

# PREFERRED APARTMENT COMMUNITIES®

## Maximum of 900,000 Units consisting of 900,000 Shares of Series A Redeemable Preferred Stock and Warrants to Purchase 18,000,000 Shares of Common Stock

### (Liquidation Preference \$1,000 per share of Series A Redeemable Preferred Stock (subject to adjustment))

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

We are offering a maximum of 900,000 shares of our Series A Redeemable Preferred Stock, par value \$0.01 per share, referred to as our Series A Redeemable Preferred Stock, and warrants, referred to as the Warrants, to purchase a maximum of 18,000,000 shares of our common stock in this offering. This prospectus also covers the shares of common stock that are issuable from time to time upon exercise of the Warrants and that may be issuable upon redemption of the Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock and the Warrants will be sold in units, or Units, with each Unit consisting of (i) one share of Series A Redeemable Preferred Stock with an initial stated value of \$1,000 per share, and (ii) one Warrant to purchase 20 shares of common stock, exercisable by the holder at an exercise price that is set at a 20% premium to the current market price per share of our common stock determined using the volume weighted average price of our common stock for the 20 trading days prior to the date of issuance of such Warrant, subject to a minimum exercise price of \$9.00 per share (subject to adjustment). Each Unit will be sold at a public offering price of \$1,000 per Unit. Units will not be issued or certificated. The shares of Series A Redeemable Preferred Stock and the Warrants are immediately detachable and will be issued separately. The Warrants are not exercisable until one year from the date of issuance and expire four years from the date of issuance. The Series A Redeemable Preferred Stock will rank senior to our common stock with respect to payment of dividends and distribution of amounts upon liquidation, dissolution or winding up. Holders of our Series A Redeemable Preferred Stock will have no voting rights. On November 18, 2011, the Securities and Exchange Commission, or SEC, declared effective our registration statement on Form S-11 (File No. 333-176604), or as the same may be amended from time to time, the Primary Series A Registration Statement, for our offering of up to 150,000 Units. The offering under the Primary Series A Registration Statement is referred to herein as the Primary Series A Offering. The Primary Series A Offering will terminate on the earlier of December 31, 2013 and the date we sell an aggregate of 150,000 Units under the Primary Series A Offering. The offering under this prospectus is a follow-on offering to the Primary Series A Offering and, except as described in this prospectus, the terms of the Primary Series A Offering are substantially similar to the offering under this prospectus.

Our common stock trades on the NYSE MKT under the symbol "APTS." On October 10, 2013, the last reported sale price of our common stock on the NYSE MKT was \$8.16 per share. There is no established trading market for our Series A Redeemable Preferred Stock or any of the Warrants and we do not expect a market to develop. We do not intend to apply for a listing of the Series A Redeemable Preferred Stock or any of the Warrants on any national securities exchange.

We have elected and qualified to be taxed as a real estate investment trust for U.S. federal income tax purposes, or REIT, commencing with our tax year ended December 31, 2011.

**Investing in our securities involves significant risks. You should carefully read and consider "Risk Factors" included in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, on page 11 of this prospectus and in any applicable prospectus supplement before investing in our securities.**

We impose certain restrictions on the ownership and transfer of our capital stock. You should read the information under the section entitled "Description of Capital Stock and Securities Offered — Restrictions on Ownership and Transfer" in this prospectus for a description of these restrictions.

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

	Per Unit	Maximum Offering	(1)
Public offering price	\$ 1,000.00	900,000,000	
Selling commissions <sup>(2)(3)</sup>	\$ 70.00	\$ 63,000,000	
Dealer manager fee <sup>(2)(3)</sup>	\$ 30.00	\$ 27,000,000	
Proceeds, before expenses, to us	\$ 900.00	\$ 810,000,000	

- (1) Initial gross proceeds. If the Warrants are exercised in full at the minimum exercise price of \$9.00 per share of common stock, the company will receive additional gross proceeds equal to \$162.0 million.
- (2) Selling commissions and the dealer manager fee will equal 7% and 3% of aggregate gross proceeds, respectively. Each is payable to our dealer manager. We or our affiliates also may provide permissible forms of non-cash compensation to registered representatives of our dealer manager and the participating broker-dealers. The value of such items will be considered underwriting compensation in connection with this offering, and the corresponding payments of our dealer manager fee will be reduced by the aggregate value of such items. The combined selling commissions, dealer manager fee and such non-cash compensation for this offering will not exceed 10% of the aggregate gross proceeds of this offering, which is referred to as FINRA's 10% cap. Our dealer manager will repay to the company any excess payments made to our dealer manager over FINRA's 10% cap if this offering is abruptly terminated before reaching the maximum amount of offering proceeds.
- (3) We expect our dealer manager to authorize other broker-dealers that are members of FINRA, which we refer to as participating broker-dealers, to sell our Units. Our dealer manager may reallocate all or a portion of its selling commissions attributable to a participating broker-dealer. In addition, our dealer manager also may reallocate a portion of its dealer manager fee earned on the proceeds raised by a participating broker-dealer, to such participating broker-dealer as a non-accountable marketing or due diligence allowance. The amount of the reallocation to any participating broker-dealer will be determined by the dealer manager in its sole discretion.

The dealer manager of this offering is International Assets Advisory, LLC, or IAA. The dealer manager is not required to sell any specific number or dollar amount of Units, but will use its "reasonable best efforts" to sell the Units offered. The minimum permitted purchase is generally \$5,000, but purchases of less than \$5,000 may be made in the discretion of the dealer manager. We expect to sell up to 900,000 Units in this offering by October 11, 2015, which may be extended through October 11, 2016, in our sole discretion. If we extend the offering period beyond October 11, 2015, we will supplement this prospectus accordingly. We may terminate this offering at any time or may offer Units pursuant to a new registration statement.

We will sell Units through Depository Trust Company, or DTC, settlement, or DTC Settlement; or, under special circumstances, through Direct Registration System settlement, or DRS Settlement. See the section entitled "Plan of Distribution" in this prospectus for a description of these settlement methods.

INTERNATIONAL ASSETS ADVISORY, LLC  
as Dealer Manager

**The date of this prospectus is October 11, 2013**



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



## **MARKET AND INDUSTRY DATA AND FORECASTS**

In this prospectus, we present certain economic and industry data and forecasts derived from cited third party sources, which data and forecasts are publicly available for free or upon payment as part of a subscription service. None of such data and forecasts was prepared specifically for us. No third party source that has prepared such information has reviewed or passed upon our use of the information in this prospectus, and no third party source is quoted or summarized in this prospectus as an expert. All statements contained in this prospectus in connection with or related to such data and forecasts are attributed to us, and not to any such third party source or any other person.

## PROSPECTUS SUMMARY

*This summary highlights some of the information in this prospectus. It does not contain all the information that you should consider before investing in our securities. You should read carefully the detailed information set forth in the section entitled "Risk Factors" and other information included in this prospectus, and the information incorporated by reference into this prospectus, including our audited consolidated financial statements and the accompanying notes in our latest Annual Report on Form 10-K and our consolidated financial statements and the accompanying notes in our subsequent Quarterly Reports on Form 10-Q. Except where the context suggests otherwise, the terms "company," "we," "us," and "our" refer to Preferred Apartment Communities, Inc., a Maryland corporation, together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., a Delaware limited partnership of which we are the sole general partner, which we refer to in this prospectus as "our operating partnership", "our manager" refers to Preferred Apartment Advisors, LLC, a Delaware limited liability company which is our external manager and advisor and a related party, and references to securities, including the Series A Redeemable Preferred Stock, Warrants and common stock, mean the securities of Preferred Apartment Communities, Inc., excluding its subsidiaries.*

### **Our Company**

We are a Maryland corporation formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and we may make mezzanine loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties. As a secondary strategy, we also may acquire or originate senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 10% of our total assets in other real estate related investments, as determined by our manager as appropriate for us. We collectively refer to these asset classes as our target assets. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, effective with our tax year ended December 31, 2011. We conduct substantially all of our operations through our operating partnership. We are externally managed and advised by our manager pursuant to the management agreement (as defined and described below).

### **Market Opportunities**

As a result of the recent United States financial crisis and downturn in the United States economy, multifamily assets saw a dramatic drop in their value after 2008. A combination of higher capitalization rates and downward pressure on renter incomes had adversely affected owners of multifamily assets and limited their options. Many transactions completed between 2005 and 2008 were highly leveraged with favorable initial financing terms. In many instances, the initial terms of these financings have expired or are about to expire or the debt is about to mature. These owners may have difficulty refinancing these assets given the volatile state of the real estate credit markets and their options may be limited to a sale at a discount to their original investment or foreclosure. We believe our investments will benefit from the following:

- the measured levels of new supply projected for the next several years;
- the continuing rebound in the general economy;
- the continual introduction of the "echo boom" generation into the market (see "Preferred Apartment Communities - Market Opportunities" included elsewhere in this prospectus); and
- the decline in homeownership rates.

We believe these existing and expected factors in the market should create multiple opportunities for investments.

### **Our Competitive Strengths**

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

- experienced management team with significant expertise in real estate and real estate-related debt investments and capital markets;
- access to a pipeline of investment opportunities
- benefits from our relationship with our manager and its affiliates; and
- dedicated asset management team.

### **Our Investment Strategy**

Our investment strategy includes, without limitation, the following:

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

## **Our Target Markets**

Generally, we expect to target metropolitan statistical areas, or MSAs, of approximately one million people or more with favorable economic conditions. The conditions of a market we may monitor include, but are not limited to, job growth, household income, the pipeline of new supply for multifamily units, the pipeline of new supply for single family units, current and forecasted occupancy for multifamily units, current and forecasted rental rate growth for multifamily units, and other statistics that may be relevant to individual markets. In addition, we will analyze forecast data from our manager's affiliates gathered in their operations to support our assumptions. We also will utilize our management team's network of industry contacts and relationships to generate significant information about current and future market conditions. See the section entitled "Preferred Apartment Communities -- Our Target Markets" included elsewhere in this prospectus for a detailed discussion of our target markets.

## **Our Branding and Marketing Strategy**

Our manager has registered "A Preferred Apartment Community" as a trademarked logo with the United States Patent and Trademark Office. Our manager has branded, and in the future will continue to brand, all apartment communities owned by the company as "A Preferred Apartment Community" and has made it the ultimate tagline for each of our communities that we believe signifies our brand and management standards. This strategy allows each individual community to be part of a centralized marketing and advertising campaign, in addition to property level marketing and advertising campaigns. We expect that these campaigns will further enhance each individual property's presence in the marketplace, and we believe that this will allow our communities to be perceived as premier over other properties within the marketplace. Our manager has entered into a non-exclusive license agreement with the company, as licensee, with respect to all intellectual property of the manager other than trademarks. The license agreement will terminate automatically upon termination of our management agreement or will terminate upon a material breach of the license agreement that remains uncured for more than 30 days after receipt of notice of such breach. Our manager has entered into a separate non-exclusive license agreement with the company, as licensee, with respect to the manager's trademarks on substantially similar terms as the initial intellectual property license agreement.

## **Our Financing Strategy**

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

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the value of our tangible assets (including our real estate assets, real estate loans and other real estate-related investments, accounts receivable and cash and cash equivalents) on a portfolio basis based on fair market value. As of June 30, 2013, our outstanding debt (both secured and unsecured) was approximately 47.2% of the value of our tangible assets on a portfolio basis based on fair market value. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our Board of Directors without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. These targets, however, will not apply to individual real estate assets or investments. Other than in connection with forward purchase contracts or purchase option agreements where we have provided a mezzanine loan for development, at the date of acquisition of each asset, we anticipate that the cost of investment for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. In addition, we intend to acquire all our properties through separate single purpose entities and we intend to finance each of these properties using debt financing techniques for that property alone without any cross-collateralization to our other multifamily communities or any guarantees by us or our operating partnership. We intend to have no long-term unsecured debt at the company or operating partnership levels, except for our \$30.0 million senior secured revolving credit facility, or our credit facility. See the section entitled "Liquidity and Capital Resources" included in our most recent Annual Report on Form 10-K, any subsequent Quarterly Reports on Form 10-Q and SEC reports on Form 8-K, which are incorporated, or deemed to be incorporated, by reference into this prospectus, for a detailed discussion of our borrowing policies.

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

## **Risk Management**

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

## **Management Agreement**

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

We have entered into a third amended and restated management agreement, or the management agreement, with our manager. Pursuant to the management agreement, our manager provides us with a management team and appropriate support personnel to implement our business strategy and perform certain services for us, subject to oversight by our Board of Directors. Our manager is responsible for, among other duties, (1) performing and administering all our day-to-day operations, (2) determining investment criteria in conjunction with our Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, sales and financings, (4) performing asset management duties, (5) performing property management duties, and (6) performing financial and accounting management. Our manager has an investment committee that oversees our investment guidelines, our investment portfolio and its compliance with our investment guidelines and policies.

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

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

<u>Type of Compensation</u>	<u>Determination of Amount</u>
	<i>Offering, Acquisition and Operation Stage</i>
Acquisition Fees	Fees payable to our manager in the amount of 1.0% of the gross contract purchase price of the property, loan or other real estate-related investment purchased or made, as applicable, for services in connection with selecting, evaluating and acquiring or making such investment. For purposes of this prospectus, "gross contract purchase price" means the amount actually paid or allocated in respect of the purchase of a property or the amount actually paid or allocated in respect of the purchase or origination of loans or other real-estate related assets, in each case inclusive of acquisition expenses and any indebtedness assumed or incurred in respect of such investment but exclusive of acquisition fees.
Acquisition Expenses <sup>(1)</sup>	We will reimburse our manager for expenses actually incurred (including personnel costs) related to selecting, evaluating and making investments on our behalf, regardless of whether we actually make the related investment. Personnel costs associated with providing such services will be determined based on the amount of time incurred by the applicable employee of our manager and the corresponding payroll and payroll related costs incurred by our manager. In addition, we also will pay third parties, or reimburse our manager or its affiliates, for any investment-related expenses due to third parties, including, but not limited to, legal fees and expenses, travel and communications expenses, costs of appraisals, accounting fees and expenses, third-party brokerage or finder's fees, title insurance expenses, survey expenses, property inspection expenses and other closing costs, regardless of whether we make the related investment.



Asset Management Fee <sup>(2)</sup>	We will pay our manager a monthly fee equal to one-twelfth of 0.50% of the total value of our assets (including cash or cash equivalents) based on the adjusted cost of our assets and amounts actually paid or allocated in respect of the issuance of loans, before reduction for depreciation, amortization, impairment charges and cumulative acquisition costs charged to expense in accordance with generally accepted accounting principles, or GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs). This fee will be payable monthly in arrears, based on assets held by us on the last date of the prior month, adjusted for appropriate closing dates for individual investments.
Property Management and Leasing Fee <sup>(2)</sup>	We will pay our manager a monthly fee equal to 4% of the monthly gross revenues of our properties managed, for services in connection with the rental, leasing, operation and management of our properties and the supervision of any third parties that are engaged by our manager to provide such services. Our manager may subcontract the performance of its property management and leasing services duties to third parties or affiliates and pay all or a portion of its property management fee to such persons with whom it contracts for these services. Our manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted property management and leasing duties. The property management and leasing fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.
General and Administrative Expenses Fee <sup>(1)(2)(3)</sup>	We will pay our manager a monthly fee equal to 2% of our monthly gross revenues in connection with the administration of our day-to-day operations and the performance and supervision of the performance of such other administrative functions necessary for our management.
Disposition Fee on Sale of Assets	We may pay our manager a commission upon the sale of one or more of our properties or other assets in an amount equal to the lesser of (a) one-half of the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset, and (b) 1% of the sale price of the asset. Payment of such fee may be made only if the manager provides a substantial amount of services in connection with the sale of the asset as determined by a majority of our independent directors. In addition, the amount paid when added to all other commissions paid to unaffiliated parties in connection with such sale shall not exceed the lesser of (1) the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset and (2) an amount equal to 6% of the sale price of such asset.
Construction Fee, Development Fee and Landscaping Fee	We will pay our manager a construction fee, development fee and landscaping fee at market rates customary and competitive in light of the size, type and location of the asset in connection with the construction, development or landscaping of a property.
Accrued Fees Upon Termination	If the management agreement is terminated by reason of a change of control of the company by us without cause (upon the vote of at least 75% of our independent directors) in connection with the expiration of a renewal term, by the manager for good reason or upon our liquidation, the manager will be entitled to receive payment of any earned but unpaid compensation and expense reimbursements accrued as of the date of termination.
Special Limited Partnership Interest	<p style="text-align: center;"><i>Liquidation Stage</i></p> <p>Our manager has a special limited partnership interest in our operating partnership entitling it to distributions from our operating partnership equal to 15% of any net sale proceeds from an asset (which equals the proceeds actually received by us from the sale of such asset after paying off outstanding debt related to the sold asset and paying any seller related closing costs, including any commission paid to our manager in connection with the sale of the asset, less expenses allocable to the sold asset) remaining after the payment of (i) the capital and expenses allocable to all realized investments (including the sold asset), and (ii) a 7% priority annual return on such capital and expenses; provided, however, that all accrued and unpaid dividends on our preferred stock have been paid in full. This distribution with respect to the special limited partnership interest is payable upon the sale of an asset even if holders of our preferred stock have not received a return of their capital, but only after the holders of our preferred stock have received payment in full of all accrued and unpaid dividends on their preferred stock. It is also possible that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Redeemable Preferred Stock receive a return of their capital.</p> <p>The special limited partner shall be entitled to tax distributions, at our sole discretion as the general partner, provided such distributions do not prevent us from satisfying the requirements for qualification as a REIT. Any tax distributions shall offset future distributions to which the special limited partner is entitled.</p>

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

- (2) The total amount of the asset management, property management and leasing and general and administrative fees and expenses paid or reimbursed to our manager will be capped at 1.5% of total value of our assets (including cash and cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization, impairment charges expense in accordance with GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs).
- (3) In addition to the general and administrative expenses fee, we may reimburse our manager for certain costs and expenses it incurs in connection with the services it provides to us, including, but not limited to, personnel costs. See the note to our financial statements entitled "Related Party Transactions" included in our most recent Annual Report on Form 10-K, any subsequent Quarterly Reports on Form 10-Q and SEC reports on Form 8-K, which are incorporated, or deemed to be incorporated, by reference into this prospectus for details relating to these additional costs and expenses.

## **Operating and Regulatory Structure**

### ***REIT Qualification***

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

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

### **Restrictions on Ownership and Transfer of our Securities**

To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Code, among other purposes, our charter prohibits, with certain exceptions, any stockholder from beneficially or constructively owning, applying certain attribution rules under the Code, more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of shares of our stock. Our Board of Directors may, in its sole discretion, waive (prospectively or retroactively) the 9.8% ownership limit with respect to a particular stockholder if it is presented with certain representations and undertakings required by our charter and other evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT.

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

- beneficially or constructively owning shares of our capital stock that would result in our being "closely held" under Section 856(h) of the Code, or otherwise cause us to fail to qualify as a REIT;
- transferring shares of our capital stock if such transfer would result in our capital stock being beneficially owned by fewer than 100 persons.

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

## Distribution Policy

We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually to its stockholders at least 90% of its REIT taxable income (which does not equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We generally intend to pay, over time, dividends in an amount equal to 100% of our REIT taxable income.

Holders of Series A Redeemable Preferred Stock are entitled to receive, when and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the initial stated value of \$1,000 per share, or the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. We paid the initial dividend on our Series A Redeemable Preferred Stock in May 2012 to stockholders of record as of April 30, 2012, and thereafter have consistently paid monthly dividends on the Series A Redeemable Preferred Stock. We expect to continue to pay dividends on the Series A Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20<sup>th</sup> day of the month following the month for which the dividend was declared (or the next business day if the 20<sup>th</sup> day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

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

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

## Primary Series A Offering

On November 18, 2011, the SEC declared effective the Primary Series A Offering Registration Statement for our offering of up to 150,000 Units in the Primary Series A Offering. The Primary Series A Offering will terminate on the earlier of December 31, 2013 and the date we sell an aggregate of 150,000 Units under the Primary Series A Offering. The offering under this prospectus is a follow-on offering to the Primary Series A Offering and, except as described in this prospectus, the terms of the Primary Series A Offering are substantially similar to the offering under this prospectus.

### The Offering

#### Series A Redeemable Preferred Stock offered by us

A maximum of 900,000 shares of Series A Redeemable Preferred Stock will be offered as part of the Units through our dealer manager in this offering on a reasonable best efforts basis.

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

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

*Dividends.* Holders of Series A Redeemable Preferred Stock are entitled to receive, when and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. We paid the initial dividend on our Series A Redeemable Preferred Stock in May 2012 to stockholders of record as of April 30, 2012, and thereafter have consistently paid monthly dividends on the Series A Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20<sup>th</sup> day of the month following the month for which the dividend was declared (or the next business day if the 20<sup>th</sup> day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

*Redemption at the Option of a Holder.* Beginning two years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially \$1,000 per share, less a 10% redemption fee, plus any accrued but unpaid dividends.

Beginning three years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially \$1,000 per share, less a 5% redemption fee, plus any accrued but unpaid dividends.

Beginning four years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially \$1,000 per share, less a 3% redemption fee, plus any accrued but unpaid dividends.

Beginning five years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, initially \$1,000 per share, plus any accrued but unpaid dividends.

In addition, subject to restrictions, beginning on the date of original issuance and ending two years thereafter, we will redeem such shares of Series A Redeemable Preferred Stock of a holder who is a natural person upon his or her death at the written request of the holder's estate at a redemption price equal to the Stated Value, initially \$1,000 per share, plus accrued and unpaid dividends thereon through and including the date of redemption, less all dividends previously paid to the holder or the estate.

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

*Optional Redemption by the Company.* After ten years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, we will have the right (but not the obligation) to redeem such shares of Series A Redeemable Preferred Stock at 100% of the Stated Value, initially \$1,000 per share, plus any accrued but unpaid dividends. If we choose to redeem any shares of Series A Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

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

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

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

**Warrants offered by us**

A maximum offering of Warrants to purchase up to 18,000,000 shares of common stock will be offered as part of the Units through our dealer manager in this offering on a reasonable best efforts basis.

The Warrants will be exercisable beginning one year from the date of original issuance and ending four years from the date of such issuance.

The initial exercise price will be at a 20% premium to the current market price per share of our common stock on the date of issuance of the Warrant, subject to a minimum exercise price of \$9.00 per share. The current market price will be determined using the weighted average price of the previous 20 days of trading volume.

**Capital stock to be outstanding after this offering**

1,050,000 shares of Series A Redeemable Preferred Stock, assuming the maximum offering of 900,000 Units in this offering and the maximum offering of 150,000 Units in the Primary Series A Offering, and

11,073,731 shares of common stock<sup>(1)</sup>

**Estimated use of proceeds**

Assuming the maximum offering, we estimate that we will receive net proceeds from the sale of Units in this offering of approximately \$796.5 million after deducting estimated offering expenses, including selling commissions and the dealer manager fee, payable by us of approximately \$103.5 million. We intend to invest the net proceeds of this offering in connection with the acquisition of multifamily properties, other real estate-related investments and for general working capital purposes. If all the net proceeds of this offering are used to directly acquire multifamily properties and other real estate-related investments, we estimate that these investments would have an aggregate gross value (inclusive of mortgage indebtedness) of approximately \$2.2 billion assuming the maximum offering. We intend to acquire such investments through the incurrence of indebtedness (secured and unsecured) of approximately 65% of the value of our tangible assets on a portfolio basis, with the balance of the acquisition cost thereof funded through the use of the net proceeds of this offering. Until appropriate assets can be identified, our manager may invest the net proceeds of this offering in interest-bearing short-term investments that are consistent with our intention to qualify as a REIT. Any interest-bearing short-term investment we make likely will provide a lower net return than we will seek to achieve from our target assets. See the section entitled "Estimated Use of Proceeds" included elsewhere in this prospectus.

**NYSE MKT symbol for common stock**

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

(1) The number of shares of common stock to be outstanding immediately after this offering as shown above reflects the 11,073,731 shares of common stock outstanding as of October 10, 2013. This number includes the 29,016 shares of unvested restricted common stock issued to our independent directors in lieu of paying cash as compensation for annual service on our Board of Directors. This number excludes (a) shares of common stock that may be issued upon redemption of the Series A Redeemable Preferred Stock, offered pursuant to the Primary Series A Offering, (b) up to 3,000,000 shares of common stock issuable upon the exercise of the Warrants that may be issued in our Primary Series A Offering, assuming the maximum offering offered pursuant to the Primary Series A Offering, (c) shares of common stock that may be issued upon redemption of the Series A Redeemable Preferred Stock, offered hereby, and (d) up to 18,000,000 shares of common stock issuable upon the exercise of the Warrants, assuming the maximum offering offered hereby. This number also excludes (i) approximately 859,164 shares of common stock reserved for future issuance under our equity incentive plan, and (ii) 150,000 shares of our common stock issuable upon exercise of the outstanding warrant to purchase up to 150,000 shares of our common stock issued to IAA, in its capacity as financial advisor in our initial public offering, or the IPO Warrant. The IPO Warrant has an exercise price of \$12.50 per share.

**Capital Structure**

The Series A Redeemable Preferred Stock ranks senior to our common stock and to the Class A Units and Class B Units issued by our operating partnership and on parity with the Series A Redeemable Preferred Limited Partnership Units issued by our operating partnership with respect to both payment of dividends and distribution of amounts upon liquidation. Our Board of Directors has the authority to issue shares of additional series of preferred stock that could be senior in priority to the Series A Redeemable Preferred Stock.

**Covered Security**

The term "covered security" applies to securities exempt from state registration because of their oversight by federal authorities and national-level regulatory bodies pursuant to Section 18 of the Securities Act of 1933, as amended, or the Securities Act. Generally, securities listed on national exchanges are the most common type of covered security exempt from state registration. A non-traded security also can be a covered security if it has a seniority greater than or equal to other securities from the same issuer that are listed on a national exchange, such as the NYSE MKT. Our Series A Redeemable Preferred Stock is a covered security

because it is senior to our common stock and therefore is exempt from state registration. Although the Warrants are not "covered securities," most states include an exemption for warrants that are exercisable into a listed security. Therefore, the Warrants are subject to state registration in any state that does not provide such an exemption and this offering must be registered under the securities regulations of such states in order to sell the Warrants in these states.

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

- **More Investors** — Covered securities can be purchased by a broader range of investors than can non-covered securities. Non-covered securities are subject to suitability requirements that vary from state to state. These so-called "Blue Sky" regulations often prohibit the sale of securities to certain investors and may prohibit the sale of securities altogether until a specific volume of sales have been achieved in other states.
- **Issuance Costs** — Covered securities may have lower issuance costs since they avoid the expense of dealing with the various regulations of each of the 50 states and Washington, D.C. This could save time and money and allows issuers of covered securities the flexibility to enter the real estate markets at a time of their choosing. All investors of the issuer would benefit from any lower issuance costs that may be achieved.

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

- **Lack of Suitability Standards** — Since there are no investor eligibility requirements, there is no prohibition on the sale of the securities to certain investors, including investors that may not be suitable to purchase the securities.
- **No State Review** — Investors will not receive an additional level of review and possible protection afforded by the various state regulators.

### **Our Corporate Information**

Our principal executive offices are located at 3284 Northside Parkway NW, Suite 150, Atlanta, Georgia 30327. Our telephone number is (770) 818-4100. Our website is [www.pacaps.com](http://www.pacaps.com). The contents of our website are not part of this prospectus. The information on our website is not intended to form a part of or be incorporated by reference into this prospectus.

## RISK FACTORS

Investing in our securities involves significant risks. Before purchasing the securities offered by this prospectus you should carefully consider the risks, uncertainties and additional information (i) set forth in our most recent Annual Report on Form 10-K, any subsequent Quarterly Reports on Form 10-Q and SEC reports on Form 8-K, which are incorporated, or deemed to be incorporated, by reference into this prospectus, and in the other documents incorporated by reference in this prospectus that we file with the SEC after the date of this prospectus and which are deemed incorporated by reference in this prospectus and (ii) contained herein or in any applicable prospectus supplement. For a description of these reports and documents, and information about where you can find them, see "Where You Can Find More Information about Preferred Apartment Communities" and "Incorporation of Certain Documents By Reference." The risks and uncertainties in this prospectus and in the documents incorporated, or deemed to be incorporated, by reference in this prospectus are those that we currently believe may materially affect the company. Additional risks not presently known or that are currently deemed immaterial could also materially and adversely affect our financial condition, results of operations, business and prospects.

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

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

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

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

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

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

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

***Shares of Series A Redeemable Preferred Stock may be redeemed for shares of common stock, which rank junior to the Series A Redeemable Preferred Stock with respect to dividends and upon liquidation.***

Beginning two years from the date of original issuance, the holder of shares of Series A Redeemable Preferred Stock may require us to redeem such shares, with the redemption price payable, in our sole discretion, in cash or in equal value of common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption. We may opt to pay the redemption price in shares of our common stock. The rights of the holders of shares of Series A Redeemable Preferred Stock rank senior to the rights of the holders of shares of our common stock as to dividends and payments upon liquidation. Unless full cumulative dividends on our shares of Series A Redeemable Preferred Stock for all past dividend periods have been declared and paid (or set apart for payment), we will not declare or pay dividends with respect to any shares of our common stock for any period. Upon liquidation, dissolution or winding up of our company, the holders of shares of our Series A Redeemable Preferred Stock are entitled to receive a liquidation preference of Stated Value, \$1,000 per share, plus all accrued but unpaid dividends at the rate of 6% per annum, prior and in preference to any distribution to the holders of shares of our common stock or any other class of our equity securities.

