt, available cash and contributions from ERI.

On December 28, 2004, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Yorktowne, L.L.C., consummated the acquisition of 100% of the fee simple interest of Yorktowne at Olde Mill Apartments (Yorktowne), a 216 unit multifamily apartment community located in Millersville, Maryland, from EQR-Yorktowne Vistas, Inc., an unaffiliated third party, for $21,500,000, plus customary closing costs. The purchase price was paid from available cash. On January 26, 2005, the Company closed on $16,125,000 of first mortgage debt at a fixed interest rate of 5.13% for ten years collateralized by the Yorktowne property.

On December 29, 2004, the Operating Partnership, through JV BIR/ERI, completed the acquisition of 100% of the outstanding limited and general partner interests of Blackburn Associates Limited Partnership, the fee owner of Country Place I Apartments (Country Place I), a 192 unit multifamily apartment community located in Burtonsville, Maryland, and Second Blackburn Associates Limited Partnership, the fee owner of Country Place II Apartments (Country Place II), a 120 unit multifamily apartment community also located in Burtonsville, Maryland. The net purchase price for the Country Place I and Country Place II interests was $7,769,720 and $5,054,677, respectively. The properties owned by the partnerships were subject to existing mortgages at the time of the purchase of the Country Place I and Country Place II interests. These mortgages were recorded at their fair value pursuant to the provisions of SFAS No. 141. The fair value approximates the payoff value of the amounts to be paid under the obligations, including the right of prepayment. JV BIR/ERI exercised its right of prepayment on the purchase date and extinguished the outstanding mortgage obligations of approximately $6,728,000 and $4,078,000, respectively. The purchase price and payoff of the existing mortgages were funded through a combination of new mortgage debt, available cash and contributions from ERI.

On February 15, 2005, the Company completed the acquisition of the outstanding limited and general partner interests of BRI Westchester Limited Partnership, the fee simple owner of Westchester West Apartments (Westchester West), a 345 unit multifamily apartment community located in Silver Spring, Maryland, from BRH Westchester, L.L.C. and BRI OP Limited Partnership, each an affiliate of the Company. The purchase price, which was agreed upon through arms-length negotiations, was $39,250,000, subject to normal operating pro rations. The acquisition was approved by the audit committee of the Board, which is comprised solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange. The purchase price and related closing costs were funded in part through a $29,500,000 first mortgage and available cash. The first mortgage has a fixed interest rate of 5.03% for a term of ten years.

The net purchase price, including closing costs and acquisition fees, was allocated as follows:

	Total
Multifamily apartment communities	$ 38,948,802
In-place leases and tenant relationships	732,219
Replacement reserve accounts	111,000
Deferred expenses	196,547
Prepaid expenses and other assets	343,955
Deferred revenue and other liabilities	(326,246)
New first mortgage	(29,500,000)
Cash paid	$ 10,506,277

The transaction was complete and the purchase price allocation was final as of September 30, 2005. There are no contingent payments, options or commitments outstanding associated with the acquisition and the results of operations for Westchester West have been reflected in the consolidated results of the Company for the period February 15, 2005 to December 31, 2005. Amortization of acquired-in-place leases is based on the specific expiration dates of the in-place leases over a period of 12 months and amortization of the tenant relationships is based on the straight line method of amortization over a 24 month period. The Company considers the acquisition of Westchester West an individually significant acquisition and has reflected the acquisition in the proforma financial statements presented in note 16 to the financial statements of this Form 10-K.

On March 1, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Brompton Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Waters on Brompton, a 362 unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party. The Company operates the property under the name Berkshires on Brompton Apartments. The acquisition was consummated pursuant to a winning bid placed on the property at foreclosure auction. The successful bid was $14,400,000 and was immediately paid from available cash.

On March 30, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Westchase Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Antilles Apartment Homes, a 324 unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party. The Company operates the property under the name The Berkshires at Westchase Apartments. The purchase price was $9,900,000, and was subject to normal operating pro rations. The purchase price was immediately paid from available cash.