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

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

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

We were incorporated on September 18, 2009, and our manager was organized on May 18, 2010. Thus, we and our manager are both recently formed entities with limited operating histories and we both may be unable to successfully operate our businesses or achieve our investment objectives. We have limited income, cash flow, funds from operations and cash available for distribution from which we can make distributions to you. We may not be able to conduct our business as planned and/or successfully carry out our business as planned.

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

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

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

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

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



***The credit agreement for our credit facility limits our ability to make cash dividend payments and we may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay dividends on the Series A Redeemable Preferred Stock and our common stock.***

Our governing documents do not have limitations on the amount of leverage we may use. As of June 30, 2013, we and our subsidiaries had outstanding approximately \$127.5 million of secured indebtedness and no unsecured indebtedness. The credit agreement for our credit facility specifically limits our ability to make cash dividends to the greater of (i) the amount required for us to maintain our status as a REIT or (ii) 95.0% of our adjusted funds from operations for the trailing four quarters on a consolidated basis. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position and potentially limit our cash available to pay dividends. As a result, we may not have sufficient funds remaining to satisfy our dividend obligations relating to the Series A Redeemable Preferred Stock and our common stock if we incur additional indebtedness.

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

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

***Except in limited circumstances, there is no clawback for distributions with respect to the special limited partnership interest in our operating partnership, which is held entirely by our manager, and such distributions are payable upon the sale of an asset even if investors have not received a return of their entire investment.***

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

***Distributions paid from sources other than our net cash provided by operating activities, particularly from proceeds of any offerings of our securities, will result in us having fewer funds available for the acquisition of properties and other real estate-related investments, which may adversely affect our ability to fund future distributions with net cash provided by operating activities and may adversely affect your overall return.***

Holders of Series A Redeemable Preferred Stock are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. We paid the initial dividend on our Series A Redeemable Preferred Stock in May 2012 to stockholders of record as of April 30, 2012, and thereafter have consistently paid monthly dividends on the Series A Redeemable Preferred Stock. We expect to continue to pay dividends on the Series A Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

Pursuant to GAAP, regardless of the source of funds to pay acquisition costs, acquisition costs are accounted for as deductions from total cash provided by operating activities to determine net cash provided by operating activities. As we acquire multifamily properties and other real estate assets, we will incur substantial costs to perform due diligence tasks and other costs

connected with acquiring these assets. The funding source of these acquisition costs may be from financing or operating activities. Regardless of the source of funding these acquisition costs, the net effect could cause our dividend distributions to exceed our net cash provided by operating activities and could have a detrimental effect on our stock price and the value of your investment.

If we have not generated sufficient net cash provided by operating activities and other sources, such as from borrowings, the sale of additional securities, advances from our Manager, our Manager's deferral, suspension and/or waiver of its fees and expense reimbursements, to fund distributions, we may use the proceeds from any offering of our securities. Moreover, our board of directors may change our distribution policy, in its sole discretion, at any time. Distributions made from offering proceeds may be a return of capital to stockholders, from which we will have already paid offering expenses in connection with the related offering. We have not established any limit on the amount of proceeds from our securities offerings that may be used to fund distributions, except that, in accordance with our organizational documents and Maryland law, we may not make distributions that would: (1) cause us to be unable to pay our debts as they become due in the usual course of business; or (2) cause our total assets to be less than the sum of our total liabilities plus senior liquidation preferences, if any.

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

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

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

***Your percentage of ownership may become diluted if we issue new shares of stock or other securities, and issuances of additional preferred stock or other securities by us may further subordinate the rights of the holders of our common stock (which you may become upon receipt of redemption payments in shares of common stock, conversion of any of your shares of Series A Redeemable Preferred Stock or exercise of any of your Warrants).***

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

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

Our charter also authorizes our Board of Directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock in addition to the Series A Redeemable Preferred Stock offered in this offering (including equity or debt

securities convertible into preferred stock) and to set or change the voting, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class or series of shares so issued. If any additional preferred stock is publicly offered, the terms and conditions of such preferred stock (including any equity or debt securities convertible into preferred stock) will be set forth in a registration statement registering the issuance of such preferred stock or equity or debt securities convertible into preferred stock. Because our Board of Directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of common stock or the Series A Redeemable Preferred Stock. If we ever create and issue additional preferred stock or equity or debt securities convertible into preferred stock with a distribution preference over common stock or the Series A Redeemable Preferred Stock, payment of any distribution preferences of such new outstanding preferred stock would reduce the amount of funds available for the payment of distributions on our common stock and our Series A Redeemable Preferred Stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage a merger, tender offer, or proxy contest, the assumption of control by a holder of a large block of our securities, or the removal of incumbent management.

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

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

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

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

All other matters are subject to the discretion of our Board of Directors.

***The Series A Redeemable Preferred Stock will be subordinate in right of payment to any corporate level debt that we incur, and your interests could be diluted by the issuance of additional preferred stock, including additional Series A Redeemable Preferred Stock, and by other transactions.***

The Series A Redeemable Preferred Stock will be subordinate in right of payment to any corporate level debt that we incur. The credit agreement for our credit facility includes, and future debt we incur may include, restrictions on our ability to pay dividends on our preferred stock, including the Series A Redeemable Preferred Stock. The issuance of additional preferred stock on a parity with or senior to the Series A Redeemable Preferred Stock would dilute the interests of the holders of the Series A Redeemable Preferred Stock, and any issuance of preferred stock senior to the Series A Redeemable Preferred Stock or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on the Series A Redeemable Preferred Stock. The terms of the Series A Redeemable Preferred Stock do not restrict our ability to authorize or issue shares of a class or series of preferred stock with rights to distributions or upon liquidation that are on parity with or senior to the Series A Redeemable Preferred Stock or to incur additional indebtedness. The Series A Redeemable Preferred Stock does not contain any provision affording the holders of the Series A Redeemable Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or

conveyance of all or substantially all of our assets or business, that might adversely affect the holders of the Series A Redeemable Preferred Stock.

***Our ability to redeem shares of Series A Redeemable Preferred Stock may be limited by Maryland law.***

Under Maryland law, a corporation may redeem stock as long as, after giving effect to the redemption, the corporation is able to pay its debts as they become due in the usual course (the equity solvency test) and its total assets exceed the sum of its total liabilities plus, unless its charter permits otherwise, the amount that would be needed, if the corporation were to be dissolved at the time of the redemption, to satisfy the preferential rights upon dissolution of stockholders when preferential rights on dissolution are superior to those whose stock is being redeemed (the balance sheet solvency test). If the company is insolvent at any time when a redemption of shares of Series A Redeemable Preferred Stock is required to be made, the company may not be able to effect such redemption.

***Our success is dependent on the performance of our manager.***

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

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

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

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

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

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

Our manager and its affiliates will receive substantial fees from us, including distributions with respect to our manager's special limited partnership interest in our operating partnership, which entitles our manager to receive a participation in net sales proceeds. Further, our manager will receive an asset management fee based on the total value of our assets, and its affiliates will receive fees based on our revenues, which, in each case, could incent our manager to use higher levels of leverage to finance investments or accumulate assets to increase fees than would otherwise be in our best interests. These fees could influence our manager's advice to us, as well as the judgment of the affiliates of our manager who serve as our officers and directors. Among other matters, the acquisition or disposition fees and other possible fees payable to affiliates of our manager in connection with its services

for the seller or buyer, could affect the judgment of our manager or its affiliates with respect to property acquisitions from, or the making of investments in, other programs of our affiliates. Therefore, considerations relating to their compensation from other programs could result in decisions that are not in the best interests of our stockholders, which could hurt our income and, as a result, our ability to make distributions to you and/or lead to a decline in the value of your investment.

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

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

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

We may make investments in opportunity-oriented properties in various phases of development, redevelopment or repositioning and portfolio acquisitions, which may cause our revenues and net income to fluctuate significantly from one period to another. Projects do not produce revenue while in development or redevelopment. During any period when our projects in development or redevelopment or those with significant capital requirements increase without a corresponding increase in stable revenue-producing properties, our revenues and net income likely will decrease. Many factors may have a negative impact on the level of revenues or net income produced by our portfolio of investments, including higher than expected construction costs, failure to complete projects on a timely basis, failure of the properties to perform at expected levels upon completion of development or redevelopment, and increased borrowings necessary to fund higher than expected construction or other costs related to the project. Further, our net income and stockholders' equity could be negatively affected during periods with large portfolio acquisitions, which generally require large cash outlays and may require the incurrence of additional financing. Any such reduction in our revenues and net income during such periods could cause a resulting decrease in our cash available for distributions during the same periods.

***If we fail to continue to qualify as a REIT, we will be subject to tax on our income and the amount of distributions we make to our stockholders will be reduced.***

We have elected to be taxed as a REIT commencing with our tax year ended December 31, 2011 and intend to operate in a manner that would allow us to continue to qualify as a REIT. However, we may terminate our REIT qualification if our Board of Directors determines that not qualifying as a REIT is in our best interest, or inadvertently. Our qualification as a REIT depends upon our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. We currently intend to structure our activities in a manner designed to satisfy all requirements for qualification as a REIT. However, the REIT qualification requirements are extremely complex and interpretation of the U.S. federal income tax laws governing qualification as a REIT is limited. Furthermore, any opinion of our counsel, including tax counsel, as to our eligibility to qualify or remain qualified as a REIT is not binding on the Internal Revenue Service, or IRS, and is not a guarantee that we will qualify, or continue to qualify, as a REIT. Accordingly, we cannot be certain that we will be successful in operating so we can qualify or remain qualified as a REIT. Our ability to satisfy the asset tests depends on our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income or quarterly asset requirements also depends on our ability to successfully manage the composition of our income and assets on an ongoing basis. Accordingly, if certain of our operations were to be recharacterized by the IRS such recharacterization would jeopardize our ability to satisfy all requirements for qualification as a REIT. Furthermore, future legislative, judicial or administrative changes to the U.S. federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT.

If we fail to continue to qualify as a REIT for any taxable year and we do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT qualification. Losing our REIT qualification would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends paid deduction, and we would no longer be required

to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

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

**CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS**

Statements made in this prospectus and the information incorporated by reference into this prospectus that are not historical factual statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act; Section 27A of the Securities Act; and pursuant to the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "could," "may" or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- use of proceeds of any offering;
- our business and investment strategy;
- our projected operating results;
- actions and initiatives of the U.S. government and changes to U.S. government policies and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic areas;
- economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements, including through Freddie Mac and Fannie Mae;
- financing and advance rates for our target assets;
- our expected leverage;
- changes in the values of our assets;
- our expected portfolio of assets;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;
- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes, or REIT;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future;
- our understanding of our competition; and
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. For more information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see "Risk Factors." If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## PREFERRED APARTMENT COMMUNITIES, INC.

### Our Company

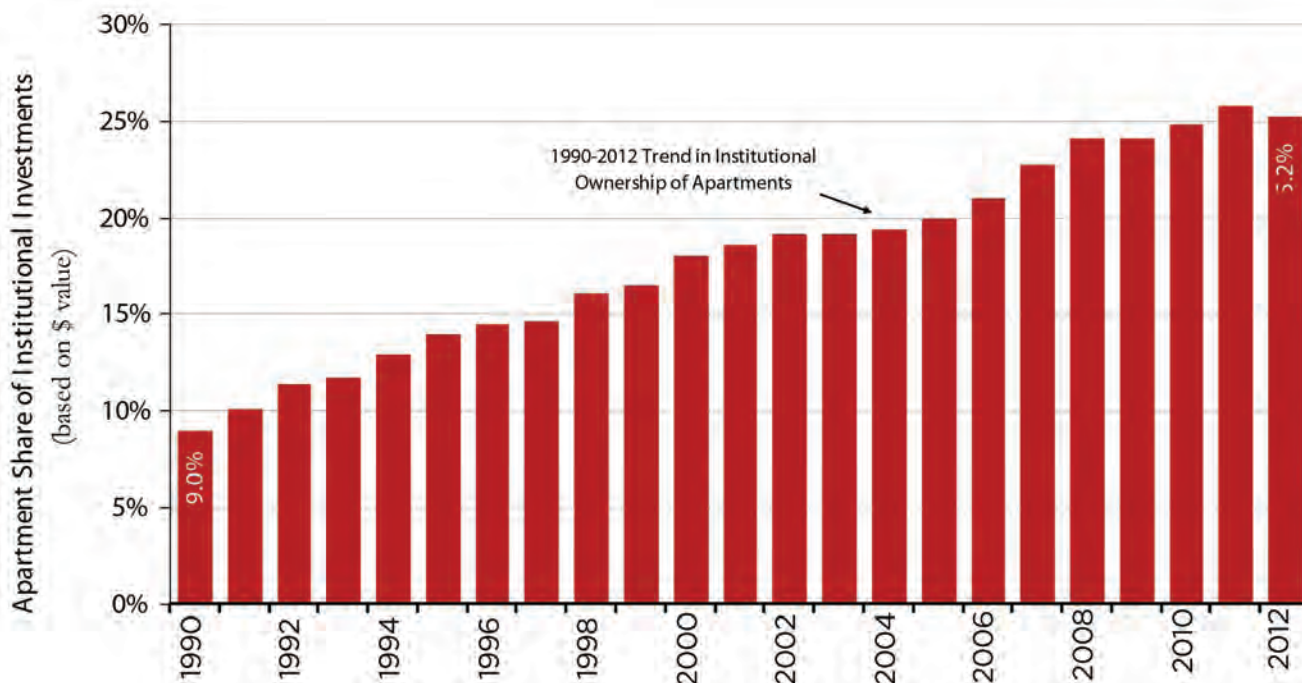
We were formed as a Maryland corporation on September 18, 2009, and have elected to be taxed as a REIT under the Code effective with our tax year ended December 31, 2011. We were formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities, and we may make mezzanine loans, provide deposit arrangements or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties. As a secondary strategy, we may acquire or originate senior mortgage loans, subordinated loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 10% of our total assets in other real estate related investments, as determined by our manager. We have no employees of our own; our manager provides all managerial and administrative personnel to us pursuant to the management agreement. Our manager is controlled by John A. Williams, our Chairman of the Board of Directors and Chief Executive Officer.

Our consolidated financial statements include the accounts of the company and our operating partnership. The company controls our operating partnership through its sole general partnership interest and conducts substantially all its business through our operating partnership.

Our executive offices are located at 3284 Northside Parkway NW, Suite 150, Atlanta, Georgia 30327. Our telephone number is (770) 818-4100.

### Market Opportunities

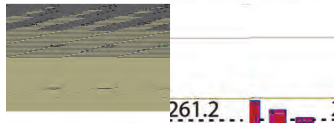
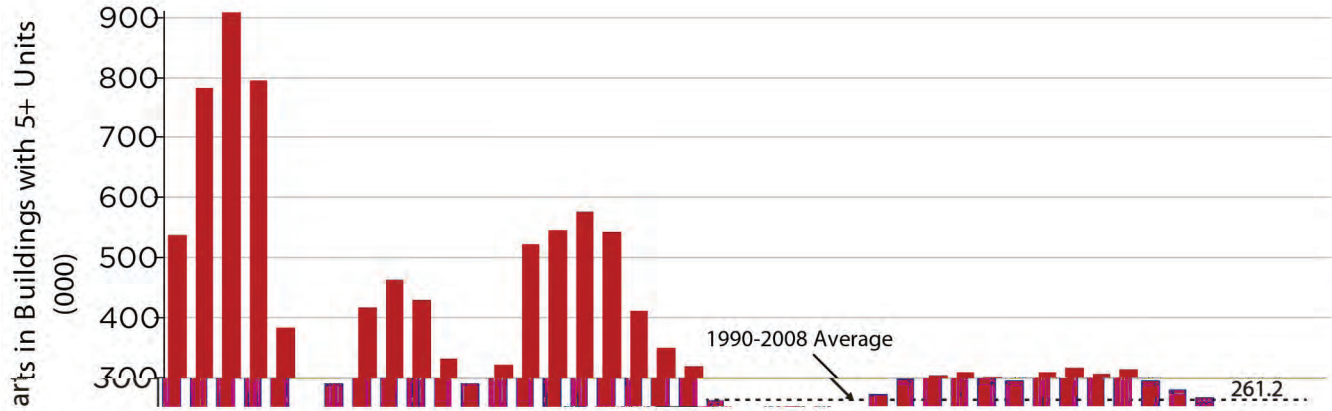
In the wake of the financial system troubles and downturn in the United States economy after 2007 – 2008, multifamily assets saw a dramatic drop in value as the combination of higher capitalization rates and dwindling rental incomes created formidable headwinds for operators across the country. Many transactions consummated in 2005 – 2008 were highly leveraged with favorable financing terms. In many instances, these deals were financially troubled or the debt associated with these deals matures between 2013 and 2017. These transactions present problems for undercapitalized owners as the ability to refinance many of these transactions is still difficult even with the improvement in the market, a larger presence of institutional capital in the sector and continued low interest rates. Many owners are able to recoup at least some of their capital through a sale of the asset at a potential discount to their basis. However, based on the reasonable level of new supply projected for the next several years, the continued introduction of the "echo boom" generation into the market and the dwindling rate of homeownership, we believe opportunities for acquisitions will continue to exist for the next couple of years.





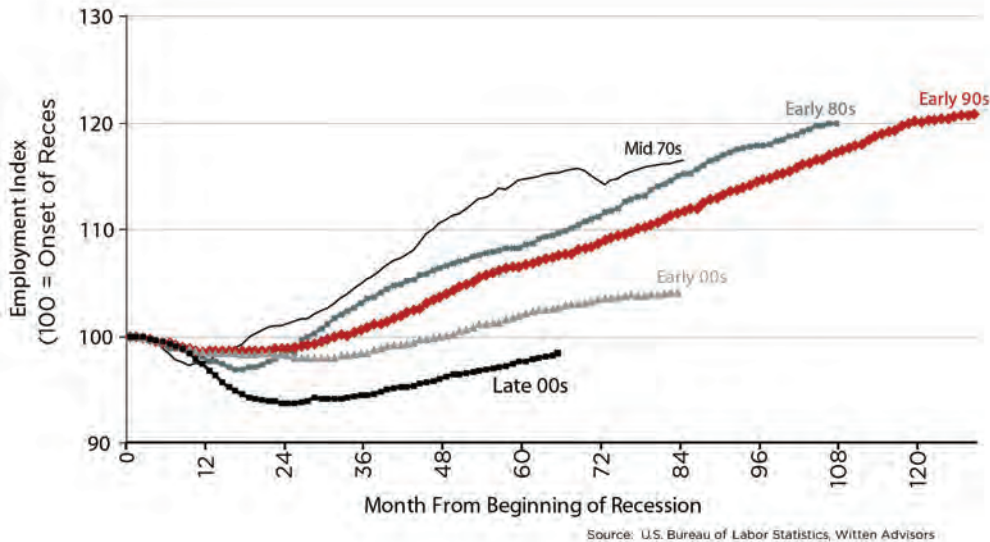
*Supply Constraints:* With the economic conditions moderating financing for new construction, we believe the new supply pipeline will remain at or slightly above historical averages for the next few years. As can be seen from the charts below, for the last three years, permits for multifamily construction have averaged approximately 198,000 units annually. In addition, we believe that annually the U.S. apartment stock loses an average of 118,000 units per year to obsolescence or conversion to other uses. We believe that this combination should result in a few years of net completions of new units being around historical averages. As the economy continues to rebound and demand for apartment inventory increases, we believe that there will be a shortage of new supply to keep up with the expected increased demand. We believe this window of opportunity will allow owners with desirable product to experience rent growth and enhanced occupancy levels as the market expands and supply struggles to keep pace.

**Historical MultiFamily Permits\***

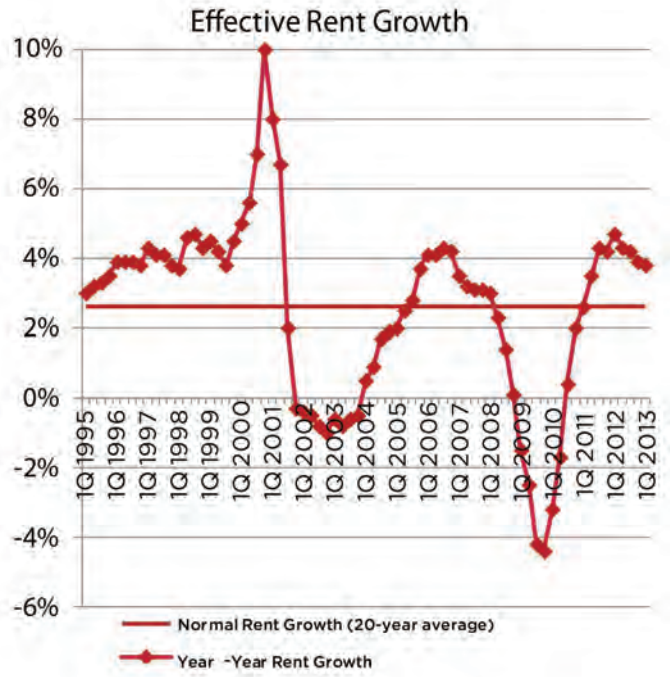
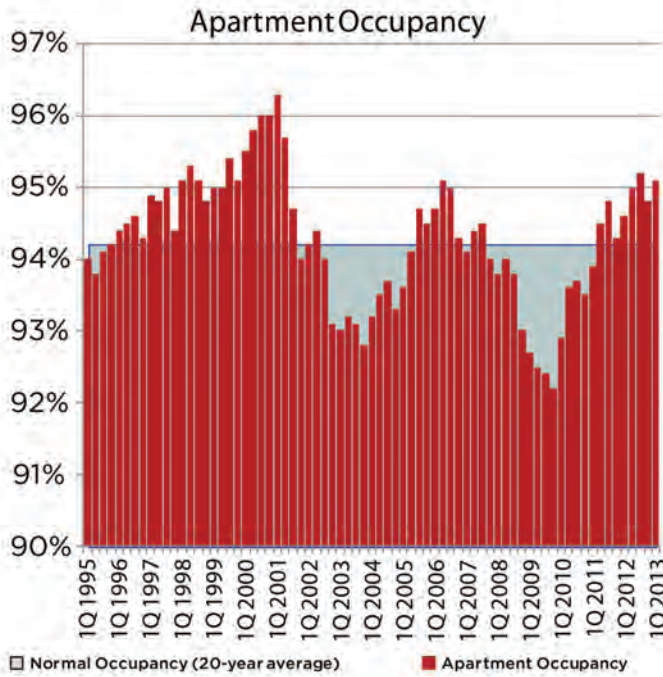


\* Based on U.S. Census Bureau data as presented by Witten Advisors

*Economic Improvement:* While the overall economy struggles to show consistent signs of improvement, we believe the multifamily sector to be the most resilient sector in the real estate market. We contend that the historical correlation between job growth and absorption has not applied. As demonstrated in the charts below, since the third quarter of 2009, apartment absorption on a year-over-year basis has been very strong and has outperformed the corresponding relatively weak improvements in employment.

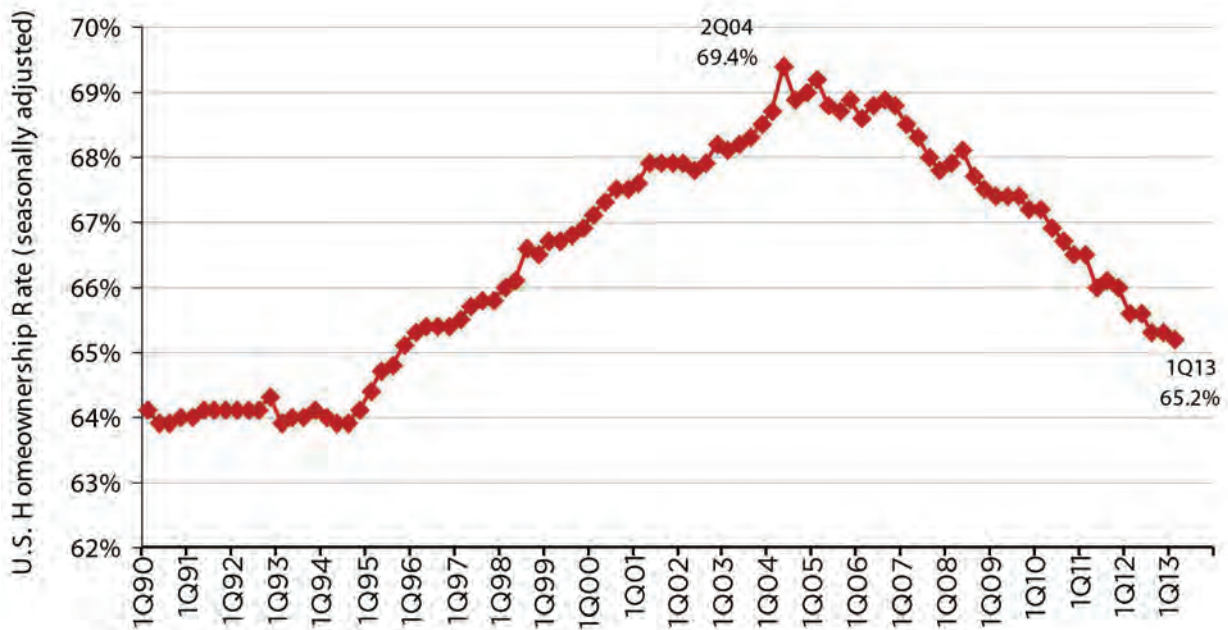


Source: U.S. Bureau of Labor Statistics, Witten Advisors



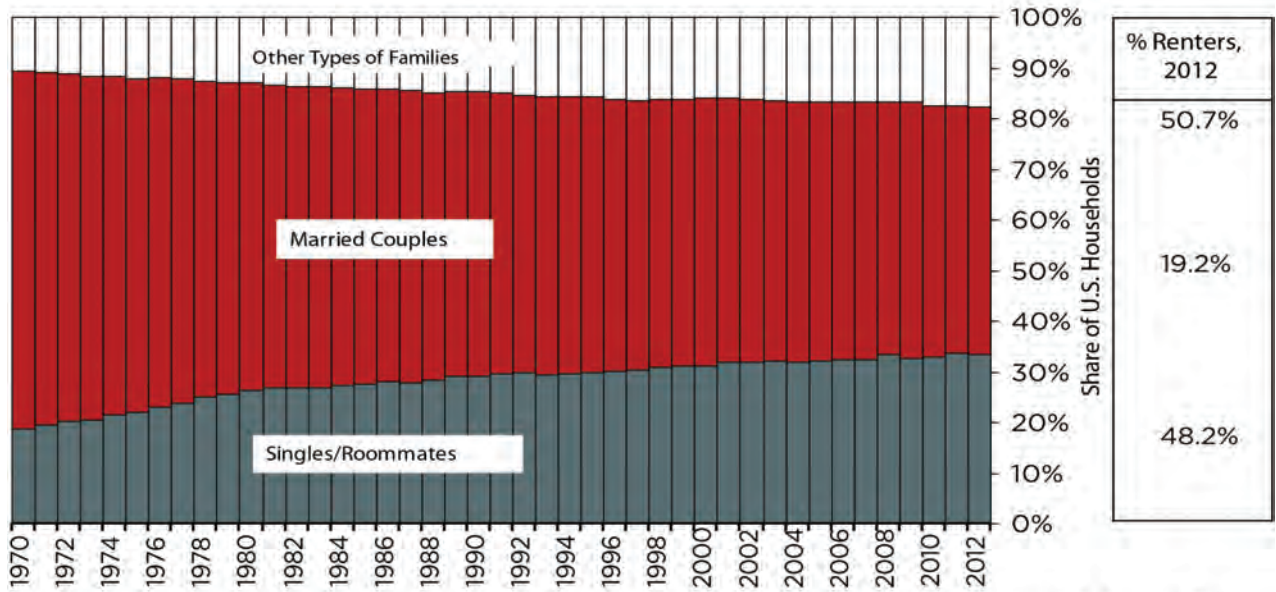
Source: Witten Advisors

*Rate of Homeownership:* We believe that one of the most significant contributors to the projection for new demand for rental units is the level of homeownership in the United States. As of June 30, 2013, the home ownership rate was approximately 65.0%, down from a high of approximately 69.2% in 2004, and down .5% from the second quarter of 2012 (figures based on U.S. Census Bureau data and the Witten Advisors Second Quarter 2012 U.S. Apartments Markets Forecast Presentation). Based on industry sources, we believe that, while the current economic weakness should continue to ease, an increase in homeownership rates is unlikely for a much longer period of time and the current downward trend shown in the chart below should continue.



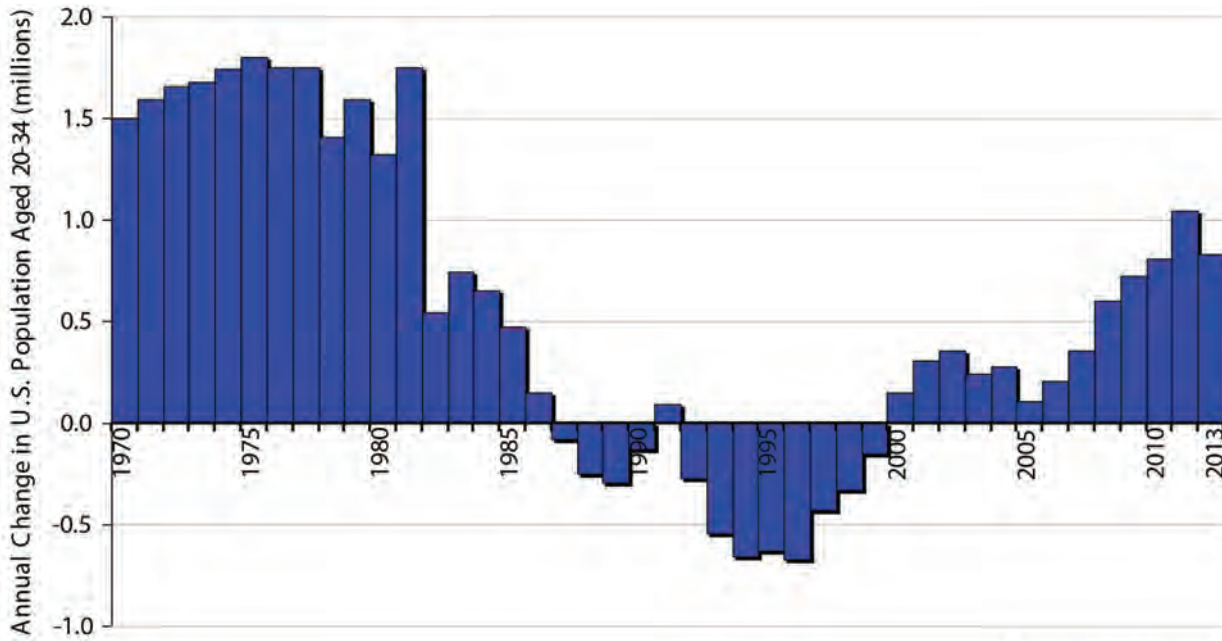
Source: U.S. Census Bureau

Given the more stringent underwriting standards from lenders and scrutiny from regulators that has been occurring since the beginning of the last recession, the erosion of wealth in the housing sector during the recent recession, the decline in overall household income and the continued rate of unemployment, we expect the propensity to rent likely will continue to increase in the near term. Based on current U.S. Census Bureau data, from a demographic standpoint, there is a large population bubble of Americans under the age of 30 who we expect to be candidates for home ownership now or in the near future; however, we believe it is likely that the current climate and the experience of the last six years, will cause them to delay the decision to purchase a home until the economy and their personal finances have substantial improvement. In addition, we believe the requirements for a mortgage may continue to be more stringent than pre-recession standards and that this group may find it more attractive to rent for a longer period of time until they can qualify for a desirable home. All these factors lead us to believe that an improvement in demand for the apartment market will occur as the rental pool grows.

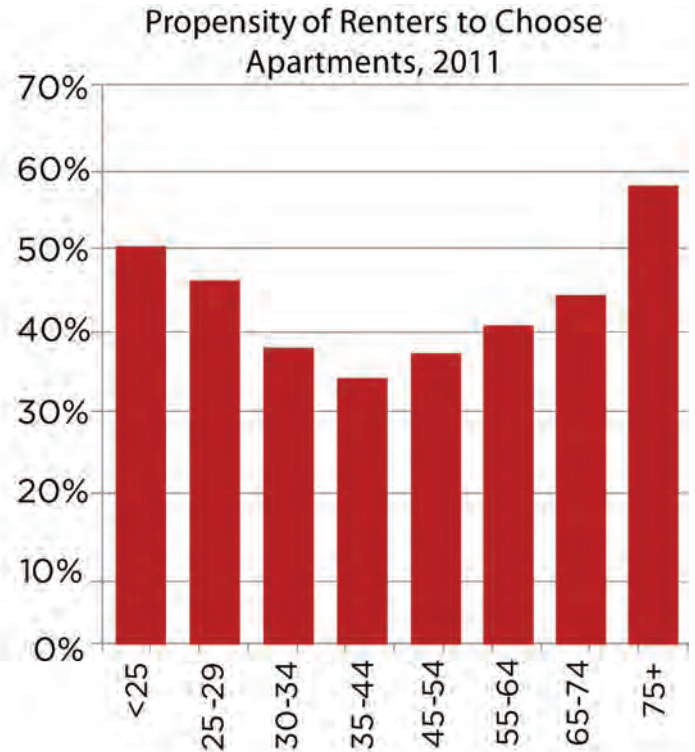
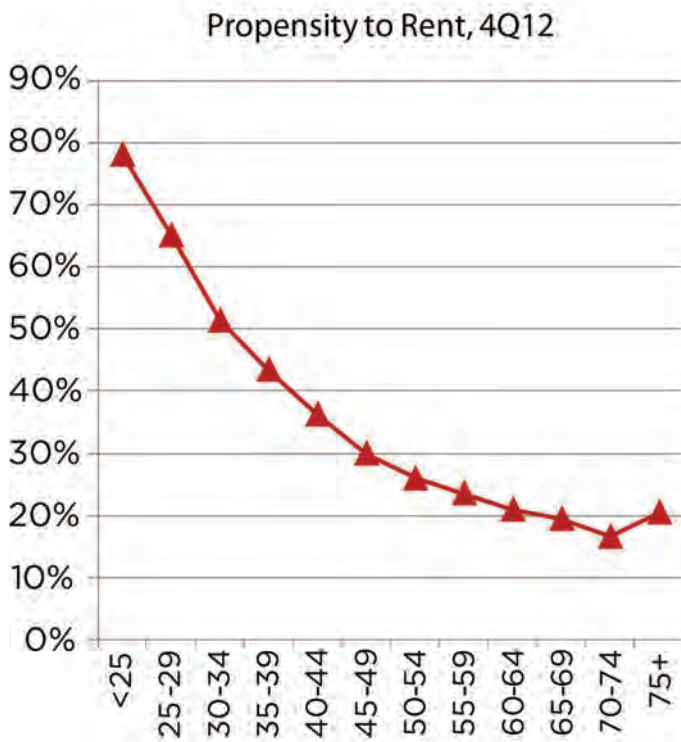


Source: U.S. Census Bureau

*Echo Boom Generation:* As shown in the chart of U.S. Census Bureau data below, there are approximately 84.7 million "echo boomers" in the population currently, more than their "Baby Boomers" parents who number approximately 71.2 million. The echo boomers were born between 1977 and 1996 and the bulk of them are currently working their way into the market (age range in 2013 was 17 – 36). According to the U.S. Department of Education, for school year 2011 – 2012 more people attended universities in the United States than at any other time in history. We do not expect this trend to abate anytime in the near future. As these people graduate and work their way into the market, we believe the pool of educated, employed and qualified renters will increase dramatically.



Source: U.S. Census Bureau



Source: U.S. Census Bureau

### Our Competitive Strengths

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

- experienced management team with significant expertise in real estate and real estate-related debt investments and capital markets;
- access to a pipeline of investment opportunities;
- benefits from our relationship with our manager and its affiliates; and
- dedicated asset management team.

## Our Investment Strategy

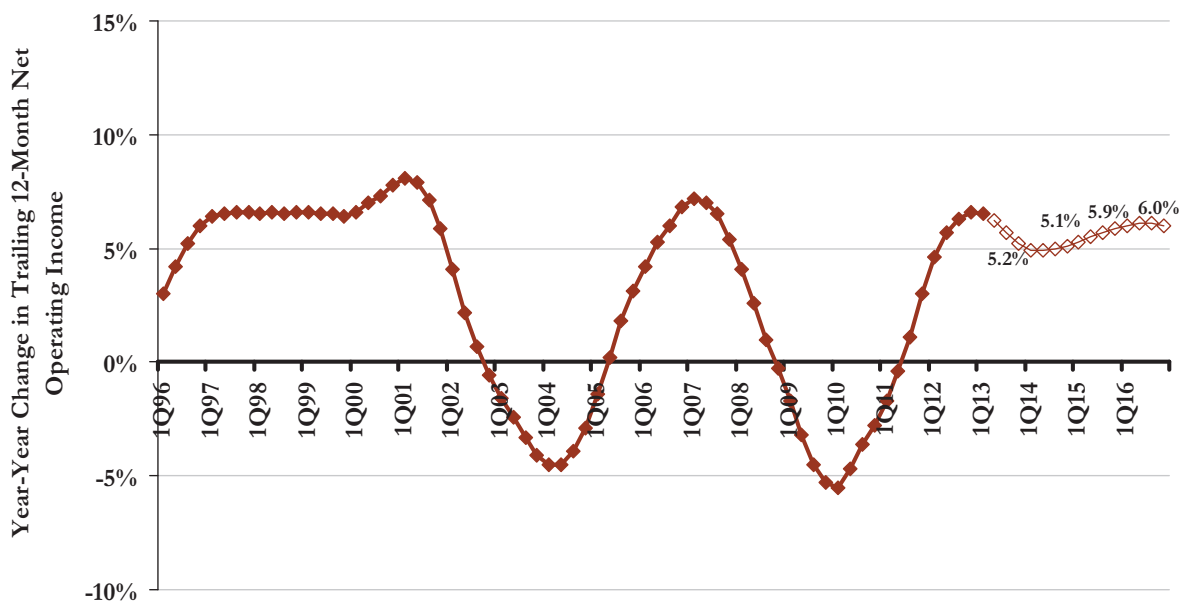
We will seek to maximize returns for our stockholders by taking advantage of the current environment in the domestic real estate market. While occupancy and capitalization rates in the multifamily sector have rebounded from recessionary lows, apartment values generally remain below previous market highs due to a relatively slow recovery from the significant declines in rental rates, collections and net operating incomes that have yet to fully recover. As the real estate market and economy stabilize, we intend to employ efficient management techniques to grow income and create asset value. Our investment strategy includes, without limitation, the following:

- acquiring primarily multi-family real estate-related assets where such assets or the owners of such assets are overleveraged or where such owners may be struggling to meet current debt service obligations on such assets, or, in certain circumstances, where such owners are financial institutions or conduits under either legal or economic compulsion to sell;
- acquiring assets in opportunistic, performing and stable markets throughout the United States;
- acquiring multifamily properties which we believe will generate sustainable cash flow from operations sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation;
- taking advantage of the moderate new multifamily development in the last few years; and
- taking advantage of the anticipated availability of financing from Freddie Mac and Fannie Mae that fits within our financing strategy as set forth in our most recent Annual Report on Form 10-K, any subsequent Quarterly Reports on Form 10-Q and SEC reports on Form 8-K.

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

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

We believe there are numerous opportunities within the multi-family sector to acquire assets that fit our investment strategy. While cap rates have come down recently, interest rates generally remain below cap rates, providing an opportunity for buyers to achieve positive leverage (borrow at a cost of capital below the cap rate on the asset). In addition, we believe that net operating income, or NOI, growth for multifamily assets in general will be between 5% and 8% annually through 2016.



\* Based on Witten Advisors Second Quarter 2013 U.S. Apartments Markets Forecast Presentation and U.S. Bureau of Labor Statistics

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

In particular, we will look to acquire:

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

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

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

- *Core Assets:* Core assets can best be described as being relatively new properties (less than ten years old) in major markets and top submarkets. These properties typically are in infill and close-in suburban locations with significant barriers to entry and little-to-no deferred maintenance issues or significant capital expenditures necessary to maintain market presence. The properties are typically well managed and maintained by the seller. Based on the current interest rate environment, we would expect capitalization rates to range from 5.0% to 7.0%;
- *Value Add Assets:* Value add assets can best be described as slightly older assets (up to 25 years old) in major markets, but submarkets can be infill or suburban. Value add assets typically have some deferred maintenance issues, capital expenditure needs and/or modest operational or occupancy deficiencies that may require more management intensive efforts than core assets. These operational deficiencies could include, but are not limited to, below market occupancy rates, unqualified or inexperienced management teams on site or at the corporate level, deferred maintenance and capital expenditure needs. Capital expenditure needs in value add assets should be no more than \$10,000 to \$20,000 per unit, depending on market conditions and material costs. The capitalization rates for value add assets are expected to be higher (6.0% to 8.0% currently) than core assets with higher expected returns; and
- *Opportunistic Assets:* Opportunistic assets can be older assets, but we would seek to avoid functional obsolescence in an asset due to defective construction and inherent flaws. Examples of functional obsolescence could include, but are not limited to, flat roofs in garden style apartments, floor plans that are significantly smaller than the market average and a high percentage of two bedroom/one bath units relative to the market. Defective construction or inherent flaws could include, but is not limited to, aluminum wiring in apartments for electricity, blu-poly piping and poor installation of mechanical systems or appliances. It is possible that we would acquire an asset with some of these flaws with the intention of correcting the issues or "updating" the asset. We would expect this type of asset to have serious physical or

operational deficiencies that will require intensive efforts to correct either through management changes, renovation or a combination of both. Capital expenditure needs in opportunistic assets will probably exceed \$20,000 per unit, depending on market conditions and material costs. Serious physical and operational deficiencies could include, but are not limited to, reroofing a property, repainting the interior and exterior of a property, replacing all the appliances in a property and completely renovating the common areas. Capitalization rates for these assets could be 7.0% or higher due to the potentially serious operational deficiencies with an opportunistic asset. Current cap rates for opportunistic assets may be difficult to determine and may vary widely.

Owing to our strategy of purchasing assets with stable, in-place income and dividend coverage, our acquisition efforts will be primarily focused on the Core asset class described above. As markets change and we grow, our acquisition efforts may grow and expand to include more of the Value-Add and Opportunistic assets if we see such investments as accretive to our stockholders.

As a secondary strategy, we also may acquire or originate senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 10% of our total assets in other real estate related investments, as determined by our manager as appropriate for us.

Under our secondary strategy, we may invest in real estate-related debt, including, but not limited to, previously originated first mortgage loans and loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration or otherwise guaranteed or insured on multifamily properties that meet our investment criteria, which are performing or non-performing, previously originated mezzanine loans on multifamily properties that meet our investment criteria (second or subsequent mortgages), which are performing or non-performing, and tranches of securitized loans (pools of collateralized mortgaged-backed securities) on multifamily properties that meet our investment criteria, which are performing or non-performing. We do not have a formal policy with respect to the proportion of assets which may be invested in each type of mortgage or any single mortgage. We will seek to invest in debt when there is a reasonable expectation that either the satisfaction of the debt under its current terms or the foreclosure of the asset securing the debt would result in a favorable return to us. We will analyze the current operations of any asset securing the debt that we seek to purchase in order to determine the likelihood of a default or foreclosure (in the case where there is not one currently) and price our bid for such debt based on the expectations of either a successful payoff by the current borrower or a need to foreclose on the asset. We do not have a formal portfolio turnover policy, and currently do not intend to adopt one.

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

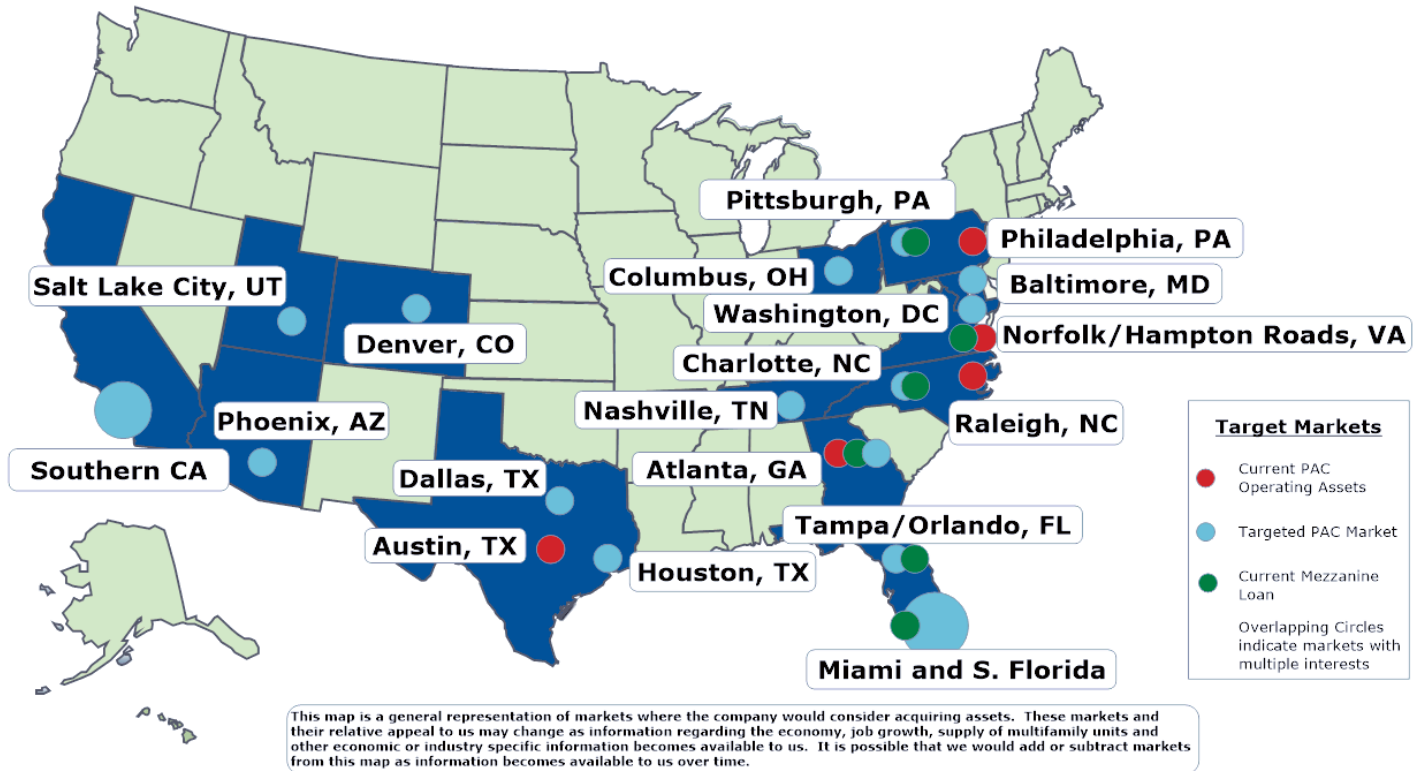
The investment committee will periodically review our investment portfolio and its compliance with our investment guidelines (or our investment policies), and provide our Board of Directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. Our investment guidelines, the assets in our portfolio, the decision to utilize leverage, and the appropriate levels of leverage are periodically reviewed by our Board of Directors as part of their oversight of our manager. Our Board of Directors may amend or revise our investment guidelines without a vote of the stockholders. If our Board of Directors amends or revises our investment guidelines, the board will describe such amendments or revisions in our next Quarterly Report on Form 10-Q, a Form 8-K or a press release.

## **Our Target Markets**

We will use a variety of metrics and measures to assist us in determining the appropriateness of the markets we will target for acquisitions, the sub-markets within those markets and the individual assets we will acquire. Generally, we intend to target MSAs of one million people or more with favorable economic conditions. The conditions we may monitor in determining the economic conditions of a market include, but are not limited to, job growth, household income, the pipeline of new supply for multifamily units, the pipeline of new supply for single family units, current and forecasted occupancy for multifamily units, current and forecasted rental rate growth for multifamily units, and other statistics that may be relevant to individual markets. In addition, we will analyze data from our affiliate operations to corroborate any assumptions. In addition to the analysis of current economic conditions and forecasts and the data provided by our affiliates' operations, we will utilize a network of industry contacts and relationships to generate significant information about current and future market conditions. The map below provides our most current analysis of the markets where we believe opportunities exist for us to acquire properties. These markets have different favorable and unfavorable traits which might cause us to make different acquisition decisions in each market, depending on the type of asset available in the market, the submarket it is located in within that market, the pricing we anticipate for that asset and our view on how the asset, the submarket and the broader market will perform. The areas in blue on the map below indicate additional markets we are currently targeting for properties to acquire, however, no assurance can be given that suitable properties will be acquired in such areas. These markets have been selected because our affiliated operations currently have a significant presence in these markets or we have determined that the

market presents a good opportunity for property acquisitions. We anticipate this presence will provide us more accurate and timely market data when evaluating potential acquisitions and speed and efficiency in putting in place a property management team post-acquisition. The map below is a guide and will change as additional information becomes available to us regarding national, market or local trends. As of the date of this prospectus, we own and operate multifamily communities in the MSA's of Atlanta, Georgia, Norfolk-Virginia Beach-Newport News, Virginia-North Carolina, Raleigh, North Carolina, Austin, Texas and Philadelphia, Pennsylvania, we have mezzanine loan investments for multifamily communities in the MSAs of Atlanta, Georgia, Tampa, Florida, Charlotte, North Carolina, Pittsburgh, Pennsylvania, South, Florida and Norfolk-Virginia Beach-Newport News, Virginia-North Carolina MSAs and we may purchase properties in markets other than those shown on the map below.

## PAC REIT Operations and Target Market Map



## Our Branding and Marketing Strategy

Our manager has registered "A Preferred Apartment Community" as a trademarked logo with the United States Patent and Trademark Office. Our manager has branded, and in the future will continue to brand, all apartment communities owned by the company as "A Preferred Apartment Community" and has made it the ultimate tagline for each of our communities that we believe signifies our brand and management standards. This strategy allows each individual community to be part of a centralized marketing and advertising campaign, in addition to property level marketing and advertising campaigns. We expect that these campaigns will further enhance each individual property's presence in the marketplace, and we believe that this will allow our communities to be perceived as premier over other properties within the marketplace. Our manager has entered into a non-exclusive license agreement with the company, as licensee, with respect to all intellectual property of the manager other than trademarks. The license agreement will terminate automatically upon termination of our management agreement or will terminate upon a material breach of the license agreement that remains uncured for more than 30 days after receipt of notice of such breach. Our manager has entered into a separate non-exclusive license agreement with the company, as licensee, with respect to the manager's trademarks on substantially similar terms as the initial intellectual property license agreement.

Upon the acquisition of each of our communities, we plan to implement what we believe to be an innovative and unique marketing and branding strategy by rolling out the PAC Concierge, PAC Rewards and PAC Partners programs (as described below). We anticipate implementing these programs at any newly acquired community approximately thirty days following acquisition.

The PAC Concierge program is a complimentary service for our residents designed to offer them the type of personal concierge services that you would expect at a high end resort. The concierge services are provided by a professionally trained team ready to coordinate services such as running errands and making dinner reservations, golf tee times and travel arrangements, as well as



many other services. Our concierge service is available to our residents 24/7 by telephone, email or web access through our unique resident web portal.

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

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

### **Risk Management**

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

### **Investment Committee**

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

## ESTIMATED USE OF PROCEEDS

The table below sets forth our estimated use of proceeds from this offering, assuming we sell the maximum of 900,000 Units in this offering at the public offering price of \$1,000 per Unit for maximum gross offering proceeds of \$900 million.

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

### Estimated Application of Proceeds of this Offering

	Maximum Offering	
	Amount	Percent
Gross offering proceeds	\$ 900,000,000	100.00%
Offering expenses:		
Selling commissions <sup>(1)</sup>	\$ 63,000,000	7.00%
Dealer manager fee <sup>(1)</sup>	\$ 27,000,000	3.00%
Other offering expenses <sup>(2)</sup>	\$ 13,500,000	1.50%
Amount available for investment <sup>(3)</sup>	\$ 796,500,000	88.50%
Cash down payment (equity)	\$ 751,885,714	83.54%
Acquisition fees (real estate commissions) <sup>(4)</sup>	\$ 22,114,286	2.46%
Working capital reserve	\$ 22,500,000	2.50%
Proceeds invested	\$ 796,500,000	88.50%
Offering expenses	\$ 103,500,000	11.50%
Total application of proceeds	\$ 900,000,000	100.00%

- (1) Assumes selling commissions equal to 7.0% of gross offering proceeds and a dealer manager fee of 3.0% of gross offering proceeds in the offering under this prospectus. See the "Plan of Distribution" section of this prospectus for a description of these commissions and fees. We or our affiliates also may provide permissible forms of non-cash compensation to registered representatives of our dealer manager and the participating broker-dealers, including gifts. In no event shall such gifts exceed an aggregate value of \$100 per annum per participating salesperson, or be pre-conditioned on achievement of a sales target. The value of such items will be considered underwriting compensation in connection with this offering, and the corresponding payments of our dealer manager fee will be reduced by the aggregate value of such items. The aggregate combined selling commissions, dealer manager fee and such non-cash compensation for this offering will not exceed FINRA's 10% cap. Our dealer manager will repay to the company any excess payments made to our dealer manager over FINRA's 10% cap if this offering is abruptly terminated before reaching the maximum amount of offering proceeds.
- (2) Includes all expenses (other than selling commissions and the dealer manager fee) to be paid by us or on our behalf in connection with the qualification and registration of this offering and the marketing and distribution of the Units, including, without limitation, expenses for printing and amending registration statements or supplementing prospectuses, mailing and distributing costs, all advertising and marketing expenses, charges of transfer agents, registrars and experts and fees, expenses and taxes related to the filing, registration and qualification, as necessary, of the sale of the Units under federal and state laws, including taxes and fees and accountants' and attorneys' fees. We will reimburse our manager and its affiliates for such offering expenses in an amount up to 1.5% of gross offering proceeds based on the aggregate proceeds of this offering and the Primary Series A Offering. Our manager and its affiliates will be responsible for any such offering expenses that exceed 1.5% of aggregate gross offering proceeds under this offering and the Primary Series A Offering, without recourse against or reimbursement by us. All organization and offering expenses, including selling commissions and the dealer manager fee, will be capped at 11.5% of the aggregate gross proceeds of this offering and the Primary Series A Offering.
- (3) Although the net proceeds are expected to be used in connection with the acquisition of multifamily properties and other real estate-related investments and the payment of fees and expenses related thereto, the proceeds are available for our other capital needs, whether related to the repayment of debt or otherwise. For purposes of this table, however, we have assumed that we will use all the net proceeds for acquisitions of real property and other real estate-related investments and the payment of related fees and expenses. Until required in connection with the acquisition of real property, other real estate-related investments or other capital needs, we intend to invest the net proceeds of this offering in a manner which will not

adversely affect our ability to qualify, or maintain our qualification, as a REIT. Both gross and net proceeds do not include any amounts received by us in connection with any exercise of the Warrants.

- (4) "Real estate commissions" are defined as the total of all fees and commissions paid by any person to any person, including our manager or affiliates, in connection with the selection, purchase, construction or development of any property by us, whether designated as real estate commission, acquisition fees, finders' fees, selection fees, development fees, construction fees, non-recurring management fees, consulting fees or any other similar fees or commissions howsoever designated and howsoever treated for tax or accounting purposes. Assuming our manager coordinates all of our acquisitions, all of this amount will be paid to our manager as an acquisition fee.

Assuming the maximum offering, we estimate that we will receive net proceeds from the sale of our Units in this offering of approximately \$796.5 million, after deducting estimated offering expenses, including selling commissions and the dealer manager fee, payable by us of approximately \$103.5 million. Both gross and net proceeds do not include any amounts received by us in connection with any exercise of the Warrants.

We intend to invest substantially all the net proceeds of this offering in connection with the acquisition of multifamily properties, other real estate-related investments and general working capital purposes. If all the net proceeds of this offering are used to directly acquire multifamily properties and other real estate-related investments, we estimate that these investments would have an aggregate gross value (inclusive of mortgage indebtedness) of approximately \$2.2 billion assuming the maximum offering. We intend to acquire such investments through the incurrence of indebtedness (secured and unsecured) of approximately 65% of the value of our tangible assets on a portfolio basis, with the balance of the acquisition cost thereof funded through the use of the net proceeds of this offering.

Neither our charter nor our bylaws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our Board of Directors without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. In addition, we intend to have no long-term corporate level debt. The credit agreement for our credit facility specifically limits our ability to make cash dividends to the greater of (i) the amount required for us to maintain our status as a REIT or (ii) 95.0% of our adjusted funds from operations on a consolidated basis.

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

## RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Our consolidated ratio of earnings to combined fixed charges and preferred stock dividends for the six months ended June 30, 2013 and the years ended December 31, 2010, 2011 and 2012 are set forth below. We did not have any shares of preferred stock outstanding at December 31, 2011.