On May 31, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR-Charlotte I, LLC, consummated the acquisition of 100% of the fee simple interest of Riverbirch Apartments, a 210 unit multifamily apartment community located in Charlotte, North Carolina, from an unaffiliated third party. The acquisition was consummated pursuant to a bid placed at the May 16, 2005 foreclosure auction of the property. The bid of $8,200,000 was declared the winning bid on May 26, 2005, after a mandatory 10 day waiting period during which the seller was required to accept incrementally higher bids (5%) from other interested parties, as required by North Carolina law. A deposit on the purchase price was paid at the time the bid was accepted, and the balance of the acquisition cost was paid on May 31, 2005 at the closing on the property. Both payments were made from available cash.

On June 22, 2005, the Operating Partnership completed the sale of 100% of the fee simple interest of Windward Lakes. The net proceeds from the sale of Windward Lakes, in the amount of $21,450,876, were held in an escrow account at a qualified institution pursuant to a transaction structured to comply with a Section 1031 tax deferred

exchange under the Internal Revenue Code of 1986, as amended. The Company reinvested the proceeds from the sale of Windward Lakes in the acquisition of Lakeridge Apartments, on which the Company closed on July 1, 2005.

On July 1, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Lakeridge, L.L.C., consummated the acquisition of 100% of the fee simple interest of Lake Ridge Apartments, a 282 unit multifamily apartment community located in Hampton, Virginia, from an unaffiliated third party. The purchase price of $34,344,000 was paid in part from an escrow account administered by a qualified intermediary institution in connection with the prior sale of a qualified property structured to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended, and the balance was paid from borrowings under the revolving credit facility available to the Company from an affiliate of the Company. The borrowings under the revolving credit facility were repaid subsequent to the closing on Lakeridge Apartments with proceeds from two new mortgages totaling $25,650,000 which were obtained by the Company and are collateralized by the Lakeridge Apartments property. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement.

The net purchase price, including closing costs and acquisition fees, was allocated as follows:

	Total
Multifamily apartment communities	$ 34,349,380
In-place leases and tenant relationships	502,023
Prepaid expenses and other assets	334,822
Deferred revenue and other liabilities	(137,808)
Cash from Section 1031 escrow account	(21,450,876)
New mortgages	(25,650,000)
Cash received	$ (12,052,459)

As of December 31, 2005, the transaction and the purchase price allocation are subject to final adjustment pursuant to an outstanding commitment under the agreement for the seller to build 18 additional apartment units and 48 garages on the property. The Company is negotiating the final details of the outstanding commitment and currently anticipates finalizing the transaction in the first quarter of 2006.

The results of operations for Lakeridge Apartments have been reflected in the consolidated results of the Company for the period July 1, 2005 to December 31, 2005. Amortization of acquired-in-place leases is based on the specific expiration dates of the in-place leases over a period of 12 months and amortization of the tenant relationships is based on the straight line method of amortization over a 24 month period. The Company considers the acquisition of Lakeridge Apartments a individually significant acquisition and has reflected the acquisition in the proforma financial statements presented in note 16 to the financial statements of this Form 10-K.

On November 18, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Savannah. L.L.C., consummated the acquisition of 100% of the fee simple interest of Savannah at Citrus Park Apartments (Savannah), a 264 unit multifamily apartment community located in Tampa, Florida, from SCP Apartments, L.L.C. and Madison-Clinton-Tampa, L.L.C., each an unaffiliated third party. The purchase price was $27,520,000, and was subject to normal operating prorations, apportionments and adjustments as provided for in the applicable purchase and sale agreement. Additionally, the cash portion of the purchase price was reduced by the $15,720,000 principal balance of an existing first mortgage loan on the property that was assumed by the Company, upon its obtaining all necessary approvals from the lender. The mortgage was recorded at its fair value pursuant to the provisions of SFAS No. 141. The fair value approximates the payoff value of the amounts to be paid under the obligation The remaining $11,800,000 balance of the purchase price was paid from available cash.