	<b>Six months ended June 30,</b>	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Earnings:</b>				
Net loss attributable to common stockholders	\$ (14,543,526 )	\$ (614,530 )	\$ (8,505,173 )	\$ (766,199 )
Add:				
Combined fixed charges and preferred dividends (see below)	11,813,590	2,955,485	1,514,580	15,064
Less:				
Net loss attributable to non-controlling interest	(98,156)	—	—	—
<b>Total earnings</b>	<b>\$ (2,828,092 )</b>	<b>\$ 2,340,955</b>	<b>\$ (6,990,593 )</b>	<b>\$ (751,135 )</b>
<b>Fixed charges:</b>				
Interest expense	\$ 2,566,706	\$ 2,310,667	\$ 1,450,101	\$ 15,064
Amortization of deferred loan costs related to mortgage indebtedness	422,395	194,012	64,479	—
<b>Total fixed charges</b>	<b>\$ 2,989,101</b>	<b>\$ 2,504,679</b>	<b>\$ 1,514,580</b>	<b>\$ 15,064</b>
Preferred dividends	8,824,489	450,806	—	—
<b>Total combined fixed charges and preferred dividends</b>	<b>\$ 11,813,590</b>	<b>\$ 2,955,485</b>	<b>\$ 1,514,580</b>	<b>\$ 15,064</b>
<b>Ratio of earnings to combined fixed charges and preferred dividends</b>	(1)	(1)	(1)	(1)

(1) The computation of our ratios of earnings to combined fixed charges and preferred stock dividends indicates that earnings were inadequate to cover combined fixed charges and preferred stock dividends by approximately \$615,000 and \$8.5 million for the twelve months ended December 31, 2012 and 2011, respectively, and approximately \$14.6 million for the six months ended June 30, 2013. Our net loss to common stockholders includes the effect of a one-time deemed non-cash dividend of approximately \$7.0 million related to a beneficial conversion feature within our Series B Preferred Stock, all of which was converted to common stock on May 16, 2013. Combined fixed charges and preferred stock dividends for the six months ended June 30, 2013 also reflects the deemed non-cash dividend. Since we commenced revenue-generating operations in April 2011, the ratio of earnings to combined fixed charges and preferred stock dividends is not a meaningful measure for any period prior to 2011.

Our ratio of earnings to combined fixed charges and preferred stock dividends is computed by dividing earnings by combined fixed charges and preferred stock dividends. For these purposes, "earnings" consists of net loss available to common stockholders plus fixed charges and preferred stock dividends, less the value of unamortized deferred loan costs. Net loss is computed in accordance with U.S. GAAP, and includes such non-cash items as real estate depreciation, a one-time deemed non-cash dividend on our Series B Preferred Stock, loss on the early extinguishment of debt, and amortization of the values of customer relationships, leases in place and deferred loan costs. Net loss also includes one-time transactional costs relating to our initial public offering in April 2011 and organizational costs. "Fixed charges" consist of interest expense on mortgage debt secured by our multifamily communities, and capitalization and amortization of deferred loan costs. Preferred dividends consist of dividends accrued on our Series A Redeemable Preferred Stock, which was first issued during 2012, and our Series B Preferred Stock which was issued on January 16, 2013 and converted into shares of our common stock on May 16, 2013.

## DESCRIPTION OF CAPITAL STOCK AND SECURITIES OFFERED

### General

We were formed under the laws of the state of Maryland. The rights of our stockholders are governed by Maryland law as well as our charter and bylaws. The following summary of our capital stock does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and to our charter (including the applicable articles supplementary designating the terms of a class or series of preferred stock) and bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus forms a part. See "Where You Can Find More Information about Preferred Apartment Communities."

Our charter authorizes us to issue up to 400,066,666 shares of common stock, \$0.01 par value per share, and 15,000,000 shares of preferred stock, \$0.01 par value per share, 1,050,000 shares of which have been classified and designated as Series A Redeemable Preferred Stock. Our charter authorizes our Board of Directors to amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of shares of stock of any class or series without stockholder approval. As of October 10, 2013, 11,073,731 shares of common stock were issued and outstanding on a fully diluted basis, including 29,016 unvested restricted shares of common stock, and 71,960 shares of Series A Redeemable Preferred Stock were issued and outstanding. Under Maryland law, stockholders are not generally liable for our debts or obligations.

As of October 10, 2013, there were outstanding: (i) 72,030 warrants issued in connection with our Primary Series A Offering that are exercisable for 1,440,600 shares of our common stock; (ii) warrants to purchase up to 150,000 shares of our common stock that were originally issued to IAA, in its capacity as financial advisor in our initial public offering; and (iii) 106,988 Class A Units of our operating partnership, with each Class A Unit exchangeable for one share of our common stock or, at our option, the cash value of one share of our common stock. Other than those described in the previous sentence, there are no outstanding warrants or rights of any other kind in respect of our common stock.

Our charter also contains a provision permitting our Board of Directors, by resolution, to classify or reclassify any unissued common stock or preferred stock into one or more classes or series by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, or terms or conditions of redemption of any new class or series of stock, subject to certain restrictions, including the express terms of any class or series of stock outstanding at the time. We believe that the power to classify or reclassify unissued shares of stock and thereafter issue the classified or reclassified shares provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise.

Our charter and bylaws contain certain provisions that could make it more difficult to acquire control of the company by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of the company to negotiate first with our Board of Directors. We believe that these provisions increase the likelihood that proposals initially will be on more attractive terms than would be the case in their absence and facilitate negotiations that may result in improvement of the terms of an initial offer that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. See the section entitled "Risk Factors" included elsewhere in this prospectus.

### Common Stock

Subject to the preferential rights of our Series A Redeemable Preferred Stock and any preferential rights of any other class or series of stock and to the provisions of our charter regarding the restrictions on the ownership and transfer of stock, the holders of common stock are entitled to such distributions as may be authorized from time to time by our Board of Directors and declared by us out of legally available funds and, upon our liquidation, are entitled to receive all assets available for distribution to our stockholders. Holders of common stock will not have preemptive rights, which means that they will not have an automatic option to purchase any new shares that we issue, or preference, conversion, exchange, sinking fund or redemption rights. Holders of common stock generally will have no appraisal rights.

The holders of common stock shall vote together as a single class on all matters. Holders of shares of common stock shall be entitled to vote for the election of directors. Directors may be removed from office, with or without cause, by the affirmative vote of the holders of not less than 66 2/3% of the total voting power of all outstanding common stock. Vacancies on the Board of Directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors may be filled by a majority of the directors then in office (although less than a quorum). Any such director elected to fill a vacancy will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualifies or until his or her earlier death, resignation or removal.

## Preferred Stock

Our charter authorizes our Board of Directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock and to set or change the voting, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class of shares so issued. If any preferred stock is publicly offered, the terms and conditions of such preferred stock, including any convertible preferred stock, will be set forth in articles supplementary and described in a prospectus supplement relating to the issuance of such preferred stock, if such preferred stock is registered. Because our Board of Directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of common stock or other preferred stock, including the Series A Redeemable Preferred Stock. If we ever create and issue additional preferred stock with a distribution preference over common stock or preferred stock, payment of any distribution preferences of new outstanding preferred stock would reduce the amount of funds available for the payment of distributions on the common stock and junior preferred stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage the following:

- a merger, tender offer, or proxy contest;
- the assumption of control by a holder of a large block of our securities; or
- the removal of incumbent management.

Also, our Board of Directors, without stockholder approval, may issue additional preferred stock with voting and conversion rights that could adversely affect the holders of common stock or preferred stock, including the Series A Redeemable Preferred Stock.

## Securities Offered In This Offering

### *Series A Redeemable Preferred Stock*

Our Board of Directors, including our independent directors, has created out of the authorized and unissued shares of our preferred stock, a series of redeemable preferred stock, designated as the Series A Redeemable Preferred Stock. Our Series A Redeemable Preferred Stock is being offered pursuant to this prospectus and will be issued in up to 900,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of our common stock.

The following is a brief description of the terms of our Series A Redeemable Preferred Stock. The description of our Series A Redeemable Preferred Stock contained herein does not purport to be complete and is qualified in its entirety by reference to the Articles Supplementary for our Series A Redeemable Preferred Stock, which have been filed with the SEC and are incorporated by reference as an exhibit to the registration statement, of which this prospectus is a part.

*Rank.* Our Series A Redeemable Preferred Stock ranks with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:

- senior to our common stock and any other class or series of our capital stock, the terms of which expressly provide that our Series A Redeemable Preferred Stock ranks senior to such class or series as to dividend rights or rights on our liquidation, winding-up and dissolution;
- junior to each class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that such class or series ranks senior to the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding up and dissolution; and
- junior to all our existing and future debt obligations.

Investors in the Series A Redeemable Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Redeemable Preferred Stock receive a return of their capital.

*Stated Value.* Each share of Series A Redeemable Preferred Stock has an initial "Stated Value" of \$1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our Series A Redeemable Preferred Stock, as set forth in the Articles Supplementary for our Series A Redeemable Preferred Stock.

*Dividends.* Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to our Series A Redeemable Preferred Stock, if any such class or series is authorized in the future, the holders of Series A Redeemable

Preferred Stock are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock begin accruing on, and are cumulative from, the date of issuance. We paid the initial dividend on our Series A Redeemable Preferred Stock in May 2012 to stockholders of record as of April 30, 2012, and thereafter have consistently paid monthly dividends on the Series A Redeemable Preferred Stock. We expect to continue to pay dividends on the Series A Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20<sup>th</sup> day of the month following the month for which the dividend was declared (or the next business day if the 20<sup>th</sup> day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

Holders of our shares of Series A Redeemable Preferred Stock are not entitled to any dividend in excess of full cumulative dividends on our shares of Series A Redeemable Preferred Stock. Unless full cumulative dividends on our shares of Series A Redeemable Preferred Stock for all past dividend periods have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, we will not:

- declare and pay or declare and set aside for payment dividends and we will not declare and make any other distribution of cash or other property (other than dividends or distributions paid in shares of stock ranking junior to the Series A Redeemable Preferred Stock as to the dividend rights or rights on our liquidation, winding-up or dissolution, and options, warrants or rights to purchase such shares), directly or indirectly, on or with respect to any shares of our common stock or any class or series of our stock ranking junior to or on parity with the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution for any period; or
- except by conversion into or exchange for shares of stock ranking junior to the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution, or options, warrants or rights to purchase such shares, redeem, purchase or otherwise acquire (other than a redemption, purchase or other acquisition of common stock made for purposes of an employee incentive or benefit plan) for any consideration, or pay or make available any monies for a sinking fund for the redemption of, any common stock or any class or series of our stock ranking junior to or on parity with the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution.

To the extent necessary to preserve our status as a REIT, the foregoing sentence, however, will not prohibit declaring or paying or setting apart for payment any dividend or other distribution on the common stock.

*Redemption at the Option of a Holder.* Beginning two years from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially \$1,000 per share, less a 10% redemption fee, plus any accrued but unpaid dividends.

Beginning three years from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially \$1,000 per share, less a 5% redemption fee, plus any accrued but unpaid dividends.

Beginning four years from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially \$1,000 per share, less a 3% redemption fee, plus any accrued but unpaid dividends.

Beginning five years from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, initially \$1,000 per share, plus any accrued but unpaid dividends.

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

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

*Optional Redemption Following Death of a Holder.* Subject to restrictions, beginning on the date of original issuance and ending two years thereafter, we will redeem shares of Series A Redeemable Preferred Stock held by a natural person upon his or her death at the written request of the holder's estate at a redemption price equal to the Stated Value, plus accrued and unpaid dividends thereon through and including the date of redemption, less all dividends previously paid to the holder or the estate; provided, however, that our obligation to redeem any of the shares of Series A Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption. Upon any such redemption request from a holder's estate, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption.

*Optional Redemption by the Company.* We will have the right to redeem any or all shares of our Series A Redeemable Preferred Stock beginning on the tenth anniversary of the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed. We will redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value per share of Series A Redeemable Preferred Stock, plus any accrued but unpaid dividends. We have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

We may exercise our redemption right by delivering a written notice thereof to all, but not less than all, of the holders of Series A Redeemable Preferred Stock. A notice of redemption shall be irrevocable. Each such notice will state the date on which the redemption by us shall occur, which date will be 30 days following the notice date.

*Liquidation Preference.* Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Series A Redeemable Preferred Stock, the holders of shares of Series A Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per share, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to and including the date of payment.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of our shares of Series A Redeemable Preferred Stock will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, the consolidation or merger of any other corporation, trust or entity with or into us, the sale or transfer of any or all our assets or business, or a statutory share exchange will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of our stock or otherwise, is permitted under the MGCL amounts that would be needed, if we were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of holders of the Series A Redeemable Preferred Stock will not be added to our total liabilities.

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

*Exchange Listing.* We do not plan on making an application to list the shares of our Series A Redeemable Preferred Stock on NYSE MKT, any other national securities exchange or any other nationally recognized trading system. Our common stock is listed on NYSE MKT.

### ***Common Stock Warrants***

The following is a brief summary of the Warrants and is subject to, and qualified in its entirety by, the terms set forth in the Warrant Agreement (as defined below) and global warrant certificate filed with the SEC and incorporated by reference as exhibits to the registration statement, of which this prospectus is a part.

*Warrant Agreement.* The Warrants to be issued in this offering will be governed by a warrant agreement, or the Warrant Agreement. The Warrants shall be issued either in certificated form or by "book-entry" form, in either case to DTC, and evidenced by one or more global warrants. Those investors who own beneficial interests in a global warrant do so through participants in DTC's system, and the rights of these indirect owners will be governed solely by the Warrant Agreement and the applicable procedures and requirements of the DTC. The Warrants may be exercised by the holders of beneficial interest in the Warrants by delivering to the warrant agent, through a broker who is a DTC participant, prior to the expiration of such Warrants, a duly signed exercise notice and payment of the exercise price for the shares of our common stock for which such Warrants are being exercised, as described in more detail below.



*Exercisability.* Holders may exercise the Warrants at any time beginning one year from the date of issuance up to 5:00 p.m., New York time, on the date that is the fourth anniversary of the date of issuance. The Warrants are exercisable, at the option of each holder, in whole, but not in part, by delivering to the warrant agent a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise (except in the case of a cashless exercise in the circumstances discussed below). Each Warrant is exercisable for 20 shares of our common stock (subject to adjustment, as discussed below). A holder of Warrants does not have the right to exercise any portion of a Warrant to the extent that, after giving effect to the issuance of shares of our common stock upon such exercise, the holder (together with its affiliates and any other persons acting as a group together with such holder or any of its affiliates) would beneficially own in excess of 9.8% in value of the shares of our capital stock outstanding or in excess of 9.8% (in value or number of shares, whichever is more restrictive) of the shares of our common stock outstanding, in each case, immediately after giving effect to the issuance of shares of our common stock upon exercise of the Warrant.

*Cashless Exercise.* If, on the date of any exercise of any Warrant, a registration statement covering the issuance of the shares of common stock issuable upon exercise of the Warrant is not effective and an exemption from registration is not available for the resale of such shares of common stock issuable upon exercise of the Warrant, the holder may satisfy its obligation to pay the exercise price upon the exercise of its Warrant on a cashless basis in accordance with the terms of the Warrant Agreement. When exercised on a cashless basis, a portion of the Warrant is cancelled in payment of the purchase price payable in respect of the number of shares of our common stock purchasable upon such exercise. Any Warrant that is outstanding on the termination date of the Warrant shall be automatically terminated.

*Exercise Price.* The exercise price of the common stock purchasable upon exercise of the Warrants equals a 20% premium to the current market price per share of our common stock on the date of issuance of such Warrant, subject to a minimum exercise price of \$9.00 per share. The current market price will be determined using the weighted average price of the 20 days of trading volume immediately prior to the date of the issuance of the Warrant. The exercise price and the number of shares of common stock issuable upon exercise of the Warrants is subject to appropriate adjustment from time to time in relation to the following events or actions in respect of the company: (i) we declare a dividend or make a distribution on our outstanding common stock in common stock; (ii) we subdivide or reclassify our outstanding common stock into a greater number of shares of our common stock; (iii) we combine or reclassify our outstanding common stock into a smaller number of shares of our common stock; or (iv) we enter into any transaction whereby the outstanding shares of our common stock are at any time changed into or exchanged for a different number or kind of shares or other securities of the company or of another entity through reorganization, merger, consolidation, liquidation or recapitalization.

*Transferability.* Subject to applicable law, the Warrants may be transferred at the option of the holder upon surrender of the Warrants with the appropriate instruments of transfer.

*Exchange Listing.* We do not plan on making an application to list the Warrants on NYSE MKT, any other national securities exchange or other nationally recognized trading system. Our common stock is listed on NYSE MKT.

*Rights as Stockholder.* Except as otherwise provided in the Warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the Warrants will not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their Warrants.

*Fractional Shares.* No fractional shares of common stock will be issued upon the exercise of the Warrants. Rather, we shall, at our election, either pay a cash adjustment in respect of such fraction in an amount equal to such fraction multiplied by the exercise price or round up the number of shares of common stock to be issued to the nearest whole number.

## **Meetings and Special Voting Requirements**

Subject to our charter restrictions on ownership and transfer of our stock and the terms of each class or series of stock, including with respect to the vote by the common stock for the election of directors, each holder of common stock is entitled at each meeting of stockholders to one vote per share owned by such stockholder on all matters submitted to a vote of stockholders. There is no cumulative voting in the election of our Board of Directors, which means that the holders of a majority of shares of our outstanding common stock can elect all the directors then standing for election and the holders of the remaining shares of common stock will not be able to elect any directors.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless declared advisable by the Board of Directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all the votes entitled to be cast on the matter. Our charter does not provide for a lesser percentage in these situations.

An annual meeting of our stockholders will be held each year. Special meetings of stockholders may be called upon the request of a majority of our directors, the chairman of the Board, the president or the chief executive officer and must be called by our secretary to act on any matter that may properly be considered at a meeting of stockholders upon the written request of stockholders entitled to cast at least a majority of the votes entitled to be cast on such matter at the meeting (subject to the stockholders' compliance with certain procedures set forth in our bylaws). The presence of stockholders entitled to cast at least a majority of all the votes entitled to be cast at such meeting on any matter, either in person or by proxy, will constitute a quorum.

One or more persons who together are and for at least six months have been stockholders of record of at least five percent of the outstanding shares of any class of our stock are entitled to receive a copy of our stockholder list upon request in accordance with Maryland law. The list provided by us will include each stockholder's name and address and the number of shares owned by each stockholder and will be made available within 20 days of the receipt by us of the request. Stockholders and their representatives shall also be given access to our bylaws, the minutes of stockholder proceedings, our annual statements of affairs and any voting trust agreements on file at our principal office during usual business hours. We have the right to request that a requesting stockholder represent to us that the list and records will not be used to pursue commercial interests.

### **Restrictions on Ownership and Transfer**

In order for us to continue to qualify as a REIT under the Code, we must meet the following criteria regarding our stockholders' ownership of our shares:

- we cannot be "closely held" under Section 856(h) of the Code; that is, five or fewer individuals (as specially defined in the Code to include specified private foundations, employee benefit plans and trusts and charitable trusts and subject to certain constructive ownership rules) may not own, directly or indirectly, more than 50% in value of our outstanding shares during the last half of a taxable year, other than our first REIT taxable year; and
- 100 or more persons must beneficially own our shares during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year, other than our first REIT taxable year.

See the section entitled "Material U.S. Federal Income Tax Considerations" included elsewhere in this prospectus for further discussion of this topic. We may prohibit certain acquisitions and transfers of shares so as to ensure our continued qualification as a REIT under the Code. However, there can be no assurance that this prohibition will be effective. Because we believe it is essential for us to continue to qualify as a REIT, among other purposes, our charter provides (subject to certain exceptions) that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of shares of our stock.

Our Board of Directors, in its sole discretion, may waive this ownership limit (prospectively or retroactively) if evidence satisfactory to our directors, including certain representations and undertakings required by our charter, is presented that such ownership will not then or in the future jeopardize our status as a REIT. Also, these restrictions on transferability and ownership will not apply if our directors determine that it is no longer in our best interests to continue to qualify as a REIT or that compliance with such restrictions is no longer required in order for us to qualify as a REIT.

In addition to prohibiting the transfer or ownership of our stock that would result in any person owning, directly or indirectly, shares of our stock in excess of the foregoing ownership limitations, our charter prohibits the transfer or ownership of our stock if such transfer or ownership would:

- with respect to transfers only, result in our stock being beneficially owned by fewer than 100 persons, determined without reference to any rules of attribution;
- result in our being "closely held" within the meaning of Section 856(h) of the Code (regardless of whether the ownership interest is held during the last half of a taxable year);
- result in our owning, directly or indirectly, more than 9.8% of the ownership interests in any tenant or subtenant; or
- otherwise result in our disqualification as a REIT.

If any attempted transfer of our stock, if effective, would result in a violation of these limitations, then the number of shares causing the violation (rounded up to the nearest whole share) will be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries (or, in the case of a transfer that would result in our stock being beneficially owned by fewer than 100 persons, be void), and the proposed transferee will not acquire any rights in the shares. To avoid confusion, these shares so transferred to a beneficial trust will be referred to in this prospectus as Excess Securities. Excess Securities will remain issued and outstanding shares and will be entitled to the same rights and privileges as all other shares of the same class or series. The trustee of the beneficial trust, as holder of the Excess Securities, will be entitled to receive all distributions authorized by the Board of Directors on such securities for the benefit of the charitable beneficiary. Our charter further entitles the trustee of the beneficial trust to vote all

Excess Securities and, subject to Maryland law, to rescind as void any vote cast by the proposed transferee of Excess Securities prior to our discovery of the Excess Securities and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote. If a transfer to the trust would be ineffective for any reason to prevent a violation of any of the foregoing restrictions, the transfer resulting in such violation will be void from the time of such purported transfer.

The trustee of the beneficial trust will select a transferee to whom the Excess Securities may be sold as long as such sale does not violate the 9.8% ownership limit or the other restrictions on ownership and transfer. Upon sale of the Excess Securities, the intended transferee (the transferee of the Excess Securities whose ownership would have violated the 9.8% ownership limit or the other restrictions on ownership and transfer) will receive from the trustee of the beneficial trust the lesser of such sale proceeds, or the price per share the intended transferee paid for the Excess Securities (or, in the case of a gift or devise to the intended transferee, the price per share equal to the market value per share on the date of the transfer to the intended transferee). The trustee may reduce the amount payable to the intended transferee by the amount of dividends and other distributions which have been paid to the intended transferee and are owed by the intended transferee to the trustee. The trustee of the beneficial trust will distribute to the charitable beneficiary any amount the trustee receives in excess of the amount to be paid to the intended transferee.

In addition, we have the right to purchase any Excess Securities at the lesser of (i) the price per share paid in the transfer that created the Excess Securities (or, in the case of a devise or gift, the market price at the time of such devise or gift), and (ii) the market price on the date we, or our designee, exercise such right. We may reduce the amount payable to the intended transferee by the amount of dividends and other distributions which have been paid to the intended transferee and are owed by the intended transferee to the trustee. We will have the right to purchase the Excess Securities until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the intended transferee.

Any person who (i) acquires or attempts or intends to acquire shares in violation of the foregoing ownership limitations, or (ii) would have owned shares that resulted in a transfer to a charitable trust, is required to give us immediate written notice or, in the case of a proposed or intended transaction, 15 days' written notice. In both cases, such persons must provide to us such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT. The foregoing restrictions will continue to apply until our Board of Directors determines it is no longer in our best interest to continue to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to qualify as a REIT.

The 9.8% ownership limit does not apply to the underwriters in a public offering of shares. Any person who owns more than 5% of the outstanding shares during any taxable year will be asked to deliver a statement or affidavit setting forth the name and address of such owner, the number of shares beneficially owned, directly or indirectly, and a description of the manner in which such shares are held. Each such person also must provide us with such additional information as we may request in order to determine the effect of such ownership on our status as a REIT and to ensure compliance with the 9.8% ownership limit.

## **Distribution Policy and Distributions**

Holders of Series A Redeemable Preferred Stock are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. We paid the initial dividend on our Series A Redeemable Preferred Stock in May 2012 to applicable stockholders of record as of April 30, 2012, and thereafter have consistently paid monthly dividends on the Series A Redeemable Preferred Stock. We expect to continue to pay dividends on the Series A Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

Because all our operations will be performed indirectly through our operating partnership, our ability to pay distributions depends on our operating partnership's ability to pay distributions to its partners, including to us. If we do not have enough cash from operations to fund the distribution, we may borrow, issue additional securities or sell assets in order to fund the distributions.

Distributions will be paid to our stockholders when and if authorized by our Board of Directors and declared by us out of legally available funds as of the record dates selected by our Board of Directors. We expect to declare and pay distributions to our common stockholders quarterly unless our results of operations, our general financial condition, general economic conditions or other factors make it imprudent to do so. Distributions will be authorized at the discretion of our Board of Directors, which will be influenced in part by its intention to comply with the REIT requirements of the Code. We intend to make distributions sufficient to

meet the annual distribution requirement and to avoid U.S. federal income and excise taxes on our earnings; however, it may not always be possible to do so. The funds we receive from operations that are available for distribution may be affected by a number of factors, including the following:

- the amount of time required for us to invest the funds received in any offering;
- our operating and interest expenses;
- the ability of tenants to meet their obligations under the leases associated with our properties;
- the ability of borrowers to meet their payment obligations under loans we hold;
- the amount of distributions or dividends received by us from our indirect real estate investments;
- our ability to keep our properties occupied;
- our ability to maintain or increase rental rates when renewing or replacing current leases;
- capital expenditures and reserves for such expenditures;
- the issuance of additional shares; and
- financings and refinancings.

We must distribute to our stockholders at least 90% of our REIT taxable income each year in order to meet the requirements for being treated as a REIT under the Code. This requirement is described in greater detail in the section entitled "Material U.S. Federal Income Tax Considerations — Annual Distribution Requirements" included elsewhere in this prospectus. Our directors may authorize distributions in excess of this percentage as they deem appropriate. Because we may receive income from interest or rents at various times during our fiscal year, distributions may not reflect our income earned in that particular distribution period, but may be made in anticipation of cash flow that we expect to receive during a later period and may be made in advance of actual receipt of funds in an attempt to make distributions relatively uniform. To allow for such differences in timing between the receipt of income and the payment of expenses, and the effect of required debt payments, among other things, could require us to borrow funds from third parties on a short-term basis, issue new securities, or sell assets to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT. These methods of obtaining funding could affect future distributions by increasing operating costs and decreasing available cash. In addition, such distributions may constitute a return of capital. See the section entitled "Material U.S. Federal Income Tax Considerations — REIT Qualification Tests" included elsewhere in this prospectus.

## **Business Combinations**

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

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

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

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

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

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our Board of Directors has adopted a resolution exempting any business combination with our manager or any affiliate of our manager. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us

and our manager or any affiliate of our manager. As a result, our manager or any affiliate of our manager may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### **Control Share Acquisitions**

Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the affirmative vote of holders of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are directors of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply: (i) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction; or (ii) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. This provision may be amended or eliminated at any time in the future.

### **Subtitle 8**

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act, and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in its charter or bylaws, to any or all of five provisions:

- a classified board;
- a two-thirds vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the directors;
- a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and
- a majority requirement for the calling of a special meeting of stockholders.

Our charter and bylaws provide that vacancies on our Board of Directors may be filled by the remaining directors. Any such director elected to fill a vacancy will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualifies or until his or her earlier death, resignation or removal. Our charter also vests in the Board of Directors the exclusive

power to fix the number of directorships. In addition, our charter provides that any director may be removed from office, with or without cause, by the affirmative vote of the holders of not less than 66-2/3% of the total voting power of all outstanding common stock. Our bylaws require, unless called by our chairman of the Board of Directors, president, chief executive officer or Board of Directors, the request of holders of a majority of outstanding shares to call a special meeting to act on any matter that may properly be considered at a meeting of stockholders.

### **Advance Notice of Director Nominations and New Business**

Proposals to elect directors or conduct other business at an annual or special meeting must be brought in accordance with our bylaws. The bylaws provide that any business may be transacted at the annual meeting without being specifically designated in the notice of meeting. However, with respect to special meetings of stockholders, only the business specified in the notice of the special meeting may be brought at that meeting.

Our bylaws also provide that nominations of individuals for election to the Board of Directors may be made at an annual meeting (1) pursuant to the company's notice of meeting, (2) by or at the direction of our Board of Directors, or (3) by any stockholder who is a stockholder of record both at the time of giving of notice pursuant to the bylaws and at the time of the annual meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice procedures set forth in our bylaws. Our bylaws further provide that the proposal of other business to be considered by stockholders may be made at an annual meeting (x) pursuant to the notice of meeting, (y) by or at the direction of our Board of Directors, or (z) by any stockholder of record both at the time of giving notice pursuant to the bylaws and at the time of the annual meeting, who is entitled to vote at the meeting on any such other business and who has complied with the advance notice provisions set forth in our bylaws.

A notice of a director nomination or stockholder proposal to be considered at an annual meeting must be delivered to our secretary at our principal executive offices:

- not later than 5:00 p.m., Eastern Time, on the 120th day nor earlier than 150 days prior to the first anniversary of the date of release of the proxy statement for the previous year's annual meeting; or
- if the date of the meeting is advanced or delayed by more than 30 days from the anniversary date or if an annual meeting has not yet been held, not earlier than 150 days prior to the annual meeting or not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

Nominations of individuals for election to the Board of Directors may be made at a special meeting, (A) by or at the direction of our Board of Directors, (B) by a stockholder that has requested that a special meeting be called for the purpose of electing directors in compliance with the procedures set forth in our bylaws and that has supplied the information required by our bylaws about each individual whom such stockholder proposes to nominate for election as a director, or (C) provided that the special meeting has been called for the purpose of electing directors, by any stockholder who is a stockholder of record both at the time of giving of notice and at the time of the special meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who complies with the notice procedures set forth in our bylaws.

A notice of a director nomination to be considered at a special meeting must be delivered to our secretary at our principal executive offices:

- not earlier than 120 days prior to the special meeting; and
- not later than 5:00 p.m., Eastern Time, on the later of either:
  - ninety days prior to the special meeting; or
  - ten days following the day of our first public announcement of the date of the special meeting and the nominees proposed by our Board of Directors to be elected at the meeting.

### **Indemnification and Limitation of Directors' and Officers' Liability**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision that eliminates such liability to the maximum extent permitted by Maryland law.

The MGCL requires us (unless our charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made or threatened to be made a

party by reason of his service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith, or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received. However, indemnification for an adverse judgment in a suit by us or in our right, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses.

In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or officer or on the director's or officer's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director or officer did not meet the standard of conduct.

Our charter requires us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, REIT, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. With the approval of our Board of Directors, we may provide such indemnification and advance for expenses to any individual who served a predecessor of the company in any of the capacities described above and any employee or agent of the company or a predecessor of the company, including our manager or any of its affiliates. This provision does not reduce the exposure of directors and officers to liability under federal or state securities laws, nor does it limit the stockholders' ability to obtain injunctive relief or other equitable remedies for a violation of a director's or an officer's duties to us, although the equitable remedies may not be an effective remedy in some circumstances.

We also have agreed to indemnify and hold harmless our manager and its affiliates performing services for us from specific claims and liabilities arising out of the performance of their obligations under the management agreement. As a result, our stockholders and we may be entitled to a more limited right of action than they and we would otherwise have if these indemnification rights were not included in the management agreement.

We have entered into an indemnification agreement with each of our officers and directors. Each indemnification agreement provides, among other things, that we will indemnify, to the maximum extent permitted by law, the covered officer or director against any and all judgments, penalties, fines and amounts paid in settlement, and all reasonable and out-of-pocket expenses (including attorneys' fees), actually and reasonably incurred in connection with any threatened, pending or completed action, suit, arbitration, alternative dispute resolution mechanism, investigation, inquiry, administrative hearing or other proceeding that arises out of the officer's or director's status as a present or former officer, director, employee or agent of the company. Each indemnification agreement also requires us, upon request of the covered officer or director, to advance the expenses related to such an action provided that the officer or director undertakes to repay any amounts to which he is subsequently determined not to be entitled.

The indemnification agreement is not exclusive of any other rights to indemnification or advancement of expenses to which the covered officer or director may be entitled, including any rights arising under our charter or bylaws or applicable law.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

**Transfer Agent and Registrar**

The transfer agent and registrar for shares of our common stock and Series A Redeemable Preferred Stock is Computershare Trust Company, N.A.

**Listing**

Our shares of common stock are listed on the NYSE MKT under the symbol "APTS." Our shares of Series A Redeemable Preferred Stock are not listed on an exchange and we do not intend to apply to have any such shares listed on an exchange in the future.



## SUMMARY OF OUR OPERATING PARTNERSHIP AGREEMENT

The following is a summary of the agreement of limited partnership that we have entered into in connection with our operating partnership, Preferred Apartment Communities Operating Partnership, L.P. This summary and the descriptions of the operating partnership agreement provisions elsewhere in this prospectus are qualified by the agreement itself, which is incorporated by reference as an exhibit to our registration statement, of which this prospectus is a part. See the section entitled "Where You Can Find Additional Information" included elsewhere in this prospectus.

Conducting our operations through our operating partnership allows the sellers of properties to contribute their property interests to our operating partnership in exchange for Class A Units rather than for cash or our common stock. This enables the seller to defer some of or all the potential taxable gain on the transfer. From the seller's perspective, there are also differences between the ownership of common stock and partnership units, some of which may be material because they impact the business organization form, distribution rights, voting rights, transferability of equity interests received and U.S. federal income taxation.

### Description of Partnership Units

Partnership interests in our operating partnership, other than the special limited partnership interest, are divided into "units." Our operating partnership has four classes of units: (a) GP Units; (b) Class A Units; (c) Class B Units; and (d) Series A Redeemable Preferred Units.

#### GP Units

GP Units represent an interest as a general partner in our operating partnership and we, as general partner, hold all such units. In return for the initial capital contribution of \$109,998 we made, our operating partnership issued to us 10,999.80 general partnership units that were subsequently redesignated as 10,999.80 GP Units and 36,666 limited partnership units that were subsequently redesignated as 36,666 Class A Units.

In our capacity as general partner, we manage our operating partnership and are liable for certain unpaid debts and liabilities of our operating partnership.

#### Limited Partnership Units Generally

Limited partnership units represent an interest as a limited partner in our operating partnership. Our operating partnership may issue additional partnership units and classes of partnership units with rights different from, and superior to, those of limited partnership units of any class, without the consent of the limited partners. Holders of limited partnership units do not have any preemptive rights with respect to the issuance of additional units.

Limited partners of any class do not have the right to participate in the management of our operating partnership. Limited partners of any class who do not participate in the management of our operating partnership, by virtue of their status as limited partners, generally are not liable for the debts and liabilities of our operating partnership beyond the amount of their capital contributions. We, however, as the general partner of our operating partnership, are liable for certain unpaid debts and liabilities of our operating partnership. The voting rights of the limited partners of any class are generally limited to approval of specific types of amendments to the operating partnership agreement (some of which exclude partnership units owned or controlled by the general partner or any person who owns more than 66 2/3 of the outstanding voting interests in the general partner). With respect to such amendments, each Class A Unit has one vote. See the section entitled "- Management of our Operating Partnership" below for a detailed discussion of this subject.

Distributions on the Series A Redeemable Preferred Units, each Class A Unit and each Class B Unit (and GP Unit) are as set forth in the operating partnership agreement. See the section entitled "- Distributions" below for a detailed discussion on this subject. In addition, a portion of the items of income, gain, loss and deduction of our operating partnership for U.S. federal income tax purposes may be allocated to a limited partnership unit, regardless of whether any distributions are made by our operating partnership. See the section entitled "Material U.S. Federal Income Tax Considerations - Tax Aspects of Investments in Partnerships" included elsewhere in this prospectus for a description of the manner in which income, gain, loss and deductions are allocated under the operating partnership agreement. As general partner, we may amend the allocation and distribution sections of the operating partnership agreement to reflect the issuance of additional units and classes of units without the consent of the limited partners.

Under certain circumstances, holders of limited partnership units of any class may be restricted from transferring their interests without the consent of the general partner. See the section entitled "- Transferability of Interests" below for a discussion of certain restrictions imposed by the operating partnership agreement on such transfers.

## **Class A Units**

For each Class A Unit received, investors generally will be required to contribute money or property, with a net equity value determined by the general partner. Holders of Class A Units will not be obligated to make additional capital contributions to our operating partnership. Further, such holders will not have the right to make additional capital contributions to our operating partnership or to purchase additional Class A Units without our consent as general partner. For further information on capital contributions, see the section entitled “- Capital Contributions” below.

After owning a Class A Unit for one year, Class A Unit holders generally may, subject to certain restrictions, exchange Class A Units for the cash value of a corresponding number of shares of our common stock or, at our option, a corresponding number of shares of our common stock. See the section entitled “- Limited Partner Exchange Rights” below for a description of these rights and the amount and types of consideration a limited partner is entitled to receive upon exercise of such rights. These exchange rights are accelerated in the case of some extraordinary transactions. See the section entitled “- Extraordinary Transactions” below for an explanation of the exchange rights under such circumstances.

## **Series A Redeemable Preferred Units**

Our operating partnership has issued and will continue to issue Series A Redeemable Preferred Units to correspond with our issuance of shares of Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Units represent a class of limited partnership units of our operating partnership that are subject to the additional terms contained in the operating partnership agreement and summarized here. Subject to our future issuance of certain senior securities, the Series A Redeemable Preferred Units rank senior to all other limited partnership units with respect to distribution rights and rights upon our liquidation, winding-up or dissolution.

Beginning two years after their initial issuance, a holder of Series A Redeemable Preferred Units will have the right to redeem such units at a discount plus any accrued but unpaid distributions subject to terms similar to the terms of the Series A Redeemable Preferred Stock. In addition, our operating partnership will have the right to redeem any or all Series A Redeemable Preferred Units beginning on the tenth anniversary of the date of their original issuance. Upon redemption of Series A Redeemable Preferred Units, our operating partnership has the right, in its sole discretion, to deliver cash or equal value of Class A Units.

## **Class B Units**

Our operating partnership has granted and issued and intends to continue to grant and issue Class B Units, representing Class B limited partnership interests in our operating partnership, as equity incentive awards to our directors, officers and employees (if we ever have employees), directors, officers and employees of our manager and its affiliates, employees of entities that provide services to us, directors of our manager or of entities that provide services to us, certain of our consultants and certain consultants to our manager and its affiliates or to entities of such consultants that provide services to us. The Class B Units may be subject to forfeiture or other restrictions upon terms included with any such grant.

In general, the Class B Units are intended to be treated as “profits interests” in our operating partnership for U.S. federal income tax purposes. In general, the Class B Units will receive allocations of net income and net loss consistent with their distribution priorities, however, periodically and upon the occurrence of certain specified events, our operating partnership will revalue its market capitalization and any increase in market capitalization will be allocated first to such Class B Units until the capital account attributable to each such Class B Unit is effectively equal to our capital account attributable to each of the Class A Units we hold in our operating partnership.

At the time the capital account attributable to each such Class B Unit is effectively equal to our capital account attributable to each of the Class A Units we hold, such Class B Unit shall automatically convert into a Class A Unit and such holder shall be entitled to all rights and preferences and subject to all obligations of any other holder of Class A Units. If the Class B Units are subject to forfeiture, upon a forfeiture of Class B Units, there is a risk that we will recognize taxable income up to the amount of the capital account of such holder of such Class B Units allocable to such Class B Units.

The Class B Units may be entitled to distributions, even though the Class B Units are subject to forfeiture.

## **Management of our Operating Partnership**

Our operating partnership is organized as a Delaware limited partnership pursuant to the terms of the operating partnership agreement. We are the general partner of our operating partnership and expect to conduct substantially all our business through it. Pursuant to the operating partnership agreement, we, as the general partner, have full, exclusive and complete responsibility and discretion in the management and control of the partnership, including the ability to enter into major transactions, such as acquisitions, dispositions and refinancings, and to cause changes in our operating partnership's business and distribution policies.

Further, we may, without the consent of the limited partners:

- file a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of the partnership's debts under Title 11 of the United States Bankruptcy Code, or any other federal or state insolvency law, or corresponding provisions of future laws, or file an answer consenting to or acquiescing in any such petition; or
- cause our operating partnership to make an assignment for the benefit of its creditors or admit in writing its inability to pay its debts as they mature.

The limited partners, in their capacities as such, will have no authority to transact business for, or participate in the management or decisions of, our operating partnership, except as provided in the operating partnership agreement and as required by applicable law. Further, the limited partners have no right to remove us as the general partner.

As general partner, we also may amend the operating partnership agreement without the consent of the limited partners. However, the following amendments will require the consent of the adversely affected limited partners holding more than 66 2/3% of outstanding partnership units held by limited partners who are adversely affected:

- any amendment that alters or changes the distribution or liquidation rights of limited partners, subject to the exceptions discussed below under the "Distributions" portion of this section;
- any amendment that alters or changes the limited partner's exchange rights;
- any amendment that imposes on limited partners any obligation to make additional capital contributions; or
- any amendment that alters the terms of the operating partnership agreement regarding the rights of the limited partners with respect to extraordinary transactions.

To the extent permitted by law, the operating partnership agreement provides for indemnification of our company when acting in good faith and in the best interests of our operating partnership in our capacity as general partner. It also provides for indemnification of directors, officers and other persons that we may designate under the same conditions, and subject to the same restrictions, applicable to the indemnification of officers, directors, employees and stockholders under our charter. See the section entitled "Our Management - Limitation of Liability and Indemnification" included elsewhere in this prospectus.

### **Transferability of Interests**

Under the operating partnership agreement, we cannot withdraw from the partnership or transfer or assign all or any of our general partnership interest without the consent of holders of two-thirds of the limited partnership units, except in connection with the sale of all or substantially all our assets meeting the conditions set forth in the operating partnership agreement. Under certain circumstances and satisfaction of certain conditions set forth in the operating partnership agreement, holders of limited partnership units are able to withdraw from the partnership and transfer and/or encumber all or any part of their units. However, although a limited partner may be able to affect a transfer of partnership interests without the consent of the general partner, the transferee remains an economic interest owner only as an assignee until the general partner admits the assignee as a substitute limited partner, in its sole and absolute discretion.

In addition, limited partnership units will not be registered under the federal or state securities laws. As a result, the ability of a holder to transfer its units may be restricted under such laws.

### **Extraordinary Transactions**

The operating partnership agreement generally permits us and/or our operating partnership to engage in any authorized business combination without the consent of the limited partners. Generally, a business combination for these purposes is any merger, consolidation or other combination with or into another entity, or the sale of all or substantially all the assets of any entity. We are required to send each limited partner notice of a proposed business combination at least 15 days prior to the record date for the stockholder vote on the combination, if any.

Generally, a limited partner is not able to exercise its exchange rights until it has held the units for at least one year. See the section entitled "- Limited Partner Exchange Rights" below for a description of these exchange rights. However, in the case of a proposed combination, each limited partner has the right to exercise its exchange right prior to the stockholder vote on the transaction, even if it has held its units for less than one year. Any limited partners who timely exchange their units prior to the record date for the stockholder vote on a business combination will be entitled to vote their shares in any stockholder vote on the business combination. Limited partners who exchange their units after the record date will not be able to vote their shares in any stockholder vote on the proposed business combination. The right of a limited partner to exercise its right to exchange without regard to whether they have held the units for more than a year terminates upon the earlier of (i) the disapproval of the business combination by our Board of Directors, (ii) the disapproval of the business combination by stockholders, (iii) the abandonment of the business

combination by any of the parties to it, or (iv) the business combination's effective date.

We cannot consummate a business combination (other than one in which we are the surviving entity) unless all limited partners receive, or have the right to elect to receive, for each limited partnership unit they own, an amount of cash, securities or other property equal to the amount of cash, securities or other property or value paid in the combination to a holder of a share of common stock. If, in connection with a business combination, a tender or similar offer has been accepted by holders of more than 50% of the outstanding common stock, then each limited partner will have the option to exchange its limited partnership units for the amount of cash, securities or other property which the limited partner would have received had it exercised its exchange rights under the operating partnership agreement, and tendered the shares of common stock received upon exercise of the exchange rights immediately prior to the expiration of the offer.

However, we may merge into or consolidate with another entity without adhering to these limitations if, immediately after the merger or consolidation, substantially all the assets of the surviving entity, other than the partnership units held by us, are contributed to our operating partnership as a capital contribution in exchange for partnership units with a fair market value equal to the value of the assets contributed as determined by the surviving entity general partner in good faith and the surviving entity general partner expressly agrees to assume all our obligations as general partner under the operating partnership agreement.

### **Issuance of Additional Units**

As general partner of our operating partnership, we will be able to cause, without the consent of the limited partners, our operating partnership to issue additional units representing general and/or limited partnership interests. A new issuance may include preferred units, which may have rights which are different than, and/or superior to, those of GP Units, Series A Redeemable Preferred Units, Class A Units and Class B Units. Furthermore, the operating partnership agreement requires the issuance of additional units to us corresponding with any issuance of stock by us or as a result of our distributing stock in order to meet our annual distribution requirement to maintain our status as a REIT.

In connection with the exercise of the Warrants and the corresponding issuance of common stock, we will contribute the cash we receive from the issuance of such common stock to our operating partnership in exchange for an equivalent number of Class A Units at a per unit price equal to the per share price paid for each share of common stock, subject to adjustment due to stock splits, reverse stock splits, stock dividends, subdivision, combination or reclassification of shares, or any merger, consolidation or combination of the general partner.

### **Capital Contributions**

If our operating partnership requires additional funds at any time, or from time to time, in excess of funds available to it from prior borrowings, operating revenue or capital contributions, we, as general partner, have the right to raise additional funds required by our operating partnership by causing it to borrow the necessary funds from third parties on such terms and conditions as we deem appropriate. As an alternative to borrowing funds required by our operating partnership, we may contribute the amount of such required funds as an additional capital contribution. We must contribute cash or other property received in exchange for the issuance of equity stock to our operating partnership in exchange for units unless the issuance was in connection with an acquisition of an asset to be held directly by the general partner and such issuance was approved by a majority of independent directors of the general partner. Upon the contribution of cash or other property received in exchange for the issuance of common stock, we will receive one GP Unit for each share issued by us. Upon the contribution of the cash or other property received in exchange for the issuance of each share of equity stock other than common stock, we will receive one unit with rights and preferences respecting distributions corresponding to the rights and preferences of the equity stock that we issued. If we contribute additional capital to our operating partnership, our partnership interest will be increased on a proportionate basis. Conversely, the partnership interests of the limited partners will be decreased on a proportionate basis if we contribute any additional capital.

### **Distributions**

The operating partnership agreement sets forth the manner in which distributions from the partnership will be made to partnership unit holders. Distributions from the partnership will be made at the times and in the amounts determined by us, as the general partner.

The operating partnership agreement provides that cash available for distribution, excluding net proceeds from any sale or other disposition of properties of our operating partnership, or net sale proceeds, will be distributed to the partners as follows:

- *first*, 100% to us as holder of the Series A Redeemable Preferred Units (which we will distribute to the holders of our Series A Redeemable Preferred Stock), until we have received cumulative cash dividends on each Series A Redeemable Preferred Unit at an annual rate of six percent (6%) of the stated value, or the Series A Preferred Return;

- *thereafter*, 100% of the aggregate amount of any additional distribution will be payable to us as holder of GP Units and Class A Units (which we may distribute to the holders of our common stock) and any other holders of Class A Units entitled to such distributions in proportion to respective percentage interests.

Net sale proceeds will be distributed to partners as follows:

- *first*, 100% to us as holder of the Series A Redeemable Preferred Units (which we will distribute to the holders of our Series A Redeemable Preferred Stock), until we have received cumulative cash dividends on each Series A Redeemable Preferred Unit equal to the Series A Preferred Return;
- *second*, 100% to us as holder of GP Units and Class A Units (which we may distribute to the holders of our common stock) and any other holders of Class A Units entitled to such distributions, in proportion to respective percentage interests, until the allocable capital contribution with respect to the real estate asset giving rise to such distribution has been received;
- *third*, 100% to us as holder of GP Units and Class A Units (which we may distribute to the holders of our common stock) and any other holders of Class A Units entitled to such distributions, in proportion to respective percentage interests, until the aggregate allocable capital contributions with respect to all realized investments has been received;
- *fourth*, 100% to us as holder of GP Units and Class A Units (which we may distribute to the holders of our common stock) and any other holders of Class A Units entitled to such distributions, in proportion to respective percentage interests, until an amount equal to the sum of the allocable expenses with respect to all realized investments, including the realized investment giving rise to such distribution has been received;
- *fifth*, 100% to us as holder of GP Units and Class A Units (which we may distribute to the holders of our common stock) and any other holders of Class A Units entitled to such distributions, in proportion to respective percentage interests, until we, and other holders of Class A Units, have received a priority return in an amount equal to a cumulative, non-compounded rate of return equal to seven percent (7%) per annum has been met with respect to the allocable capital contributions and allocable expenses distributed; and
- *thereafter*, 15% of the aggregate amount of any additional distribution will be payable to the special limited partner, and 85% as follows: *first*, 100% to us as holder of the Series A Redeemable Preferred Units (which we may distribute to the holders of our Series A Redeemable Preferred Stock), until the aggregate capital contributions made with respect to the Series A Redeemable Preferred Units have been returned, and *thereafter*, 100% among us as holder of GP Units and Class A Units (which we may distribute to the holders of our common stock) and any other holders of Class A Units and Class B Units entitled to such distributions in proportion to respective percentage interests.

The return calculation described above applies to all distributions received and not just distributions of net sale proceeds. Achievement of a particular threshold, therefore, is determined with reference to all prior distributions made by our operating partnership to any limited partners, and to us, which we may then distribute to our stockholders.

To the extent a distribution has been paid to the special limited partner for any real estate assets sold within 60 days prior to the sale of an asset in which the seven percent (7%) priority return for that asset was not met, the special limited partner must return to us an amount up to the distribution so received for the assets sold within such 60-day period, which will be applied to any seven percent (7%) priority return shortfall actually arising from the sale of the subsequent asset.

The operating partnership agreement also provides that, as general partner, we have the right to amend the distribution provisions of the operating partnership agreement to reflect the issuance of additional classes of units. The operating partnership agreement further provides that, as general partner, we shall use our best efforts to ensure sufficient distributions are made to meet the REIT annual distribution requirements and to avoid U.S. federal income and excise taxes on our earnings.

## **Liquidation**

Upon the liquidation of our operating partnership, after payment of debts and obligations, any remaining assets of the partnership will be distributed to partners pro rata in accordance with the priorities in which net sales proceeds are distributed to partners.

## **Allocations**

The operating partnership agreement generally provides that net income, net loss and, to the extent necessary, other individual items of income, gain, loss or deduction of our operating partnership (other than net property gain or net property loss from capital transactions) will be allocated among the partners as follows:

- *first*, net income, but not net loss, shall be allocated to us as the holder of Series A Redeemable Preferred Units to the extent of the aggregate amount of any distributions of cash available for distribution to meet the Series A Preferred Return; and

- *thereafter*, net income and net loss shall be allocated to us as holder of GP Units and Class A Units and any other holders of Class A Units in proportion to respective percentage interests.

Net property gain and net property loss and, to the extent necessary, any other individual items comprising net property gain and net property loss of our operating partnership will be allocated among the partners as follows:

- *first*, net property gain, but not net property loss, shall be allocated to us as the holder of Series A Redeemable Preferred Units to the extent of the aggregate amount of any distributions of net sale proceeds to meet the Series A Preferred Return; and
- *thereafter*, in such a manner that the capital accounts of each partner, immediately after making such allocation, is, as nearly as possible, equal proportionately to (i) the distributions that would be made to such partner if our operating partnership were dissolved, its affairs wound up and its assets were sold for cash, all operating partnership liabilities were satisfied, and the net assets of our operating partnership were distributed to the partners immediately after making such allocation, minus (ii) such partner's share of partnership minimum gain, partner nonrecourse debt minimum gain and any amount the partner would be required to contribute to partnership capital, all computed immediately prior to such hypothetical sale of assets.

## **Operations**

The operating partnership agreement requires that the partnership be operated in a manner that will:

- satisfy the requirements for our classification as a REIT;
- avoid any U.S. federal income or excise tax liability, unless we otherwise cease to qualify as a REIT; and
- ensure that our operating partnership will not be classified as a publicly traded partnership under the Code.

Pursuant to the operating partnership agreement, our operating partnership will assume and pay when due, or reimburse us for, payment of all administrative and operating costs and expenses incurred by our operating partnership and the administrative costs and expenses that we incur on behalf, or for the benefit, of our operating partnership.

## **Limited Partner Exchange Rights**

Pursuant to the operating partnership agreement, each holder of a Class A Unit (but not the holder of the special limited partner interests) has the right, but not the obligation, to exchange all or a portion of their Class A Units for cash or, at our option, for shares of our common stock on such terms and subject to such conditions and restrictions as will be contained in one or more exchange rights agreement among us, as the general partner, our operating partnership and one or more limited partner. The form of the exchange rights agreement shall be provided by the general partner.

Exercise of exchange rights will be a taxable transaction in which gain or loss will be recognized by the limited partner exercising its right to exchange its units for the cash value of a corresponding number of shares of our common stock or, at the option of our operating partnership, a corresponding number of shares of our common stock, to the extent that the amount realized exceeds the limited partner's adjusted basis in the units exchanged.

## **Special Limited Partner**

Our manager is a Delaware limited liability company and is a special limited partner of our operating partnership. Our manager does not hold any GP Units or limited partnership units, as such terms are defined in the partnership agreement. Our manager does not have any voting rights, approval rights, rights to distributions or any other rights under the partnership agreement other than the right to receive certain distributions in connection with the sale of each asset.

Our manager has a special limited partnership interest in our operating partnership entitling it to distributions from our operating partnership equal to 15% of any net sale proceeds from an asset (which equals the proceeds actually received by us from the sale of such asset after paying off outstanding debt related to the sold asset and paying any seller related closing costs, including any commission paid to our manager in connection with the sale of the asset, less expenses allocable to the sold asset) remaining after the payment of (i) the capital and expenses allocable to all realized investments (including the sold asset), and (ii) the 7% Priority Return on such capital and expenses; provided, however, that all accrued and unpaid dividends on our preferred stock have been paid in full. This distribution with respect to the special limited partnership interest is payable upon the sale of an asset even if holders of our preferred stock have not received a return of their capital, but only after the holders of our preferred stock have received payment in full of all accrued and unpaid dividends on our preferred stock. It is also possible that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Redeemable Preferred Stock receive a return of their capital.

The special limited partner shall be entitled to tax distributions, at our sole discretion as the general partner, provided such

distributions do not prevent us from satisfying the requirements for qualification as a REIT. Any tax distributions shall offset future distributions to which the special limited partner is entitled.

### **Tax Matters**

Pursuant to the operating partnership agreement, we are the tax matters partner of our operating partnership, and as such, have authority to make tax decisions under the Code on behalf of our operating partnership. Tax income and loss generally will be allocated in a manner that reflects the entitlement of the general partner, limited partners and the special limited partner to receive distributions from our operating partnership. For a description of other tax consequences stemming from our investment in our operating partnership, see the section entitled "Material U.S. Federal Income Tax Considerations - Tax Aspects of Investments in Partnerships" included elsewhere in this prospectus.

### **Term**

Our operating partnership will continue in full force and effect until December 31, 2099 or until sooner dissolved and terminated upon (i) our dissolution, bankruptcy, insolvency or termination, (ii) the sale or other disposition of all or substantially all the assets of our operating partnership unless we, as general partner, elect to continue the business of our operating partnership to collect the indebtedness or other consideration to be received in exchange for the assets of our operating partnership, (iii) our withdrawal as general partner from the partnership, unless a majority in interest vote to continue the business of the partnership within 90 days of our withdrawal, or (iv) by operation of law.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary discusses the material U.S. federal income tax considerations associated with our qualification and taxation as a REIT and the acquisition, ownership and disposition of our shares of Series A Redeemable Preferred Stock and Warrants (which together form a Unit) and our shares of common stock underlying the Warrants. This summary is based upon the laws, regulations, and reported judicial and administrative rulings and decisions in effect as of the date of this prospectus, all of which are subject to change, retroactively or prospectively, and to possibly differing interpretations. This summary does not purport to deal with the U.S. federal income and other tax consequences applicable to all investors in light of their particular investment or other circumstances, or to all categories of investors, some of whom may be subject to special rules (for example, insurance companies, entities treated as partnerships for U.S. federal income tax purposes and investors therein, trusts, financial institutions and broker-dealers and, except to the extent discussed below, tax-exempt organizations and Non-U.S. Holders, as defined below). No ruling on the U.S. federal, state, or local tax considerations relevant to our operation or to the purchase, ownership or disposition of our shares, has been requested from the IRS, or other tax authority. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below.

This summary is also based upon the assumption that the operation of the company, and of its subsidiaries and other lower-tier and affiliated entities, will in each case be in accordance with its applicable organizational documents or partnership agreements. This summary does not discuss the impact that U.S., state and local taxes and taxes imposed by non-U.S. jurisdictions could have on the matters discussed in this summary. In addition, this summary assumes that security holders hold our shares of common stock as capital assets, which generally means as property held for investment.

Prospective investors are urged to consult their tax advisors in order to determine the U.S. federal, state, local, foreign and other tax consequences to them of the purchase, ownership and disposition of our shares of Series A Redeemable Preferred Stock, the Warrants and our shares of common stock underlying the Warrants, the tax treatment of a REIT and the effect of potential changes in the applicable tax laws.

We have elected to be taxed as a REIT under the applicable provisions of the Code and the Treasury Regulations promulgated thereunder commencing with our taxable year ended December 31, 2011. We intend to continue operating as a REIT so long as our Board of Directors determines that REIT qualification remains in our best interest. However, we cannot assure you that we will meet the applicable requirements under U.S. federal income tax laws, which are highly technical and complex.

In brief, a corporation that complies with the provisions in Code Sections 856 through 860 and qualifies as a REIT generally is not taxed on its net taxable income to the extent such income is distributed currently to stockholders, thereby completely or substantially eliminating the "double taxation" that a corporation and its stockholders generally bear together. However, as discussed in greater detail below, a corporation could be subject to U.S. federal income tax in some circumstances even if it qualifies as a REIT and would likely suffer adverse consequences, including reduced cash available for distribution to its stockholders, if it failed to qualify as a REIT.