Cash flows from Investment in Mortgage Funds

On April 4, 2003 and April 18, 2003, the Company issued 2,667,717 and 310,393 shares, respectively, of its Preferred Shares, with a $25.00 liquidation preference per share. The Preferred Shares were issued in exchange for Interests in the six Mortgage Funds. For each Interest in the Mortgage Funds that was validly tendered and not withdrawn in the Offering, the Company issued its Preferred Shares based on an exchange ratio applicable to each Mortgage Fund.

For the year ended December 31, 2005 and 2004, the Company received cash distributions totaling approximately $13,208,425 and $17,271,799, respectively, from the Mortgage Funds on which the Company has recognized approximately $3,040,732 and $3,392,585, respectively, in equity in the income of the Mortgage Funds. During 2005 and 2004, all of the Mortgage Funds were liquidated as the remaining participating insured mortgage investments in each portfolio were paid off.

Contractual Obligations and Other Commitments

The McNab partnership interests contributed to the Operating Partnership by George and Douglas Krupp were subject to certain obligations of McNab and its partners including the assumption of $13,398,430 of first mortgage debt, including accrued interest, $4,161,551 of principal, accrued interest, participation interest and interest rebates collateralized by the partnership interests (the Additional Loan) and the assumption of approximately $1,266,245 of liabilities payable to other affiliates of the Company. Upon completion of the acquisition, the Operating Partnership immediately paid off the first mortgage and Additional Loan debt totaling $18,244,282 using available cash. The Company recognized a loss of approximately $252,000 resulting from the write-off of unamortized deferred financing costs. In accordance with FAS 145, the Company has determined that such costs do not meet the criteria for classification as extraordinary pursuant to APB Opinion No. 30. Accordingly, costs associated with the early extinguishment of debt are included in the caption Loss on extinguishment of debt in the consolidated statement of operations for the year ended December 31, 2003.

In accordance with SOP 97-1, Accounting by Participating Mortgage Loan Borrowers, the Company estimated the fair value of the participation feature in the first mortgage debt of McNab noted above to be approximately $720,000 at December 31, 2002. The fair value of the participating interest was deferred and amortized into the statement of operations over the first mortgage debt s estimated life using the effective interest rate method.

The lender on both the Additional Loan and the first mortgage for McNab was GIT. As of the completion of the Offering, the Operating Partnership owned approximately 31% of GIT. The Operating Partnership received $5,650,000 as a special distribution from GIT after the payoff of this indebtedness on July 24, 2003.

On August 21, 2003, the Company refinanced its mortgage on Walden Pond. The original variable mortgage of $4,353,438 was paid in full and the related deferred financing costs incurred in the original financing were recorded in Loss on extinguishment of debt in the consolidated financial statement of operations for the year ended December 31, 2003. The new financing of $12,675,000 with a fixed interest rate of 4.86% for a term of 10 years.

On August 21, 2003 and August 15, 2003, the Company obtained non-recourse mortgage notes payable on Windward and Gables for $13,467,000 and $5,325,000, respectively, which are collateralized by the related properties. The interest rates on the notes are fixed at 5.10% and 4.86%, respectively. The notes mature on September 1, 2012 and September 1, 2013, respectively, at which time the remaining principal and accrued interest are due. The notes may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice.

On November 25, 2003, the Company obtained a mortgage note payable on St. Marin/Karrington for $32,500,000, which is collateralized by the related property. The interest rate on the note is fixed at 4.90% for a 9 year term. The note is interest only for the first 24 months and may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice.

On August 16, 2004, the Company secured a $3,320,000 first mortgage on Laurel Woods Apartments in Houston, Texas. Under the terms of the note, the mortgage bore interest at a variable rate of the Reference Bill plus 2.20%, and matured on September 1, 2011. The variable interest rate was capped at 6.75% for the term of the loan. As discussed below, the variable mortgage was prepaid during 2005, as allowed per the terms of the mortgage, and was replaced by a fixed rate mortgage.

On November 1, 2004, the mortgage notes payable on Century, Dorsey s Forge and Hannibal Grove were refinanced with $29,520,000, $16,200,000 and $26,600,000, respectively, non-recourse mortgage notes payable, which are collateralized by the related properties. The interest rates on the notes are fixed at 4.87% for the Century note and 4.86% for both the Dorsey s Forge and Hannibal Grove notes. The notes mature on November 1, 2013, at which time the remaining principal and accrued interest are due. The notes may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice.