Proskauer Rose LLP has acted as our tax counsel in connection with this registration statement. Proskauer Rose LLP is of the opinion that (i) commencing with our taxable year ended on December 31, 2011, we have been organized in conformity with the requirements for qualification as a REIT under the Code and our actual method of operation through the date hereof has enabled us to meet and, assuming that our election to be treated as a REIT is not either revoked or intentionally terminated, our proposed method of operation will enable us to continue to meet, the requirements for qualification and taxation as a REIT under the Code, and (ii) our Operating Partnership has been and will be taxed as a partnership or a disregarded entity, and not an association or publicly traded partnership (within the meaning of Code Section 7704) subject to tax as a corporation, for U.S. federal income tax purposes beginning with its first taxable year. This opinion is filed as an exhibit to the registration statement, of which this prospectus is a part, and is based and conditioned, in part, on various assumptions and representations as to factual matters and covenants made to Proskauer Rose LLP by us and based upon certain terms and conditions set forth in the opinion. Our qualification as a REIT depends upon our ability to meet, through operation of the properties we acquire and our investment in other assets, the applicable requirements under U.S. federal income tax laws. Proskauer Rose LLP has not reviewed these operating results for compliance with the applicable requirements under U.S. federal income tax laws. Therefore, we cannot assure you that our actual operating results allow us to satisfy the applicable requirements to qualify as a REIT under U.S. federal income tax laws in any taxable year.

### General

The term "REIT taxable income" means the taxable income as computed for a corporation that is not a REIT:

- without the deductions allowed by Code Sections 241 through 247, and 249 (relating generally to the deduction for dividends received);



- excluding amounts equal to: the net income from foreclosure property and the net income derived from prohibited transactions;
- deducting amounts equal to: the net loss from foreclosure property, the net loss derived from prohibited transactions, the tax imposed by Code Section 857(b)(5) upon a failure to meet the 95% or the 75% Gross Income Tests, the tax imposed by Code Section 856(c)(7)(C) upon a failure to meet the quarterly asset tests, the tax imposed by Code Section 856(g)(5) for otherwise avoiding REIT disqualification, and the tax imposed by Code Section 857(b)(7) on redetermined rents, redetermined deductions and excess interest;
- deducting the amount of dividends paid under Code Section 561, computed without regard to the amount of the net income from foreclosure property (which is excluded from REIT taxable income); and
- without regard to any change of annual accounting period pursuant to Code Section 443(b).

In any year in which we qualify as a REIT and have a valid election in place, we will claim deductions for the dividends we pay to the stockholders, and therefore will not be subject to U.S. federal income tax on that portion of our taxable income or capital gain which is distributed to our stockholders.

Although we can eliminate or substantially reduce our U.S. federal income tax liability by maintaining our REIT qualification and paying sufficient dividends, we will be subject to U.S. federal tax in the following circumstances:

- We will be taxed at normal corporate rates on any undistributed REIT taxable income or net capital gain.
- If we fail to satisfy either the 95% Gross Income Test and/or the 75% Gross Income Test (each of which is described below), but our failure is due to reasonable cause and not willful neglect, and we therefore maintain our REIT qualification, we will be subject to a tax equal to the product of (a) the amount by which we failed the 75% or 95% Gross Income Test (whichever amount is greater) multiplied by (b) a fraction intended to reflect our profitability.
- We will be subject to an excise tax if we fail to currently distribute sufficient income. In order to make the "required distribution" with respect to a calendar year, we must distribute the sum of (i) 85% of our REIT ordinary income for the calendar year, (ii) 95% of our REIT capital gain net income for the calendar year, and (iii) the excess, if any, of the grossed up required distribution (as defined in the Code) for the preceding calendar year over the distributed amount for that preceding calendar year. Any excise tax liability would be equal to 4% of the difference between the amount required to be distributed under this formula and the amount actually distributed and would not be deductible by us.
- We may be subject to the corporate "alternative minimum tax" on our items of tax preference, including any deductions of net operating losses.
- If we have net income from prohibited transactions such income would be subject to a 100% tax. See "— Prohibited Transactions."
- We will be subject to U.S. federal income tax at the highest corporate rate on any non-qualifying income from foreclosure property, although we will not own any foreclosure property unless we make loans or accept purchase money notes secured by interests in real property and foreclose on the property following a default on the loan, or foreclose on property pursuant to a default on a lease.
- If we fail to satisfy any of the REIT asset tests, as described below, other than a failure of the 5% or 10% REIT assets tests that does not exceed a statutory de minimis amount as described more fully below, but our failure is due to reasonable cause and not due to willful neglect and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to the greater of \$50,000 or the amount determined by multiplying the highest corporate tax rate (currently 35%) by the net income generated by the non-qualifying assets during the period in which we failed to satisfy the asset tests.
- If we fail to satisfy any other provision of the Code that would result in our failure to continue to qualify as a REIT (other than a gross income or asset test requirement) and that violation is due to reasonable cause, we may retain our REIT qualification, but we will be required to pay a penalty of \$50,000 for each such failure.
- If we derive "excess inclusion income" from an interest in certain mortgage loan securitization structures (i.e., a "taxable mortgage pool" or a residual interest in a real estate mortgage investment conduit, or REMIC), we could be subject to corporate-level U.S. federal income tax at a 35% rate to the extent that such income is allocable to specified types of tax-exempt stockholders known as "disqualified organizations" that are not subject to unrelated business taxable income, or UBTI.
- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet recordkeeping requirements intended to monitor our compliance with rules relating to the composition of our stockholders. Such penalties generally would not be deductible by us.
- If we acquire any asset from a corporation that is subject to full corporate-level U.S. federal income tax in a transaction in which our basis in the asset is determined by reference to the transferor corporation's basis in the asset, and we recognize gain on the disposition of such an asset for up to a 10-year period beginning on the date we acquired such asset, then the excess of the fair market value as of the beginning of the applicable recognition period over our adjusted basis in such asset at the beginning of such recognition period will be subject to U.S. federal income tax at the highest regular corporate U.S.

federal income tax rate. The results described in this paragraph assume that the non-REIT corporation will not elect, in lieu of this treatment, to be subject to an immediate tax when the asset is acquired by us.

- A 100% tax may be imposed on transactions between us and a taxable REIT subsidiary, or TRS, that do not reflect arm's-length terms.
- The earnings of our subsidiaries that are C corporations, including any subsidiary we may elect to treat as a TRS, generally will be subject to U.S. federal corporate income tax.
- We may elect to retain and pay income tax on our net capital gain. In that case, a stockholder would include his, her or its proportionate share of our undistributed net capital gain (to the extent we make a timely designation of such gain to the stockholder) in his, her or its income as long-term capital gain, would be deemed to have paid the tax that we paid on such gain, and would be allowed a credit for his, her or its proportionate share of the tax deemed to have been paid, and an adjustment would be made to increase the stockholder's basis in our common stock. Stockholders that are U.S. corporations will also appropriately adjust their earnings and profits for the retained capital gain in accordance with Treasury Regulations to be promulgated.

In addition, notwithstanding our qualification as a REIT, we and our subsidiaries may be subject to a variety of taxes, including state and local and foreign income, property, payroll and other taxes on our assets and operations. We could also be subject to tax in situations and on transactions not presently contemplated.

## **REIT Qualification Tests**

*Organizational Requirements.* The Code defines a REIT as a corporation, trust or association:

- (1) that is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;
- (3) that would be taxable as a domestic corporation but for its qualification as a REIT;
- (4) that is neither a financial institution nor an insurance company;
- (5) that meets the gross income, asset and annual distribution requirements;
- (6) the beneficial ownership of which is held by 100 or more persons on at least 335 days in each full taxable year, proportionately adjusted for a short taxable year;
- (7) generally in which, at any time during the last half of each taxable year, no more than 50% in value of the outstanding stock is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include specified entities);
- (8) that makes an election to be taxable as a REIT for the current taxable year, or has made this election for a previous taxable year, which election has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to maintain qualification as a REIT; and
- (9) that uses a calendar year for U.S. federal income tax purposes.

Organizational requirements (1) through (5) must be met during each taxable year for which REIT qualification is sought, while conditions (6) and (7) do not have to be met until after the first taxable year for which a REIT election is made. We have adopted December 31 as our year-end, thereby satisfying condition (9).

*Ownership of Interests in Partnerships, Limited Liability Companies and Qualified REIT Subsidiaries.* A REIT that is a partner in a partnership or a member in a limited liability company treated as a partnership for U.S. federal income tax purposes, will be deemed to own its proportionate share of the assets of the partnership or limited liability company, as the case may be, based on its interest in partnership capital, and will be deemed to be entitled to its proportionate share of the income of that entity. The assets and gross income of the partnership or limited liability company retain the same character in the hands of the REIT. Thus, our pro rata share of the assets and items of income of any partnership or limited liability company treated as a partnership or disregarded entity for U.S. federal income tax purposes in which we own an interest is treated as our assets and items of income for purposes of Asset Tests and Gross Income Tests (each as defined below).

We expect to control our subsidiary partnerships and limited liability companies and intend to operate them in a manner consistent with the requirements for our qualification as a REIT. If we become a limited partner or non-managing member in any partnership or limited liability company and such entity takes or expects to take actions that could jeopardize our qualification as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action that could cause us to fail a Gross Income Test or Asset Test (each as defined below), and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless we were entitled to relief, as described below.

We may from time to time own certain assets through subsidiaries that we intend to be treated as "qualified REIT subsidiaries." A corporation will qualify as our qualified REIT subsidiary if we own 100% of the corporation's outstanding stock and do not elect with the subsidiary to treat it as a TRS, as described below. A qualified REIT subsidiary is not treated as a separate corporation, and all assets, liabilities and items of income, gain, loss, deduction and credit of a qualified REIT subsidiary are treated as assets, liabilities and items of income, gain, loss, deduction and credit of the parent REIT for purposes of the Asset Tests and Gross Income Tests (each as defined below). A qualified REIT subsidiary is not subject to U.S. federal income tax, but may be subject to state or local tax, and our ownership of the stock of a qualified REIT subsidiary will not violate the restrictions on ownership of securities, as described below under "— Asset Tests." While we currently hold all of our investments through our Operating Partnership, we also may hold investments separately, through qualified REIT subsidiaries. Because a qualified REIT subsidiary must be wholly owned by a REIT, any such subsidiary utilized by us would have to be owned by us, or another qualified REIT subsidiary, and could not be owned by our Operating Partnership unless we own 100% of the equity interest in our Operating Partnership.

If a disregarded subsidiary ceases to be wholly owned by us (for example, if any equity interest in the subsidiary is acquired by a person other than us or another one of our disregarded subsidiaries), the subsidiary's separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, it would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the Asset and Gross Income Tests, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the value or voting power of the outstanding securities of another corporation. See below "— Asset Tests" and "— Income Tests."

*Ownership of Interests in TRSs.* We do not currently own an interest in a TRS; however, we may form one or more TRSs or may acquire securities in TRSs in the future. A TRS is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a TRS. If a TRS owns more than 35% of the total voting power or value of the outstanding securities of another corporation, such other corporation will also be treated as a TRS. Other than some activities relating to lodging and health care facilities, a TRS generally may engage in any business, including investing in assets and engaging in activities that could not be held or conducted directly by us without jeopardizing our qualification as a REIT.

A TRS is subject to U.S. federal income tax as a regular C corporation. In addition, if certain tests regarding the TRS's debt-to-equity ratio are not satisfied, a TRS generally may not deduct interest payments made in any year to an affiliated REIT to the extent that such payments exceed 50% of the TRS's adjusted taxable income for that year (although the TRS may carry forward to, and deduct in, a succeeding year the disallowed interest amount if the 50% test is satisfied in that year). A REIT's ownership of securities of a TRS is not subject to the 5% or 10% asset tests described below. However, no more than 25% of the gross value of a REIT's assets may be comprised of securities of one or more TRS. See below "— Asset Tests."

## **Share Ownership Requirements**

The common stock and any other stock we issue must be held by a minimum of 100 persons (determined without attribution to the owners of any entity owning our stock) for at least 335 days in each full taxable year, proportionately adjusted for partial taxable years. In addition, we cannot be "closely held," which means that at all times during the second half of each taxable year, no more than 50% in value of our stock may be owned, directly or indirectly, by five or fewer individuals (determined by applying certain attribution rules under the Code to the owners of any entity owning our stock) as specifically defined for this purpose. However, these two requirements do not apply until after the first taxable year an entity elects REIT status.

Our charter contains certain provisions intended to enable us to meet requirements (6) and (7) above. First, subject to certain exceptions, our charter provides that no person may beneficially or constructively own (applying certain attribution rules under the Code) more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of shares of our stock, as well as in certain other circumstances. See the section entitled "Description of Securities — Restrictions on Ownership and Transfer" included elsewhere in this prospectus. Additionally, our charter contains provisions requiring each holder of our shares to disclose, upon demand, constructive or beneficial ownership of shares as deemed necessary to comply with the requirements of the Code. Furthermore, stockholders failing or refusing to comply with our disclosure request will be required, under Treasury Regulations promulgated under the Code, to submit a statement of such information to the IRS at the time of filing their annual income tax returns for the year in which the request was made.

## **Asset Tests**

At the close of each calendar quarter of the taxable year, we must satisfy four tests based on the composition of our assets, or the Asset Tests. After initially meeting the Asset Tests at the close of any quarter, we will not lose our qualification as a REIT for failure to satisfy the Asset Tests at the end of a later quarter solely due to changes in value of our assets. In addition, if the failure to satisfy the Asset Tests results from an acquisition during a quarter, the failure generally can be cured by disposing of non-qualifying assets within 30 days after the close of that quarter. We intend to continue to maintain adequate records of the value of our assets to

ensure compliance with these tests and will act within 30 days after the close of any quarter as may be required to cure any noncompliance.

*75% Asset Test.* At least 75% of the value of our assets must be represented by "real estate assets," cash, cash items (including receivables) and government securities, which we refer to as the 75% Asset Test. Real estate assets include (i) real property (including interests in real property and interests in mortgages on real property), (ii) shares in other qualifying REITs, and (iii) any property (not otherwise a real estate asset) attributable to the temporary investment of "new capital" in stock or a debt instrument, but only for the one-year period beginning on the date we received the new capital. Property will qualify as being attributable to the temporary investment of new capital if the money used to purchase the stock or debt instrument is received by us in exchange for our stock or in a public offering of debt obligations that have a maturity of at least five years. Assets that do not qualify for purposes of the 75% test are subject to the additional asset tests described below under "— 25% Asset Test" below.

Additionally, regular and residual interests in a REMIC are considered real estate assets. However, if less than 95% of the assets of a REMIC are real estate assets, we will be treated as holding and earning a proportionate share of the assets and income of the REMIC directly. If we hold a "residual interest" in a REMIC from which we derive "excess inclusion income," we will be required to either distribute the excess inclusion income or pay tax on it (or a combination of the two), even though we may not receive the income in cash. To the extent that distributed excess inclusion income is allocable to a particular stockholder, the income (1) would not be allowed to be offset by any net operating losses otherwise available to the stockholder, (2) would be subject to tax as unrelated business taxable income in the hands of most types of stockholders that are otherwise generally exempt from U.S. federal income tax, and (3) would result in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction pursuant to any otherwise applicable income tax treaty or other exemption, to the extent allocable to most types of foreign stockholders. Moreover, any excess inclusion income that we receive that is allocable to specified categories of tax-exempt investors which are not subject to unrelated business income tax, such as government entities or charitable remainder trusts, may be subject to corporate-level income tax in our hands, whether or not it is distributed.

We are currently invested in certain real properties as disclosed in our public filings. In addition, we have invested and intend to invest funds not used to acquire properties in cash sources, "new capital" investments or other liquid investments which allow us to continue to qualify under the 75% Asset Test. Therefore, our investment in real properties should constitute "real estate assets" and should allow us to meet the 75% Asset Test.

*25% Asset Test.* Except as described below, the remaining 25% of our assets generally may be invested without restriction, which we refer to as the 25% Asset Test. However, if we invest in any securities that do not qualify under the 75% Asset Test, other than investments in other REITs, our qualified REIT subsidiaries and TRSs, such securities may not exceed either: (i) 5% of the value of our assets as to any one issuer; or (ii) 10% of the outstanding securities by vote or value of any one issuer. The 10% value test does not apply to certain "straight debt" and other excluded securities, as described in the Code, including but not limited to any loan to an individual or estate, any obligation to pay rents from real property and any security issued by a REIT. In addition, a partnership interest held by a REIT is not considered a "security" for purposes of the 10% value test; instead, the REIT is treated as owning directly its proportionate share of the partnership's assets, which is based on the REIT's proportionate interest in any securities issued by the partnership (disregarding for this purpose the general rule that a partnership interest is not a security), but excluding certain securities described in the Code.

For purposes of the 10% value test, "straight debt" means a written unconditional promise to pay on demand or on a specified date a sum certain in money if (i) the debt is not convertible, directly or indirectly, into stock, (ii) the interest rate and interest payment dates are not contingent on profits, the borrower's discretion, or similar factors other than certain contingencies relating to the timing and amount of principal and interest payments, as described in the Code and (iii) in the case of an issuer that is a corporation or a partnership, securities that otherwise would be considered straight debt will not be so considered if we, and any of our "controlled taxable REIT subsidiaries" as defined in the Code, hold any securities of the corporate or partnership issuer that (a) are not straight debt or other excluded securities (prior to the application of this rule), and (b) have an aggregate value greater than 1% of the issuer's outstanding securities (including, for the purposes of a partnership issuer, our interest as a partner in the partnership).

We believe that our holdings of real estate assets and other securities comply with the foregoing REIT asset requirements, and we intend to monitor compliance on an ongoing basis. We may make real estate-related debt investments; provided, that the underlying real estate meets our criteria for direct investment. A real estate mortgage loan that we own generally will be treated as a real estate asset for purposes of the 75% Asset Test if, on the date that we acquire or originate the mortgage loan, the value of the real property securing the loan is equal to or greater than the principal amount of the loan. Certain mezzanine loans we make or acquire may qualify for the safe harbor in Revenue Procedure 2003-65, 2003-2 C.B. 336, pursuant to which certain loans secured by a first priority security interest in ownership interests in a partnership or limited liability company will be treated as qualifying assets for purposes of the 75% real estate asset test and the 10% vote or value test. We may hold some mezzanine loans that do not qualify for that safe harbor. Furthermore, we may acquire distressed debt investments that require subsequent modification by agreement with the borrower. If the outstanding principal balance of a mortgage loan exceeds the fair market value of the real property securing the loan

at the time we commit to acquire the loan, or agree to modify the loan in a manner that is treated as an acquisition of a new loan for U.S. federal income tax purposes, then a portion of such loan may not be a qualifying real estate asset. Under current law it is not clear how to determine what portion of such a loan will be treated as a qualifying real estate asset. Pursuant to Revenue Procedure 2011-16, the IRS has stated that it will not challenge a REIT's treatment of a loan as being in part a real estate asset if the REIT treats the loan as being a real estate asset in an amount that is equal to the lesser of the fair market value of the real property securing the loan, as of the date we committed to acquire or modify the loan, and the fair market value of the loan. However, uncertainties exist regarding the application of Revenue Procedure 2011-16, particularly with respect to the proper treatment under the Asset Tests of mortgage loans acquired at a discount that increase in value following their acquisition, and no assurance can be given that the IRS would not challenge our treatment of such assets.

A REIT is able to cure certain asset test violations. As noted above, a REIT cannot own securities of any one issuer representing more than 5% of the total value of the REIT's assets or more than 10% of the outstanding securities, by vote or value, of any one issuer. However, a REIT would not lose its REIT qualification for failing to satisfy these 5% or 10% asset tests in a quarter if the failure is due to the ownership of assets the total value of which does not exceed the lesser of (i) 1% of the total value of the REIT's assets at the end of the quarter for which the measurement is done, or (ii) \$10 million; provided, that in either case the REIT either disposes of the assets within six months after the last day of the quarter in which the REIT identifies the failure (or such other time period prescribed by the Treasury), or otherwise meets the requirements of those rules by the end of that period.

If a REIT fails to meet any of the asset test requirements for a quarter and the failure exceeds the de minimis threshold described above, then the REIT still would be deemed to have satisfied the requirements if: (i) following the REIT's identification of the failure, the REIT files a schedule with a description of each asset that caused the failure, in accordance with regulations prescribed by the Treasury Department; (ii) the failure was due to reasonable cause and not to willful neglect; (iii) the REIT disposes of the assets within six months after the last day of the quarter in which the identification occurred or such other time period as is prescribed by the Treasury Department (or the requirements of the rules are otherwise met within that period); and (iv) the REIT pays a tax on the failure equal to the greater of (A) \$50,000 and (B) an amount determined (under regulations) by multiplying (1) the highest rate of tax for corporations under Code Section 11, by (2) the net income generated by the assets that caused the failure for the period beginning on the first date of the failure and ending on the date the REIT has disposed of the assets (or otherwise satisfies the requirements).

## **Income Tests**

For each calendar year, we must satisfy two separate tests based on the composition of our gross income, as defined under our method of accounting, or the Gross Income Tests.

*75% Gross Income Test.* At least 75% of our gross income for the taxable year (excluding gross income from prohibited transactions) must result from (i) rents from real property, (ii) interest on obligations secured by mortgages on real property or on interests in real property, (iii) gains from the sale or other disposition of real property (including interests in real property and interests in mortgages on real property) other than property held primarily for sale to customers in the ordinary course of our trade or business, (iv) dividends from other qualifying REITs and gain (other than gain from prohibited transactions) from the sale of shares of other qualifying REITs, (v) other specified investments relating to real property or mortgages thereon, and (vi) for a limited time, temporary investment income (as described under the 75% Asset Test above). We refer to this requirement as the 75% Gross Income Test. We intend to invest funds not otherwise invested in real properties in cash sources or other liquid investments which will allow us to qualify under the 75% Gross Income Test.

*95% Gross Income Test.* At least 95% of our gross income (excluding gross income from prohibited transactions) for the taxable year must be derived from (1) sources that satisfy the 75% Gross Income Test, (2) dividends, (3) interest, or (4) gain from the sale or disposition of stock or other securities that are not assets held primarily for sale to customers in the ordinary course of our trade or business. We refer to this requirement as the 95% Gross Income Test. It is important to note that dividends and interest on obligations not collateralized by an interest in real property qualify under the 95% Gross Income Test, but not under the 75% Gross Income Test. We intend to invest funds not otherwise invested in properties in cash sources or other liquid investments which will allow us to qualify under the 95% Gross Income Test.

*Rents from Real Property.* Income attributable to a lease of real property generally will qualify as "rents from real property" under the 75% Gross Income Test and the 95% Gross Income Test if such lease is respected as a true lease for U.S. federal income tax purposes and subject to the rules discussed below.

Rent from a particular tenant will not qualify if we, or an owner of 10% or more of our stock, directly or indirectly, owns 10% or more of the voting stock or the total number of shares of all classes of stock in, or 10% or more of the assets or net profits of, the tenant (subject to certain exceptions). The portion of rent attributable to personal property rented in connection with real property will not qualify, unless the portion attributable to personal property is 15% or less of the total rent received under, or in connection with, the lease.

Generally, rent will not qualify if it is based in whole, or in part, on the income or profits of any person from the underlying property. However, rent will not fail to qualify if it is based on a fixed percentage (or designated varying percentages) of receipts or sales, including amounts above a base amount so long as the base amount is fixed at the time the lease is entered into, the provisions are in accordance with normal business practice and the arrangement is not an indirect method for basing rent on income or profits.

If a REIT operates or manages a property or furnishes or renders certain "impermissible services" to the tenants at the property, and the income derived from the services exceeds 1% of the total amount received by that REIT with respect to the property, then no amount received by the REIT with respect to the property will qualify as "rents from real property." Impermissible services are services other than services "usually or customarily rendered" in connection with the rental of real property and not otherwise considered "rendered to the occupant." For these purposes, the income that a REIT is considered to receive from the provision of "impermissible services" will not be less than 150% of the cost of providing the service. If the amount so received is 1% or less of the total amount received by us with respect to the property, then only the income from the impermissible services will not qualify as "rents from real property." However, this rule generally will not apply if such services are provided to tenants through an independent contractor from whom we derive no revenue, or through a TRS. With respect to this rule, tenants will receive some services in connection with their leases of the real properties. Our intention is that the services to be provided are those usually or customarily rendered in connection with the rental of space, and therefore, providing these services will not cause the rents received with respect to the properties to fail to qualify as rents from real property for purposes of the 75% Gross Income Test and the 95% Gross Income Test. The Board of Directors intends to hire qualifying independent contractors or to utilize our TRSs to render services which it believes, after consultation with our tax advisors, are not usually or customarily rendered in connection with the rental of space.

In addition, we have represented that, with respect to our leasing activities, we will not (i) charge rent for any property that is based in whole or in part on the income or profits of any person (excluding rent based on a percentage of receipts or sales, as described above), (ii) charge rent that will be attributable to personal property in an amount greater than 15% of the total rent received under the applicable lease, or (iii) enter into any lease with a related party tenant.

Amounts received as rent from a TRS are not excluded from rents from real property by reason of the related party rules described above, if the activities of the TRS and the nature of the properties it leases meet certain requirements. The TRSs will pay regular corporate tax rates on any income they earn. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's tenants whose terms are not on an arm's-length basis.

*Interest Income.* It is possible that we will be paid interest on loans secured by real property. All interest income qualifies under the 95% Gross Income Test, and interest on loans secured by real property qualifies under the 75% Gross Income Test; provided, that in both cases the interest does not depend, in whole or in part, on the income or profits of any person (excluding amounts based on a fixed percentage of receipts or sales). If a loan is secured by both real property and other property, the interest on it may nevertheless qualify under the 75% Gross Income Test. Interest income constitutes qualifying mortgage interest for purposes of the 75% Gross Income Test to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. If we receive interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that we committed to acquire the loan, or agreed to modify the loan in a manner that is treated as an acquisition of a new loan for U.S. federal income tax purposes, then the interest income will be apportioned between the real property and the other collateral, and our income from the loan will qualify for purposes of the 75% Gross Income Test only to the extent that the interest is allocable to the real property. For purposes of the preceding sentence, however, under recently issued IRS guidance we do not need to re-determine the fair market value of real property in connection with a loan modification that is occasioned by a default or made at a time when we reasonably believe the modification to the loan will substantially reduce a significant risk of default on the original loan, and any such modification will not be treated as a prohibited transaction. All of our loans secured by real property will be structured so that the amount of the loan does not exceed the fair market value of the real property at the time of the loan commitment. Therefore, income generated through any investments in loans secured by real property should be treated as qualifying income under the 75% Gross Income Test.

*Dividend Income.* We may receive distributions from TRSs or other corporations that are not REITs or qualified REIT subsidiaries. These distributions are generally classified as dividends to the extent of the earnings and profits of the distributing corporation. Such distributions generally constitute qualifying income for purposes of the 95% Gross Income Test, but not the 75% Gross Income Test. Any dividends received by us from a REIT will be qualifying income for purposes of both the 95% and 75% Gross Income Tests.

We will monitor the amount of the dividend and other income from our TRSs and will take actions intended to keep this income, and any other nonqualifying income, within the limitations of the Gross Income Tests. Although we intend to take these

actions to prevent a violation of the Gross Income Tests, we cannot guarantee that such actions will in all cases prevent such a violation.

*Foreclosure Property.* Foreclosure property is real property and any personal property incident to such real property (1) that is acquired by a REIT as a result of the REIT having bid on the property at foreclosure or having otherwise reduced the property to ownership or possession by agreement or process of law after there was a default (or default was imminent) on a lease of the property or a mortgage loan held by the REIT and secured by the property, (2) for which the related loan or lease was acquired by the REIT at a time when default was not imminent or anticipated and (3) for which such REIT makes a proper election to treat the property as foreclosure property. REITs generally are subject to tax at the maximum U.S. federal corporate tax rate (currently 35%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the 75% Gross Income Test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property in the hands of the selling REIT. If we believe we will receive any income from foreclosure property that is not qualifying income for purposes of the 75% Gross Income Test, we intend to elect to treat the related property as foreclosure property.

*Satisfaction of the Gross Income Tests.* Our share of income from the properties primarily will give rise to rental income and gains on sales of the properties, substantially all of which generally will qualify under the 75% Gross Income and 95% Gross Income Tests. Our current and anticipated operations indicate that it is likely that we will have little or no **non-qualifying** income to cause adverse U.S. federal income tax consequences.

As described above, we may establish one or more TRSs with which we could enter into leases for any properties we may invest in. The gross income generated by these TRSs would not be included in our gross income. However, we would realize gross income from these subsidiaries in the form of rents. In addition, any dividends from TRSs to us would be included in our gross income and qualify for the 95% Gross Income Test, but not the 75% Gross Income Test.

If we fail to satisfy either the 75% Gross Income or 95% Gross Income Tests for any taxable year, we may retain our qualification as a REIT for such year if we satisfy the IRS that: (i) the failure was due to reasonable cause and not due to willful neglect, (ii) we attach to our return a schedule describing the nature and amount of each item of our gross income, and (iii) any incorrect information on such schedule was not due to fraud with intent to evade U.S. federal income tax. If this relief provision is available, we would remain subject to tax equal to the greater of the amount by which we failed the 75% Gross Income Test or the 95% Gross Income Test, as applicable, multiplied by a fraction meant to reflect our profitability.

## **Annual Distribution Requirements**

In addition to the other tests described above, we are required to distribute dividends (other than capital gain dividends) to our stockholders each year in an amount at least equal to the excess of: (a) the sum of (i) 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain) and (ii) 90% of the net income (after tax) from foreclosure property; over (b) the sum of some types of items of **non-cash** income. Whether sufficient amounts have been distributed is based on amounts paid in the taxable year to which they relate, or in the following taxable year if we: (A) declared a dividend before the due date of our tax return (including extensions); (B) distribute the dividend within the 12-month period following the close of the taxable year (and not later than the date of the first regular dividend payment made after such declaration); and (C) file an election with our tax return. Additionally, dividends that we declare in October, November or December in a given year payable to stockholders of record in any such month will be treated as having been paid on December 31<sup>st</sup> of that year so long as the dividends are actually paid during January of the following year. In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be "preferential dividends." A dividend is not a preferential dividend if the distribution is (1) pro rata among all outstanding shares of stock within a particular class, and (2) in accordance with the preferences among different classes of stock as set forth in our organizational documents. If we fail to meet the annual distribution requirements as a result of an adjustment to our U.S. federal income tax return by the IRS, or under certain other circumstances, we may cure the failure by paying a "deficiency dividend" (plus penalties and interest to the IRS) within a specified period.

If we do not distribute 100% of our REIT taxable income, we will be subject to U.S. federal income tax on the undistributed portion. We also will be subject to an excise tax if we fail to currently distribute sufficient income. In order to make the "required distribution" with respect to a calendar year and avoid the excise tax, we must distribute the sum of (a) 85% of our REIT ordinary income for the calendar year, (b) 95% of our REIT capital gain net income for the calendar year, and (c) the excess, if any, of the grossed up required distribution (as defined in the Code) for the preceding calendar year over the distributed amount for that preceding calendar year. Any excise tax liability would be equal to 4% of the difference between the amount required to be distributed and the amount actually distributed and would not be deductible by us.

We intend to pay sufficient dividends each year to satisfy the annual distribution requirements and avoid U.S. federal income and excise taxes on our earnings; however, it may not always be possible to do so. It is possible that we may not have sufficient cash or other liquid assets to meet the annual distribution requirements due to tax accounting rules and other timing differences. Other potential sources of non-cash taxable income include:

- "residual interests" in REMICs or taxable mortgage pools;
- loans or mortgage-backed securities held as assets that are issued at a discount and require the accrual of taxable economic interest in advance of receipt in cash; and
- loans on which the borrower is permitted to defer cash payments of interest, distressed loans on which we may be required to accrue taxable interest income even though the borrower is unable to make current servicing payments in cash, and debt securities purchased at a discount.

We will closely monitor the relationship between our REIT taxable income and cash flow, and if necessary to comply with the annual distribution requirements, will attempt to borrow funds to fully provide the necessary cash flow or to pay dividends in the form of taxable in-kind distributions of property, including taxable stock dividends.

### **Failure to Qualify**

If we fail to continue to qualify as a REIT in any taxable year, we may be eligible for relief provisions if the failures are due to reasonable cause and not willful neglect and if a penalty tax is paid with respect to each failure to satisfy the applicable requirements. If the applicable relief provisions are not available or cannot be met, we will not be able to deduct our dividends and will be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, thereby reducing cash available for distributions. In such event, all distributions to stockholders (to the extent of our current and accumulated earnings and profits) will be taxable as ordinary dividend income. This "double taxation" results from our failure to continue to qualify as a REIT. Unless entitled to relief under specific statutory provisions, we will not be eligible to elect REIT qualification for the four taxable years following the year during which qualification was lost.

### **Recordkeeping Requirements**

We are required to maintain records and request on an annual basis information from specified stockholders. These requirements are designed to assist us in determining the actual ownership of our outstanding stock and maintaining our qualification as a REIT.

### **Prohibited Transactions**

As discussed above, we will be subject to a 100% U.S. federal income tax on any net income derived from "prohibited transactions." Net income derived from prohibited transactions arises from the sale or exchange of property held for sale to customers in the ordinary course of our business which is not foreclosure property. There is an exception to this rule for the sale of property that:

- is a real estate asset under the 75% Asset Test;
- generally has been held for at least two years;
- has aggregate expenditures which are includable in the basis of the property not in excess of 30% of the net selling price;
- in some cases, was held for production of rental income for at least two years;
- in some cases, substantially all of the marketing and development expenditures were made through an independent contractor; and
- when combined with other sales in the year, either does not cause the REIT to have made more than seven sales of property during the taxable year (excluding sales of foreclosure property or in connection with an involuntary conversion) or occurs in a year when the REIT disposes of less than 10% of its assets (measured by U.S. federal income tax basis or fair market value, and ignoring involuntary dispositions and sales of foreclosure property).

Although we currently intend to sell each of the properties, our primary intention in acquiring and operating the properties is the production of rental income and we do not expect to hold any property for sale to customers in the ordinary course of our business. The 100% tax will not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate income tax rates. As a general matter, any condominium conversions we might undertake must satisfy these restrictions to avoid being "prohibited transactions," which will limit the annual number of transactions. See "— REIT Qualification Tests — Ownership of Interests in TRSs."



## Excess Inclusion Income

Pursuant to IRS guidance, a REIT's excess inclusion income, including any excess inclusion income from a residual interest in a REMIC, must be allocated among its stockholders in proportion to dividends paid. The REIT is required to notify stockholders of the amount of "excess inclusion income" allocated to them. A stockholder's share of excess inclusion income:

- cannot be offset by any net operating losses otherwise available to the stockholder;
- is subject to tax as UBTI in the hands of most types of stockholders that are otherwise generally exempt from U.S. federal income tax; and
- results in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction for any otherwise applicable income tax treaty or other exemption, to the extent allocable to most types of foreign stockholders.

Pursuant to IRS guidance, to the extent that excess inclusion income is allocated to a **tax-exempt** stockholder of a REIT that is not subject to unrelated business taxable income (such as a government entity or charitable remainder trust), the REIT may be subject to tax on this income at the highest applicable corporate tax rate (currently 35%). In that case, the REIT could reduce distributions to such stockholders by the amount of such tax paid by the REIT attributable to such stockholder's ownership. Treasury regulations provide that such a reduction in distributions does not give rise to a preferential dividend that could adversely affect the REIT's compliance with its distribution requirements. See "— Annual Distribution Requirements." The manner in which excess inclusion income is calculated, or would be allocated to stockholders, including allocations among shares of different classes of stock, is not clear under current law. As required by IRS guidance, we intend to make such determinations using a reasonable method. Tax-exempt investors, foreign investors and taxpayers with net operating losses should carefully consider the tax consequences described above, and are urged to consult their tax advisors.

## Characterization of Property Leases

We may purchase either new or existing properties and lease them to tenants. Our ability to claim certain tax benefits associated with ownership of these properties, such as depreciation, would depend on a determination that the lease transactions are true leases, under which we would be the owner of the leased property for U.S. federal income tax purposes, rather than a conditional sale of the property or a financing transaction. A determination by the IRS that we are not the owner of any properties for U.S. federal income tax purposes may have adverse consequences to us, such as the denial of depreciation deductions (which could affect the determination of our REIT taxable income subject to the distribution requirements) or the aggregate value of our assets invested in real estate (which could affect REIT asset testing).

## Tax Aspects of Investments in Partnerships

*General.* We currently hold and anticipate holding direct or indirect interests in one or more partnerships, including our Operating Partnership. We operate as an Umbrella Partnership REIT, or UPREIT, which is a structure whereby we own a direct interest in our Operating Partnership, and our Operating Partnership, in turn, owns the properties and may possibly own interests in other non-corporate entities that own properties. Such non-corporate entities would generally be organized as limited liability companies, partnerships or trusts and would either be disregarded for U.S. federal income tax purposes (if our Operating Partnership were the sole owner) or treated as partnerships for U.S. federal income tax purposes.

The following is a summary of the U.S. federal income tax consequences of our investment in our Operating Partnership if our Operating Partnership is treated as a partnership for U.S. federal income tax purposes. This discussion should also generally apply to any investment by us in a property partnership or other non-corporate entity.

A partnership (that is not a publicly traded partnership taxed as a corporation) is not subject to tax as an entity for U.S. federal income tax purposes. Rather, partners are allocated their allocable share of the items of income, gain, loss, deduction and credit of the partnership, and are potentially subject to tax thereon, without regard to whether the partners receive any distributions from the partnership. We are required to take into account our allocable share of the foregoing items for purposes of the various REIT gross income and asset tests, and in the computation of our REIT taxable income and U.S. federal income tax liability. Further, there can be no assurance that distributions from our Operating Partnership will be sufficient to pay the tax liabilities resulting from an investment in our Operating Partnership.

Generally, an entity with two or more members formed as a partnership or limited liability company under state law will be taxed as a partnership for U.S. federal income tax purposes unless it specifically elects otherwise. Because our Operating Partnership was formed as a partnership under state law, for U.S. federal income tax purposes our Operating Partnership will be treated as a partnership, if it has two or more partners, or a disregarded entity, if it is treated as having one partner. We intend that interests in our Operating Partnership (and any partnership invested in by our Operating Partnership) will fall within one of the "safe harbors" for the partnership to avoid being classified as a publicly traded partnership. However, our ability to satisfy the requirements of some of these

safe harbors depends on the results of actual operations and accordingly no assurance can be given that any such partnership will at all times satisfy one of such safe harbors. We reserve the right to not satisfy any safe harbor. Even if a partnership is a publicly traded partnership, it generally will not be treated as a corporation if at least 90% of its gross income each taxable year is from certain sources, which generally include rents from real property and other types of passive income. We believe that our Operating Partnership has had and will have sufficient qualifying income so that it would be taxed as a partnership, even if it were treated as a publicly traded partnership.

If for any reason our Operating Partnership (or any partnership invested in by our Operating Partnership) is taxable as a corporation for U.S. federal income tax purposes, the character of our assets and items of gross income would change, and as a result, we would most likely be unable to satisfy the applicable REIT requirements under U.S. federal income tax laws discussed above. In addition, any change in the status of any partnership may be treated as a taxable event, in which case we could incur a tax liability without a related cash distribution. Further, if any partnership was treated as a corporation, items of income, gain, loss, deduction and credit of such partnership would be subject to corporate income tax, and the partners of any such partnership would be treated as stockholders, with distributions to such partners being treated as dividends.

Anti-abuse Treasury Regulations have been issued under the partnership provisions of the Code that authorize the IRS, in some abusive transactions involving partnerships, to disregard the form of a transaction and recast it as it deems appropriate. The anti-abuse regulations apply where a partnership is utilized in connection with a transaction (or series of related transactions) with a principal purpose of substantially reducing the present value of the partners' aggregate U.S. federal tax liability in a manner inconsistent with the intent of the partnership provisions. The anti-abuse regulations contain an example in which a REIT contributes the proceeds of a public offering to a partnership in exchange for a general partnership interest. The limited partners contribute real property assets to the partnership, subject to liabilities that exceed their respective aggregate bases in such property. The example concludes that the use of the partnership is not inconsistent with the intent of the partnership provisions, and thus, cannot be recast by the IRS. However, the anti-abuse regulations are extraordinarily broad in scope and are applied based on an analysis of all the facts and circumstances. As a result, we cannot assure you that the IRS will not attempt to apply the anti-abuse regulations to us. Any such action could potentially jeopardize our qualification as a REIT and materially affect the tax consequences and economic return resulting from an investment in the company.

*Income Taxation of Partnerships and their Partners.* Although a partnership agreement generally will determine the allocation of a partnership's income and losses among the partners, such allocations may be disregarded for U.S. federal income tax purposes under Code Section 704(b) and the Treasury Regulations. If any allocation is not recognized for U.S. federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' economic interests in the partnership. We believe that the allocations of taxable income and loss in our Operating Partnership agreement comply with the requirements of Code Section 704(b) and the Treasury Regulations.

In some cases, special allocations of net profits or net losses will be required to comply with the U.S. federal income tax principles governing partnership tax allocations. Additionally, pursuant to Code Section 704(c), income, gain, loss and deduction attributable to property contributed to our Operating Partnership in exchange for units must be allocated in a manner so that the contributing partner is charged with, or benefits from, the unrealized gain or loss attributable to the property at the time of contribution. The amount of such unrealized gain or loss is generally equal to the difference between the fair market value and the adjusted basis of the property at the time of contribution. These allocations are designed to eliminate book-tax differences by allocating to contributing partners lower amounts of depreciation deductions and increased taxable income and gain attributable to the contributed property than would ordinarily be the case for economic or book purposes. With respect to any property purchased by our Operating Partnership, such property generally will have an initial tax basis equal to its fair market value, and accordingly, Code Section 704(c) will not apply, except as described further below in this paragraph. The application of the principles of Code Section 704(c) in tiered partnership arrangements is not entirely clear. Accordingly, the IRS may assert a different allocation method than the one selected by our Operating Partnership to cure any book-tax differences. In certain circumstances, we create book-tax differences by adjusting the values of properties for economic or book purposes and generally the rules of Code Section 704(c) would apply to such differences as well.

For U.S. federal income tax purposes, depreciation deductions on residential rental buildings, structural components and improvements generally are computed using the **straight-line** method over 27.5 years. Shorter depreciation periods apply to other properties. Some improvements to land are depreciated over 15 years. However, we have elected to have the alternative depreciation system apply to our properties with the result that residential rental buildings, structural components and improvements are depreciated using the straight-line method over 40 years and some improvements to land are depreciated using the straight-line method over 20 years. For properties contributed to our Operating Partnership, depreciation deductions are calculated based on the transferor's basis and depreciation method. Because depreciation deductions are based on the transferor's basis in the contributed property, our Operating Partnership generally would be entitled to less depreciation than if the properties were purchased in a taxable transaction. The burden of lower depreciation generally will fall first on the contributing partner, but also may reduce the depreciation allocated to other partners.

Gain on the sale or other disposition of depreciable property is characterized as ordinary income (rather than capital gain) to the extent of any depreciation recapture. Buildings and improvements depreciated under the straight-line method of depreciation are generally not subject to depreciation recapture unless the property was held for less than one year. However, individuals, trusts and estates that hold shares either directly or through a pass-through entity may be subject to tax on the disposition on such assets at a rate of 25% rather than at the normal capital gains rate, to the extent that such assets have been depreciated.

Some expenses incurred in the conduct of our Operating Partnership's activities may not be deducted in the year they were paid. To the extent this occurs, the taxable income of our Operating Partnership may exceed its cash receipts for the year in which the expense is paid. As discussed above, the costs of acquiring properties must generally be recovered through depreciation deductions over a number of years. Prepaid interest and loan fees, and prepaid management fees are other examples of expenses that may not be deducted in the year they were paid.

## **Taxation of U.S. Holders**

The following section applies to you only if you are a U.S. Holder. Generally, for purposes of this discussion, a "U.S. Holder" is a person (other than a partnership or entity treated as a partnership for U.S. federal income tax purposes) that is, for U.S. federal income tax purposes:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) the trust has a valid election in effect under current Treasury Regulations to be treated as a U.S. person.

If a partnership or entity treated as a partnership for U.S. federal income tax purposes holds our stock, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding shares of our Series A Redeemable Preferred Stock, the Warrants or shares of our common stock should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of such shares of Series A Redeemable Preferred Stock, the Warrants or shares of our common stock by the partnership.

*Allocation of Purchase Price of Unit as Between Series A Redeemable Preferred Stock and Warrant.* For U.S. federal income tax purposes, the purchase of each Unit will be treated as the purchase of an "investment unit" consisting of two components, a share of Series A Redeemable Preferred Stock and a Warrant to purchase 20 shares of common stock exercisable by the holder at an exercise price equal to a 20% premium to the current market price per share of our common stock determined using the volume weighted average price of our common stock for the 20 trading days prior to the date of issuance of such Warrant, subject to a minimum exercise price of \$9.00 per share (subject to adjustment). The purchase price for the Unit must be allocated as between the Series A Redeemable Preferred Stock and the Warrant in proportion to their relative fair market values on the date that the Unit is purchased. The allocation of the purchase price will establish your initial tax basis for U.S. federal income tax purposes in your Series A Redeemable Preferred Stock and the Warrant. You should consult your own tax advisor regarding the allocation of the purchase price between the share of Series A Redeemable Preferred Stock and the Warrant.

If the allocation of the purchase price between the Series A Redeemable Preferred Stock and the Warrant results in an "issue price" for the Series A Redeemable Preferred Stock that is lower than the price at which the Series A Redeemable Preferred stock may be redeemed under certain circumstances, this difference in price (the "redemption premium") will be treated as a constructive distribution of additional stock on preferred stock under Code Section 305(c), unless the redemption premium is less than a statutory de minimis amount. If shares of the Series A Redeemable Preferred Stock may be redeemed at more than one time, the time and price at which redemption is most likely to occur must be determined based on all the facts and circumstances as of the issue date. Any such constructive distribution must be taken into account under principles similar to the principles governing the inclusion of accrued original issue discount under Code Section 1272(a). Under those principles, a U.S. Holder is required to include the redemption premium in gross income as it accrues under a constant yield method.

We intend to take a position, through an appropriate valuation methodology, on an allocation of the purchase price for the Units between the shares of Series A Redeemable Preferred Stock and the Warrants that comprise the Units. If the allocation results in a value for the Warrant in excess of the statutory de minimis amount, we will report the premium in gross income of U.S. Holders as it accrues under a constant yield method and include the amount on the annual dividend reporting form, Form 1099-DIV. However, our position on the allocation of the purchase price to the Warrants is not binding on the IRS. If the IRS were to take a different position regarding such allocation, U.S. Holders would be required to include a different amount of redemption premium in gross income as it

accrues under a constant yield method and may be required to treat any gain recognized on the disposition of the Series A Redeemable Preferred Stock as ordinary income rather than as capital gain.

*Series A Redeemable Preferred Stock and Common Stock.* As long as we qualify as a REIT, distributions (including any deemed distributions) paid to our U.S. Holders out of current or accumulated earnings and profits (and not designated as capital gain dividends or qualified dividend income) will be ordinary income. Distributions in excess of current and accumulated earnings and profits are treated first as a tax-deferred return of capital to the U.S. Holder, reducing the U.S. Holder's tax basis in his, her or its stock by the amount of such distribution, but not below zero, and then capital gain. Because our earnings and profits are reduced for depreciation and other non-cash items, it is possible that a portion of each distribution will constitute a tax-deferred return of capital. Additionally, because distributions in excess of earnings and profits reduce the U.S. Holder's basis in our stock, this will increase the U.S. Holder's gain, or reduce the U.S. Holder's loss, on any subsequent sale of the stock.

Distributions that we designate as capital gain dividends will be taxed as long-term capital gain to the extent they do not exceed our actual net capital gain for the taxable year, without regard to the period for which the U.S. Holder that receives such distribution has held its stock. However, corporate U.S. Holders may be required to treat up to 20% of some types of capital gain dividends as ordinary income. We also may decide to retain, rather than distribute, our net capital gain and pay any tax thereon. In such instances, U.S. Holders would include their proportionate shares of such gain in income as long-term capital gain, receive a credit on their returns for their proportionate share of our tax payments, and increase the tax basis of their shares of stock by the after-tax amount of such gain.

With respect to U.S. Holders who are taxed at the rates applicable to individuals, we may elect to designate a portion of our distributions (including any deemed distributions) paid to such U.S. Holders as "qualified dividend income." A portion of a distribution that is properly designated as qualified dividend income is taxable to non-corporate U.S. Holders as capital gain; *provided*, that the U.S. Holder has held the stock with respect to which the distribution is made for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which such stock became ex-dividend with respect to the relevant distribution. The maximum amount of our distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

- (1) the qualified dividend income received by us during such taxable year from C corporations (including any TRSs);
- (2) the excess of any "undistributed" REIT taxable income recognized during the immediately preceding year over the U.S. federal income tax paid by us with respect to such undistributed REIT taxable income; and
- (3) the excess of any income recognized during the immediately preceding year attributable to the sale of a built-in gain asset that was acquired in a carry-over basis transaction from a non REIT corporation or had appreciated at the time our REIT election became effective over the U.S. federal income tax paid by us with respect to such built-in gain.

Generally, dividends that we receive will be treated as qualified dividend income for purposes of (1) above if the dividends are received from a regular domestic C corporation, such as any TRSs, and specified holding period and other requirements are met.

Dividend income is characterized as "portfolio" income under the passive loss rules and cannot be offset by a U.S. Holder's current or suspended passive losses. Corporate U.S. Holders cannot claim the dividends received deduction for such dividends unless we lose our REIT qualification. Although U.S. Holders generally will recognize taxable income in the year that a distribution is received, any distribution that we declare in October, November or December of any year that is payable to a U.S. Holder of record on a specific date in any such month will be treated as both paid by us and received by the U.S. Holder on December 31<sup>st</sup> of the year it was declared even if paid by us during January of the following calendar year. Because we are not a pass-through entity for U.S. federal income tax purposes, U.S. Holders may not use any of our operating or capital losses to reduce their tax liabilities.

We have the ability to declare a large portion of a dividend in shares of our stock. As long as a portion of such dividend is paid in cash (which portion can be as low as 20%) and certain requirements are met, the entire distribution will be treated as a dividend for U.S. federal income tax purposes. As a result, U.S. Holders will be taxed on 100% of the dividend in the same manner as a cash dividend, even though most of the dividend was paid in shares of our stock. In general, any dividend on shares of our preferred stock will be taxable as a dividend, regardless of whether any portion is paid in stock.

In general, the sale of our stock held for more than 12 months will produce long-term capital gain or loss. All other sales will produce short-term gain or loss. In each case, the gain or loss is equal to the difference between the amount of cash and fair market value of any property received from the sale and the U.S. Holder's basis in the stock sold. However, any loss from a sale or exchange of stock by a U.S. Holder who has held such stock for six months or less generally will be treated as a long-term capital loss, to the extent that the U.S. Holder treated our distributions as long-term capital gain. The use of capital losses is subject to limitations.

If excess inclusion income from a REMIC residual interest is allocated to any U.S. Holder, that income will be taxable in the hands of the Holder and would not be offset by any net operating losses of the U.S. Holder that would otherwise be available. As

required by IRS guidance, we intend to notify our U.S. Holders if a portion of a dividend paid by us is attributable to excess inclusion income.

Currently, the maximum tax rate applicable to individuals and certain other noncorporate taxpayers on net capital gain recognized on the sale or other disposition of shares is 20%, and the maximum marginal tax rate payable by them on dividends received from corporations that are subject to a corporate level of tax has been reduced. Except in limited circumstances, with respect to "qualified dividend income" as discussed above, this reduced tax rate will not apply to dividends paid by us.

*Warrants.* Upon the exercise of a Warrant for cash, you will not recognize gain or loss, and the amount paid for the Warrant plus the amount paid at exercise will be added to your basis in the common stock received. Your holding period for the common stock purchased pursuant to exercise of a Warrant for cash will generally begin no later than the day following the exercise and will not include the period you held the Warrant.

Upon a sale or other disposition (other than exercise) of a Warrant, you will recognize capital gain or loss in an amount equal to the difference between the amount realized and your tax basis in the Warrant. Such gain or loss will be long-term capital gain or loss provided you held the Warrant for more than one year at the time of sale or other disposition.

If the Warrant is allowed to lapse unexercised, you will generally have a capital loss equal to your basis in the Warrant. Such loss will be a long-term capital loss provided you held the Warrant for more than one year at the time the Warrant is allowed to lapse.

Certain adjustments to, or failure to adjust, the number of shares underlying the Warrants and/or exercise price of the Warrants may cause holders of Warrants and our stock to be treated as having received a distribution, to the extent any such adjustment or failure to adjust results in an increase in the proportionate interest of such holders in our company. Such a distribution would be taxable to holders as a dividend, return of capital or capital gain in accordance with rules discussed above under "- Series A Redeemable Preferred Stock and Common Stock."

*Cost Basis Reporting.* U.S. federal income tax information reporting rules may apply to certain transactions in our shares. Where such rules apply, the "cost basis" calculated for the shares involved will be reported to the IRS and to you. Generally these rules apply to all shares purchased. For "cost basis" reporting purposes, you may identify by lot the shares that you transfer or that are redeemed, but if you do not timely notify us of your election, we will identify the shares that are transferred or redeemed on a "first in/first out" basis. The shares in the Distribution Reinvestment Plan are also eligible for the "average cost" basis method, should you so elect.

Information reporting (transfer statements) on other transactions may also be required under these rules. Generally, these reports are made for certain transactions. Transfer statements are issued between "brokers" and are not issued to the IRS or to you.

Stockholders should consult their tax advisors regarding the consequences of these rules.

*Backup Withholding and Information Reporting.* We will report to our U.S. Holders and the IRS the amount of dividends (including deemed dividends) paid during each calendar year and the amount (if any) of U.S. federal income tax we withhold. Under the backup withholding rules, a U.S. Holder may be subject to backup withholding at the current rate of 28% with respect to dividends (including any deemed dividends) paid unless the U.S. Holder (1) is a corporation or comes within other exempt categories and, when required, demonstrates this fact, or (2) provides us with a taxpayer identification number or social security number, certifies under penalties of perjury that such number is correct and that such U.S. Holder is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A U.S. Holder that does not provide his, her or its correct taxpayer identification number or social security number also may be subject to penalties imposed by the IRS. In addition, we may be required to withhold a portion of capital gain distribution to any U.S. Holder who fails to certify its non-foreign status. See the " — Taxation of Non-U.S. Holders" portion of this section.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

## **Taxation of Tax-Exempt Holders**

U.S. tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. However, they are subject to taxation on their unrelated business taxable income, or UBTI. While many investments in real estate may generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity do not constitute UBTI. Based on that ruling, our distributions to a U.S. Holder that is a domestic tax-exempt entity should not constitute UBTI unless such U.S. Holder borrows funds (or otherwise incurs acquisition indebtedness within

the meaning of the Code) to acquire its common shares, or the common shares are otherwise used in an unrelated trade or business of the tax-exempt entity. Furthermore, even in the absence of acquisition debt, part or all of the income or gain recognized with respect to our stock held by certain domestic tax-exempt entities, including social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal service plans (all of which are exempt from U.S. federal income taxation under Code Sections 501(c)(7), (9), (17) or (20)), may be treated as UBTI.

Special rules apply to the ownership of REIT shares by some tax-exempt pension trusts. If we would be "closely held" (discussed above with respect to the share ownership tests) because the stock held by tax-exempt pension trusts was viewed as being held by the trusts rather than by their respective beneficiaries, tax-exempt pension trusts owning more than 10% by value of our stock may be required to treat a percentage of our dividends as UBTI. This rule applies if: (i) at least one tax-exempt pension trust owns more than 25% by value of our shares, or (ii) one or more tax-exempt pension trusts (each owning more than 10% by value of our shares) hold in the aggregate more than 50% by value of our shares. The percentage treated as UBTI is our gross income (less direct expenses) derived from an unrelated trade or business (determined as if we were a tax-exempt pension trust) divided by our gross income from all sources (less direct expenses). If this percentage is less than 5%, however, none of the dividends will be treated as UBTI. Because of the restrictions in our charter regarding the ownership concentration of our stock, we believe that a tax-exempt pension trust should not become subject to these rules. However, because our shares of common stock are publicly traded, we can give no assurance of this.

Prospective tax-exempt purchasers should consult their own tax advisors and financial planners as to the applicability of these rules and consequences to their particular circumstances.

### **Taxation of Non-U.S. Holders**

*General.* The rules governing the U.S. federal income taxation of Non-U.S. Holders are complex, and as such, only a summary of such rules is provided in this prospectus. Non-U.S. investors should consult with their own tax advisors and financial planners to determine the impact that U.S. federal, state and local income tax or similar laws will have on such investors as a result of an investment in our REIT. A Non-U.S. Holder means a person (other than a partnership or entity treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder.

*Allocation of Purchase Price as Between Series A Redeemable Preferred Stock and Warrant.* As described above under "- Taxation of U.S. Holders - Allocation of Purchase Price Between Series A Redeemable Preferred Stock and Warrants," a portion of the purchase price for the Unit will be allocated to the Warrant. Any redemption premium that may result will be treated as a constructive distribution of additional stock on preferred stock under Code Section 305(c), unless the redemption premium is less than a statutory de minimis amount. Any such constructive distribution may need to be taken into account under principles similar to the principles governing the inclusion of accrued original issue discount under Code Section 1272(a) and may be subject to a withholding tax equal to 30% of the gross amount of the dividend unless an applicable tax treaty reduces or eliminates that tax. See "- Distributions - In General" and "- U.S. Federal Income Tax Withholding on Distributions" below.

*Distributions — In General.* Distributions paid by us that are not attributable to gain from our sales or exchanges of "U.S. real property interests," or USRPIs, and not designated by us as capital gain dividends will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such dividends to Non-U.S. Holders ordinarily will be subject to a withholding tax equal to 30% of the gross amount of the dividend unless an applicable tax treaty reduces or eliminates that tax. Under some treaties, however, lower rates generally applicable to dividends do not apply to dividends from REITs. Any constructive dividends on the Series A Redeemable Preferred Stock also would be subject to U.S. federal withholding tax to the same extent as an actual distribution. Because constructive dividends would not give rise to any cash from which any applicable withholding tax could be satisfied, we may withhold the U.S. federal tax on such dividend from cash proceeds otherwise payable to a Non-U.S. Holder.