The Company used the proceeds from the refinancing on Century, Dorsey s Forge and Hannibal Grove to repay the existing mortgage notes and accrued interest, to pay closing costs, and to fund escrows required by the lender. Of the remaining cash of $21,905,000, $2,821,344 was distributed to our multifamily venture partner and the balance has been retained for general operating purposes. The Company also recognized a $1,059,143 loss resulting from the prepayment penalty upon the early principal repayment and write-off of unamortized deferred financing costs for each of the notes payable, which is reflected in the statement of operations for the year ended December 31, 2004.

On November 3, 2004, the Company secured $14,212,500 and $6,750,000 of first mortgage non-recourse mortgage financing on the Bridgewater and Trellis properties, respectively, which is collateralized by the properties. The interest rates on the notes are 5.11% and 5.07%, respectively, and are fixed for the term of the loans. The notes mature on December 1, 2013, at which time the remaining principal and accrued interest are due. The notes may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice.

On November 4, 2004, the Company, simultaneously with the purchase of the Arboretum and Silver Hill apartment communities, assumed a fixed rate mortgage on each of the properties. The outstanding balance of the mortgage collateralized by the Arboretum property was $5,928,659 and has an interest rate of 7.18% for the original 30 year term of the loan. The loan originated on September 23, 1994 and can be prepaid generally no earlier than November 1, 2024, subject to a prepayment penalty. The outstanding balance of the mortgage collateralized by the Silver Hill property was $3,444,109 and also has an interest rate of 7.18% for the original 30 year term of the loan. The loan originated on September 23, 1994 and can be prepaid generally no earlier than November 1, 2024, subject to a prepayment penalty. In accordance with FAS 141, business Combinations , the Company recorded these mortgages at fair value, which was determined by calculating the present value of the future payments at current interest rates. The fair market value at the acquisition date for the debt assumed on Arboretum and Silver Hill was $6,894,193 and $4,010,241, respectively.

On December 2, 2004, the Company secured $5,510,000 and $5,775,000 of non-recourse mortgage financing on the Arrowhead and Moorings properties, respectively, which is collateralized by the properties. The interest rate of both notes is fixed at 5.00%. The notes mature on January 1, 2014, at which time the remaining principal and accrued interest are due. The notes may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice.

On December 29, 2004, the Company secured $15,520,000 of non-recourse mortgage financing on the Country Place I and Country Place II properties, which is collateralized by both properties. The interest rate on the note is fixed at 5.01%. The note matures on January 1, 2015, at which time the remaining principal and accrued interest are due. The note may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice.

On January 26, 2005, the Company, through its wholly owned subsidiary, BIR Yorktowne, L.L.C., executed a non-recourse mortgage note payable on Yorktowne for $16,125,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.13% for a term of 10 years. The note is interest only for two years and matures on February 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On February 15, 2005, the Company, through its wholly owned subsidiary, BIR Westchester West, L.L.C., executed a non-recourse mortgage note payable on Westchester West for $29,500,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.03% for a term of 10 years. The note is interest only for two years

and matures on March 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On July 8, 2005 and August 1, 2005, the Company, through its wholly owned subsidiary, BIR Lakeridge, L.L.C., executed two non-recourse mortgage notes payable on Lakeridge for $13,130,000 and $12,520,000, respectively. Both notes are collateralized by the related property. The interest rates on the notes are fixed at 5.07% and 5.08%, respectively, and are for a term of 9 years. The notes are interest only for two years and mature on August 1, 2014, at which time the remaining principal and accrued interest is due. The notes may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. As a condition of the financing, the lender required a guarantee of $1,444,000 from the Company to ensure achievement of certain minimum levels of occupancy within the first eighteen months of the loan period. As of December 31, 2005 the requirements needed to satisfy and release the guarantee have not been achieved. The Company continues to monitor the activity at the property and, based on current positive trends, currently anticipates satisfying the guarantee within the timeline established by the mortgage requirements.

On July 22, 2005, the Company, through its wholly owned subsidiary, BIR Brompton Limited Partnership, executed a non-recourse mortgage note payable on Berkshires on Brompton for $6,400,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.11% for a term of 10 years. The note is interest only for two years and matures on August 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. As a condition of obtaining the mortgage, the lender required a guarantee of $4,100,000 from the Company to ensure the completion of the rehabilitation project currently under way at the property. As of December 31, 2005 the rehabilitation project continues to move forward and the Company currently anticipates satisfying the guarantee per the mortgage requirements.

On July 22, 2005, the Company, through its wholly owned subsidiary, BIR Westchase Limited Partnership, executed a non-recourse mortgage note payable on Berkshires at Westchase for $6,500,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.08% for a term of 10 years. The note is interest only for two years and matures on August 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. As a condition of obtaining the mortgage, the lender required a guarantee of $2,215,000 from the Company to ensure achievement of certain minimum levels of occupancy within the first eighteen months of the loan period. As of December 31, 2005 the requirements needed to satisfy and release the guarantee have not been achieved. The Company continues to monitor the activity at the property and, based on current positive trends, currently anticipates satisfying the guarantee within the timeline established by the mortgage requirements.

On September 30, 2005, the Company, through its wholly owned subsidiary, BIR Laurel Woods, GP L.C., executed a non-recourse mortgage note payable on Laurel Woods Apartments for $4,100,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.17% for a term of 10 years. The note is interest only for two years and matures on October 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. The new mortgage note payable replaces an existing variable interest rate mortgage note payable, which was extinguished simultaneously with the closing on the new financing. The previous loan was for a period of 7 years with a current monthly variable interest rate of 5.523%. The Company did not incur any prepayment penalty related to the extinguishment of the loan.

On October 24, 2005, the Company, through its wholly owned subsidiary, BIR Savannah, L.L.C., received approval to assume the existing first mortgage loan related on Savannah at Citrus Park Apartments in relation to the acquisition of the property. The Company assumed a non-recourse mortgage note payable for $15,720,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.21% for the assumed term of 5 years. The note is interest only for the five-year term and matures on October 11, 2009, at which time the principal and any accrued interest is due. The note may not be prepaid. In accordance with FAS 141, Business Combinations, the Company recorded the mortgage at fair value, which was determined by calculating the present value of the future payments at current interest rates. The fair market value for the debt assumed approximated its assumed outstanding balance.

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On November 4, 2005, the Company completed additional financing totaling $10,304,000 on three of its properties, Dorsey s Forge, Hannibal Grove and Century apartments. The supplemental financing on Dorsey s Forge, Hannibal Grove and Century was executed with non-recourse mortgage notes payable of $2,324,000, $4,563,000 and $3,417,000, respectively, and are collateralized by the related properties. The interest rates on the notes are fixed at 6.12% and are interest only for two years. The notes mature on November 1, 2013, which is contemporaneous with the maturity date of the existing outstanding mortgages on the properties, at which time the remaining principal and accrued interest are due. The notes may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice.

On December 16, 2005, the Company, through its wholly owned subsidiary, BIR-Charlotte I, L.L.C., executed a non-recourse mortgage note payable on Riverbirch Apartments for $5,750,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.57% for a term of 10 years. The note is interest only for three years and matures on December 1, 2016, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

The Company expects to continue to take advantage of the low interest rate mortgage environment as it acquires additional properties. The Company expects to use leverage amounts up to 75% of the fair market value on a portfolio basis.

The primary obligations of the Company relate to its borrowings under the mortgage notes payable. The $370,521,700 in mortgage notes payable have varying maturities ranging from 5 to 10 years. The following table summarizes our contractual obligations as of December 31, 2005:

	2006	2007	2008	2009	2010	Thereafter
Long Term Debt (1)	$ 2,098,144	$ 4,657,610	$ 5,516,505	$ 86,944,544	$ 4,872,342	$ 266,432,555
Capital Lease Obligations	-		-	-	-	-
Operating lease Obligations	-		-	-	-	-
Purchase Obligations (2)	-	-	-	-	-	