If income from the investment in the common shares is treated as effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business, the Non-U.S. Holder generally will be subject to a tax at the graduated rates applicable to ordinary income, in the same manner as U.S. Holders are taxed with respect to such dividends (and also may be subject to the 30% branch profits tax in the case of a Non-U.S. Holder that is a foreign corporation that is not entitled to any treaty exemption). In general, Non-U.S. Holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our stock. Dividends in excess of our current and accumulated earnings and profits will not be taxable to a Non-U.S. Holder to the extent they do not exceed the adjusted basis of the Non-U.S. Holder's shares. Instead, they will reduce the adjusted basis of such shares. To the extent that such dividends exceed the adjusted basis of a Non-U.S. Holder's shares, they will give rise to tax liability if the Non-U.S. Holder would otherwise be subject to tax on any gain from the sale or disposition of his shares, as described in the "— Sales of Shares" portion of this Section below.

*Distributions Attributable to Sale or Exchange of Real Property.* Distributions that are attributable to gain from our sales or exchanges of USRPIs will be taxed to a Non-U.S. Holder as if such gain were effectively connected with a U.S. trade or business. Non-U.S. Holders would thus be taxed at the normal capital gain rates applicable to U.S. Holders, and would be subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Also, such distributions may be subject to a 30% branch profits tax in the hands of a corporate Non-U.S. Holder not entitled to any treaty exemption. However, generally such a distribution from a REIT is not treated as effectively connected income for a Non-U.S. Holder if: (i) the distribution is received with respect to a class of stock that is regularly traded on an established securities market located in the U.S.; and (ii) the Non-U.S. Holder does not own more than 5% of the class of stock at any time during the one-year period ending on the date of the distribution. Distributions that qualify for this exception are subject to withholding tax in the manner described above as dividends of ordinary income. We anticipate that our shares of common stock will be "regularly traded" on an established securities market for the foreseeable future, although, no assurance can be given that this will be the case.

*U.S. Federal Income Tax Withholding on Distributions.* For U.S. federal income tax withholding purposes, we generally will withhold tax at the rate of 30% on the amount of any distribution (other than distributions designated as capital gain dividends) made to a Non-U.S. Holder, unless the Non-U.S. Holder provides us with appropriate documentation (i) evidencing that such Non-U.S. Holder is eligible for an exemption or reduced rate under an applicable income tax treaty, generally an IRS Form W-8BEN (in which case we will withhold at the lower treaty rate), or (ii) claiming that the dividend is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the U.S., generally an IRS Form W-8ECI (in which case we will not withhold tax). We also generally are required to withhold tax at the rate of 35% on the portion of any dividend to a Non-U.S. Holder that is or could be designated by us as a capital gain dividend, to the extent attributable to gain on a sale or exchange of an interest in U.S. real property. Such withheld amounts of tax do not represent actual tax liabilities, but rather, represent payments in respect of those tax liabilities described above. Therefore, such withheld amounts are creditable by the Non-U.S. Holder against its actual U.S. federal income tax liabilities, including those described above. The Non-U.S. Holder would be entitled to a refund of any amounts withheld in excess of such Non-U.S. Holder's actual U.S. federal income tax liabilities, *provided that* the Non-U.S. Holder files applicable returns or refund claims with the IRS.

*Sales of Shares.* Gain recognized by a Non-U.S. Holder upon a sale of shares generally will not be subject to U.S. federal income taxation, *provided that*: (i) such gain is not effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the U.S.; (ii) the Non-U.S. Holder is an individual and is not present in the U.S. for 183 days or more during the taxable year and certain other conditions apply; and (iii) (A) our REIT is "domestically controlled," which generally means that less than 50% in value of our shares continues to be held directly or indirectly by foreign persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of our existence, or (B) the class of shares being sold are "regularly traded" on an established securities market and the selling Non-U.S. Holder has not held more than 5% of our outstanding shares of such class at any time during the five-year period ending on the date of the sale.

We believe, but cannot assure you, that we will qualify as "domestically controlled." However, if we were not domestically controlled, a Non-U.S. Holder's sale of shares would be subject to tax, unless the class of shares being sold were regularly traded on an established securities market and the selling Non-U.S. Holder has not directly, or indirectly, owned during the five-year period ending on the date of sale more than 5% in value of such class of our shares. We anticipate that our common shares will be "regularly traded" on an established market for the foreseeable future, although, no assurance can be given that this will be the case. If the gain on the sale of shares were to be subject to taxation, the Non-U.S. Holder would be subject to the same treatment as U.S. Holders with respect to such gain, and the purchaser of such shares may be required to withhold 10% of the gross purchase price.

If the proceeds of a disposition of our securities are paid by or through a U.S. office of a broker-dealer, the payment is generally subject to information reporting and to backup withholding unless the disposing Non-U.S. Holder certifies as to its name, address and non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the U.S. through a foreign office of a foreign broker-dealer. Under Treasury Regulations, if the proceeds from a disposition of our securities paid to or through a foreign office of a U.S. broker-dealer or a non-U.S. office of a foreign broker-dealer that is (i) a "controlled foreign corporation" for U.S. federal income tax purposes, (ii) a person 50% or more of whose gross income from all sources for a three-year period was effectively connected with a U.S. trade or business, (iii) a foreign partnership with one or more partners who are U.S. persons and who, in the aggregate, hold more than 50% of the income or capital interest in the partnership, or (iv) a foreign partnership engaged in the conduct of a trade or business in the U.S., then (A) backup withholding will not apply unless the broker-dealer has actual knowledge that the owner is not a Non-U.S. Holder, and (B) information reporting will not apply if the Non-U.S. Holder certifies its non-U.S. status and further certifies that it has not been, and at the time the certificate is furnished reasonably expects not to be, present in the U.S. for a period aggregating 183 days or more during each calendar year to which the certification pertains. Prospective foreign purchasers should consult their tax advisors and financial planners concerning these rules.

*Warrants - Expiration, Sale or Exercise of the Warrants.* The discussion above under "Taxation of U.S. Holders - Warrants" generally applies to Non-U.S. Holders, except that a Non-U.S. Holder generally will not be subject to U.S. federal income tax or

withholding tax on gain recognized upon the sale or otherwise taxable disposition of a Warrant, *provided, however*, that: (i) such gain is not effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the U.S.; (ii) the Non-U.S. Holder is an individual and is not present in the U.S. for 183 days or more during the taxable year and certain other conditions apply; and (iii) our REIT is "domestically controlled" (see "- Sales of Shares" above).

### **Medicare Tax**

Certain net investment income earned by U.S. citizens and resident aliens and certain estates and trusts is subject to a 3.8% Medicare tax. Net investment income includes, among other things, dividends on and capital gains from the sale or other disposition of shares of stock. Holders of shares of our stock should consult their tax advisors regarding the effect, if any, of this tax on their ownership and disposition of such shares.

### **Foreign Accounts**

Withholding taxes may apply to certain types of payments made to "foreign financial institutions" (as specially defined in the Code) and certain other non-U.S. entities. A withholding tax of 30% generally will be imposed on dividends on, and gross proceeds from the sale or other disposition of, our common stock paid to (a) a foreign financial institution unless such foreign financial institution agrees to verify, report and disclose its U.S. accountholders and meets certain other specified requirements or (b) a non-financial foreign entity that is the beneficial owner of the payment unless such entity certifies that it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner and such entity meets certain other specified requirements. Applicable Treasury Regulations and other IRS guidance provide that these rules generally will apply to payments of dividends on our common stock made after June 30, 2014 and generally will apply to payments of gross proceeds from a sale or other disposition of our common stock after December 31, 2016. We will not pay any additional amounts in respect of any amounts withheld. U.S. Holders and Non-U.S. Holders are encouraged to consult their tax advisors regarding the particular consequences to them of this legislation and guidance.

### **Other Tax Considerations**

*State, Local and Foreign Taxes.* We and you may be subject to state, local or foreign taxation in various jurisdictions, including those in which we transact business or you reside. Our and your state, local and foreign tax treatment may not conform to the U.S. federal income tax consequences discussed above. Any foreign taxes incurred by us would not pass through to U.S. Holders as a credit against their U.S. federal income tax liability. You should consult your own tax advisors and financial planners regarding the effect of state, local and foreign tax laws on an investment in our securities.

*Legislative Proposals.* You should recognize that our and your present U.S. federal income tax treatment may be modified by legislative, judicial or administrative actions at any time, which may be retroactive in effect. The rules dealing with U.S. federal income taxation are constantly under review by Congress, the IRS and the Treasury Department, and statutory changes as well as promulgation of new regulations, revisions to existing statutes, and revised interpretations of established concepts occur frequently. We are not currently aware of any pending legislation that would materially affect our or your taxation as described in this prospectus. You should, however, consult your advisors concerning the status of legislative proposals that may pertain to a purchase of our securities.



## PLAN OF DISTRIBUTION

### General

We are offering up to a maximum of 900,000 shares of our Series A Redeemable Preferred Stock and Warrants to purchase up to a maximum of 18,000,000 shares of our common stock in this offering through IAA, our dealer manager, on a "reasonable best efforts" basis, which means that the dealer manager is only required to use its good faith efforts and reasonable diligence to sell the Series A Redeemable Preferred Stock and Warrants and has no firm commitment or obligation to purchase any specific number or dollar amount of the Series A Redeemable Preferred Stock or Warrants. The Series A Redeemable Preferred Stock and Warrants will be sold in Units, with each Unit consisting of (i) one share of Series A Redeemable Preferred Stock with an initial stated value of \$1,000 per share, and (ii) one Warrant to purchase 20 shares of common stock, exercisable by the holder at an exercise price that is a 20% premium to the current market price per share of our common stock determined using the volume weighted average price of our common stock for the 20 trading days prior to the date of issuance of such Warrant, subject to a minimum exercise price of \$9.00 per share (subject to adjustment). Each Unit will be sold at a public offering price of \$1,000 per Unit. Units will not be issued or certificated. The shares of Series A Redeemable Preferred Stock and Warrants are immediately detachable and will be issued separately.

This offering is scheduled to terminate by October 11, 2015. Under rules promulgated by the SEC, in some circumstances we could continue this offering until as late as October 11, 2016, in our sole discretion. If we decide to continue this offering beyond October 11, 2015, we will supplement this prospectus accordingly. We may terminate this offering at anytime.

We will sell Units using two closing services provided by the DTC. The first service is DTC Settlement and the second service is DRS Settlement. Investors purchasing Units through DTC Settlement will coordinate with their registered representatives to pay the full purchase price for their Units by the settlement date, and such payments will not be held in escrow. Investors who are permitted to utilize the DRS Settlement method will complete and sign subscription agreements, which will be delivered to the escrow agent, UMB Bank N.A. In addition, such investors will pay the full purchase price for their Units to the escrow agent (as set forth in the subscription agreement), to be held in trust for the investors' benefit pending release to us as described herein. See "— Settlement Procedures" for a description of the closing procedures with respect to each of the closing methods.

IAA is a securities broker-dealer registered with the SEC and a member firm of FINRA. The principal business address of IAA is 300 South Orange Ave., Suite 1100, Orlando, Florida 32801.

### Compensation of Dealer Manager and Participating Broker-Dealers

We will pay to IAA selling commissions of up to 7% of the gross offering proceeds from this offering. We will also pay to IAA up to 3% of the gross offering proceeds from this offering as compensation for acting as dealer manager. As dealer manager, IAA, will manage, direct and supervise its associated persons who will be wholesalers in connection with the offering. The combined selling commission and dealer manager fee under this offering will not exceed FINRA's 10% cap. Our dealer manager will repay to the company any excess payments made to our dealer manager over FINRA's 10% cap if this offering is abruptly terminated before reaching the maximum amount of offering proceeds. We will not pay referral or similar fees to any accountants, attorneys or other persons in connection with the distribution of the Units.

We expect IAA to authorize other broker-dealers that are members of FINRA, which we refer to as participating broker-dealers, to sell our Units. IAA may reallow all or a portion of its selling commissions attributable to a participating broker-dealer. IAA may also reallow a portion of its dealer manager fee earned on the proceeds raised by a participating broker-dealer, to such participating broker-dealer as a non-accountable marketing or due diligence allowance. The amount of the reallowance to any participating broker-dealer will be determined by the dealer manager in its sole discretion.

We will not pay any selling commissions, but will pay dealer manager fees, in connection with the sale of Units to investors whose contracts for investment advisory and related brokerage services include a fixed or "wrap" fee feature. Investors may agree with their participating broker-dealers to reduce the amount of selling commissions payable with respect to the sale of their Units down to zero (i) if the investor has engaged the services of a registered investment advisor, or RIA, or other financial advisor who will be paid compensation for investment advisory services or other financial or investment advice, or (ii) if the investor is investing through a bank trust account with respect to which the investor has delegated the decision-making authority for investments made through the account to a bank trust department. The net proceeds to us will not be affected by reducing the commissions payable in connection with such sales. Neither our dealer manager nor its affiliates will directly or indirectly compensate any person engaged as an investment advisor or a bank trust department by a potential investor as an inducement for such investment advisor or bank trust department to advise favorably for an investment in Units.

## Dealer Manager and Participating Broker-Dealer Compensation

The table below sets forth the nature and estimated amount of all items viewed as "underwriting compensation" by FINRA, assuming we sell all the Units offered hereby.

Selling commissions (maximum)	\$	63,000,000
Dealer manager fee (maximum)	\$	27,000,000
Total	\$	90,000,000

Subject to the cap on issuer expenses described below, we also will reimburse IAA for reimbursements it may make to broker-dealers for bona fide due diligence expenses presented on detailed and itemized invoices.

We or our affiliates also may provide permissible forms of non-cash compensation to registered representatives of our dealer manager and the participating broker-dealers, including gifts. In no event shall such gifts exceed an aggregate value of \$100 per annum per participating salesperson, or be pre-conditioned on achievement of a sales target. The value of such items will be considered underwriting compensation in connection with this offering. The combined selling commissions, dealer manager fee and such non-cash compensation under this offering will not exceed FINRA's 10% cap. Our dealer manager will repay to the company any excess payments made to our dealer manager over FINRA's 10% cap if this offering is abruptly terminated before reaching the maximum amount of offering proceeds. The dealer manager's legal expenses will be paid by the dealer manager from the dealer manager fee.

To the extent permitted by law and our charter, we will indemnify the participating broker-dealers and IAA against certain civil liabilities, including certain liabilities arising under the Securities Act and liabilities arising from breaches of our representations and warranties contained in the dealer manager agreement. However, the SEC takes the position that indemnification against liabilities arising under the Securities Act is against public policy and is not enforceable.

We will reimburse our manager up to 1.5% of the gross offering proceeds of this offering and the Primary Series A Offering for actual expenses incurred in connection with this offering and the Primary Series A Offering. Any remaining amounts will be paid by our manager without reimbursement by us. The total amount of underwriting compensation, including selling commissions and dealer manager fees paid or reimbursed by us, our manager or any other source in connection with this offering, will not exceed FINRA's 10% cap. The aggregate of all organization and offering expenses under this offering and the Primary Series A Offering, excluding selling commissions and dealer manager fees, will be capped at 1.5% of the aggregate gross proceeds of this offering and the Primary Series A Offering.

We will be responsible for the expenses of issuance and distribution of the Units in this offering, including registration fees, printing expenses and the company's legal and accounting fees, which we estimate will total approximately \$13.5 million (excluding selling commissions and dealer manager fees).

The obligations of the dealer manager may be terminated in the event of a material adverse change in economic, political or financial conditions or upon the occurrence of certain other conditions specified in the dealer manager agreement.

## IPO Warrant

In connection with our initial public offering, or the IPO, we issued to IAA, in its capacity as financial advisor in the IPO, the IPO Warrant to purchase up to 150,000 shares of our common stock. If IAA, or any assignee or transferee, in whole or in part, of the IPO Warrant, exercises the IPO Warrant the purchase price for each share is \$12.50 per share (125% of the price per share of the common stock sold in the IPO). The IPO Warrant is currently exercisable and expires on March 31, 2015. Neither the IPO Warrant nor the underlying shares of common stock to be issued upon the exercise of the IPO Warrant were or will be registered under the Securities Act.

Under certain circumstances, the IPO Warrant also may be exercised on a "cashless" basis, which allows IAA to elect to pay the exercise price by surrendering the IPO Warrant for that number of shares of our common stock equal to the quotient obtained by dividing (x) the product of the number of shares of our common stock underlying the IPO Warrant, multiplied by the difference between the exercise price of the IPO Warrant and the "fair market value" (defined below) of the common stock by (y) the fair market value of the common stock. The "fair market value" shall mean the average reported last sale price of our common stock for the five trading days immediately preceding the date as of which the fair market value is being determined.

## Settlement Procedures

If your broker-dealer uses DTC Settlement, then you can place an order for the purchase of Units through your broker-dealer. A broker-dealer using this service will have an account with DTC in which your funds are placed to facilitate the anticipated monthly closing cycle. Orders will be executed by your broker-dealer electronically and you must coordinate with your registered representative to pay the full purchase price of the Units by the settlement date, which depends on when you place the order during the monthly settlement cycle and can be anywhere from one to 20 days after the date of your order. This purchase price will not be held in escrow.

Under special circumstances, you have the option to elect to use DRS Settlement. If you elect to use DRS Settlement, you should complete and sign a subscription agreement similar to the one filed as an exhibit to the registration statement of which this prospectus is a part, which is available from your registered representative and which will be delivered to the escrow agent. In connection with a DRS Settlement subscription, you should pay the full purchase price of the Units to the escrow agent as set forth in the subscription agreement. Subscribers may not withdraw funds from the escrow account. Subscriptions will be effective upon our acceptance, and we reserve the right to reject any subscription in whole or in part.

**Irrespective of whether you purchase Units using DTC Settlement or DRS Settlement, by accepting Units you will be deemed to have accepted the terms of our charter.**

Subject to compliance with Rule 15c2-4 of the Exchange Act, in connection with purchases using DRS Settlement, our dealer manager or the broker-dealers participating in this offering promptly will deposit any checks received from subscribers in an escrow account maintained by UMB Bank N.A. by the end of the next business day following receipt of the subscriber's subscription documents and check. In certain circumstances where the subscription review procedures are more lengthy than customary or pursuant to a participating broker-dealer's internal supervising review procedures, a subscriber's check will be transmitted by the end of the next business day following receipt by the review office of the dealer, which will then be promptly deposited by the end of the next business day following receipt by the review office. Any subscription payments received by the escrow agent will be deposited into a special non-interest bearing account in our name until such time as we have accepted or rejected the subscription and will be held in trust for your benefit, pending our acceptance of your subscription. Subscriptions will be accepted or rejected within 10 business days of receipt by us and, if rejected, all funds shall be returned to the rejected subscribers within 10 business days. If accepted, the funds will be transferred into our general account on our next closing date. You will receive a confirmation of your purchase subsequent to a closing. We generally will admit stockholders on a semimonthly basis.

Investors purchasing Units through DTC Settlement will coordinate with their registered representatives to pay the full purchase price for their Units by the settlement date, and such payments will not be held in escrow.

Each participating dealer who sells shares on our behalf has the responsibility to make every reasonable effort to determine that the purchase of shares is appropriate for the investor. In making this determination, the participating broker-dealer will rely on relevant information provided by the investor, including information as to the investor's age, investment objectives, investment experience, income, net worth, financial situation, other investments and other pertinent information. Each investor should be aware that the participating broker-dealer will be responsible for determining whether this investment is appropriate for your portfolio. However, you are required to represent and warrant in the subscription agreement or, if placing an order through your registered representative not through a subscription agreement in connection with a DTC Settlement, to the registered representative, that you have received a copy of this prospectus and have had sufficient time to review this prospectus. IAA and each participating broker-dealer shall maintain records of the information used to determine that an investment in the Units is suitable and appropriate for an investor. These records are required to be maintained for a period of at least six years.

## Minimum Purchase Requirements

For your initial investment in our Units, you must invest at least \$5,000, or such lesser amounts in the discretion of IAA, our dealer manager. In order to satisfy the minimum purchase requirement for retirement plans, unless otherwise prohibited by state law, a husband and wife may jointly contribute funds from their separate IRAs. You should note that an investment in the Units will not, in itself, create a retirement plan and that, in order to create a retirement plan, you must comply with all applicable provisions of the Code.

## LEGAL MATTERS

Certain legal matters regarding the validity of the securities offered hereby and certain matters of Maryland Law have been passed upon for us by Venable LLP. Certain U.S. federal income tax matters have been passed upon by Proskauer Rose LLP, which relies on the opinion of Venable LLP as to all matters of Maryland law.

## EXPERTS

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K of Preferred Apartment Communities, Inc. for the year ended December 31, 2012, the audited statement of revenue and certain operating expenses of Trail Creek II included on page F-2 of Preferred Apartment Communities, Inc.'s Current Report on Form 8-K/A dated June 14, 2013 and filed with the SEC on July 12, 2013, the audited combined statements of revenue and certain operating expenses of Lake Cameron, McNeil Ranch and Ashford Park included on page F-2 of Preferred Apartment Communities, Inc.'s Current Report on Form 8-K/A dated January 17, 2013 and filed with the SEC on April 3, 2013, and the audited combined statements of revenue and certain operating expenses of Oxford Rise and Oxford Summit included on page F-40 of Preferred Apartment Communities Inc.'s Pre-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-176604) have been so incorporated in reliance on the reports (which all of the reports on the statements of revenues and certain operating expenses express unqualified opinions and include an emphasis-of-matter paragraph referring to the purpose of those statements) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The statement of revenues and certain operating expenses of the Acquired Property (Oxford Trail) for the year ended December 31, 2010 incorporated in this prospectus by reference from Preferred Apartment Communities, Inc.'s Current Report on Form 8-K/A filed with the SEC on June 24, 2011 has been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (which report expresses an unmodified opinion and includes an emphasis-of-matter paragraph referring to the purpose of the statement) incorporated herein by reference, and is incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION ABOUT PREFERRED APARTMENT COMMUNITIES

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act.

You may request and obtain a copy of these filings, at no cost to you, by writing or telephoning us at the following address or telephone number:

3284 Northside Parkway NW, Suite 150  
Atlanta, Georgia 30327  
(770) 818-4100  
Attn: Leonard A. Silverstein

Our website at [www.pacapt.com](http://www.pacapt.com) contains additional information about us. The contents of the site are not incorporated by reference in, or otherwise a part of, this prospectus.

This prospectus is part of the registration statement and does not contain all the information included in the registration statement and all its exhibits, certificates and schedules. Whenever a reference is made in this prospectus to any contract or other document of ours, the reference may not be complete and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or document.

You may read and copy our registration statement and all its exhibits and schedules which we have filed with the SEC, at the Public Reference Room at 100 F. Street, N.E., Washington, D.C. 20549. This material, as well as copies of all other documents filed with the SEC, may be obtained from the Public Reference Section of the SEC, 100 F. Street, N.E., Washington D.C. 20549 upon payment of the fee prescribed by the SEC. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or e-mailing the SEC at [publicinfo@sec.gov](mailto:publicinfo@sec.gov). The SEC maintains a web site that contains reports, proxy statements, information statements and other information regarding registrants that file electronically with the SEC, including us. The address of this website is <http://www.sec.gov>.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We are incorporating certain information about us that we have filed with the SEC by reference in this prospectus, which means that we are disclosing important information to you by referring you to those documents. We are also incorporating by reference in this prospectus information that we file with the SEC after this date. The information we incorporate by reference is an important part of this prospectus, and later information that we file with the SEC automatically will update and supersede the information we have included in or incorporated into this prospectus.

We incorporate by reference the following documents we have filed, or may file, with the SEC:

- Our Annual Report on Form 10-K for the period ended December 31, 2012 filed with the SEC on March 15, 2013;
- Our Quarterly Report on Form 10-Q for the period ended March 31, 2013 filed with the SEC on May 15, 2013;
- Our Quarterly Report on Form 10-Q for the period ended June 30, 2013 filed with the SEC on August 12, 2013;
- Our Current Reports on Form 8-K and amendments thereto on Form 8-K/A, as applicable, filed with the SEC on June 24, 2011, January 4, 2013, January 23, 2013, January 28, 2013, January 29, 2013, April 2, 2013, April 3, 2013, April 4, 2013, April 5, 2013, May 6, 2013, May 9, 2013, May 16, 2013, June 20, 2013, June 28, 2013, July 12, 2013, August 28, 2013 and August 29, 2013;
- The description of capital stock contained in our Form 8-A, filed December 3, 2010, including any amendments or reports filed for the purpose of updating the description;
- The Combined Statements of Revenue and Certain Operating Expenses of Oxford Rise and Oxford Summit for the years ended December 31, 2010, 2009 and 2008 as provided on pages F-41 to F-43 of Pre-Effective Amendment No. 8 to the company's Registration Statement on Form S-11 (File No. 333-176604) filed with the SEC on November 17, 2011;
- The Combined Statements of Revenue and Certain Operating Expenses of Oxford Rise and Oxford Summit for the three months ended March 31, 2011 (unaudited) as provided on pages F-44 to F-46 of Pre-Effective Amendment No. 2 to the company's Registration Statement on Form S-11 (File No. 333-176604) filed with the SEC on November 17, 2011; and
- All documents filed by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, after the date of this prospectus and before termination of this offering.

We are not, however, incorporating by reference any documents or portions thereof, whether specifically listed above or filed in the future, that are not deemed "filed" with the SEC, including our compensation committee report and performance graph (included in any proxy statement) or any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K or certain exhibits furnished pursuant to Item 9.01 of Form 8-K.

The section entitled "Where You Can Find More Information About Preferred Apartment Communities" above describes how you can obtain or access any documents or information that we have incorporated by reference herein. The information relating to us contained in this prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus.

Upon written or oral request, we will provide, free of charge, to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any or all of the reports or documents that are incorporated by reference into this prospectus. Such written or oral requests should be made to:

Leonard A. Silverstein  
3284 Northside Parkway NW, Suite 150  
Atlanta, Georgia 30327  
Telephone Number: (770) 818-4100

In addition, such reports and documents may be found on our website at [www.pacapts.com](http://www.pacapts.com).

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **June 26, 2014**

**Preferred Apartment Communities, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**  
(State or other Jurisdiction  
of Incorporation)

**001-34995**  
(Commission File Number)

**27-1712193**  
(I.R.S. Employer  
Identification No.)

**3625 Cumberland Boulevard, Suite 1150, Atlanta, Georgia**  
(Address of Principal Executive Offices)

**30339**  
(Zip Code)

Registrant's telephone number, including area code: **(770) 818-4100**

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(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 5.07 Submission of Matters to a Vote of Security Holders.**

On June 26, 2014, Preferred Apartment Communities, Inc. (the "Company") reconvened and concluded its 2014 Annual Meeting of Stockholders (the "Annual Meeting").

As previously reported in the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission (the "SEC") on May 8, 2014, the Annual Meeting commenced on May 8, 2014 and the Company's stockholders voted on and approved both Proposal 1 – election of eight directors, and Proposal 3 – ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014.

The Company adjourned the Annual Meeting with respect to Proposal 2 - amending the Company's charter to add holder redemption options in the first two years of ownership of the Company's Series A Redeemable Preferred Stock, until June 26, 2014 to allow for additional time for stockholders to vote on Proposal 2. Proposal 2 is described in detail in the Company's definitive proxy statement filed with the SEC on March 21, 2014. The Articles of Amendment to the Company's charter (the "Articles of Amendment") described in Proposal 2 are filed as Exhibit 4.1 to this Current Report.

The Company's stockholders duly approved Proposal 2 at the reconvened Annual Meeting. The final voting results for Proposal 2 are as follows: 69.29% of the shares entitled to be cast for the Articles of Amendment voted in favor of Proposal 2. The following sets forth the breakdown of all shares voted on Proposal 2:

	Shares	% of Shares Voting on Proposal 2
For	10,626,082	98.52%
Against	99,600	0.92%
Abstain	60,229	0.56%

**Item 7.01 Regulation FD Disclosure**

The Company issued a press release on June 26, 2014, a copy of which is furnished as Exhibit 99.1 hereto.

This information, including Exhibit 99.1 attached hereto, is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section. This information, including the exhibits, shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any incorporation by reference language in any of those filings.



**Item 9.01 Financial Statements and Exhibits.**

(d) *Exhibits.*

4.1 Articles of Amendment Amending the Holder Redemption Options of the Company's Series A Redeemable Preferred Stock

99.1 Press Release dated June 26, 2014

## **SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**PREFERRED APARTMENT  
COMMUNITIES, INC.**  
(Registrant)

Date: June 26, 2014

By: /s/ John A. Williams  
*John A. Williams*  
*Chief Executive Officer*

**PREFERRED APARTMENT COMMUNITIES, INC.**

**ARTICLES OF AMENDMENT**

Preferred Apartment Communities, Inc., a Maryland corporation (the “Corporation”), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

**FIRST:** The charter of the Corporation (the “Charter”) is hereby amended by deleting existing Section 7(a) of the Articles Supplementary for the Series A Redeemable Preferred Stock, par value \$0.01 per share, of the Corporation in its entirety and substituting in lieu thereof a new Section 7(a) to read as follows:

7.     Redemption at the Option of a Holder.

(a)     Subject to the provisions in this Section 7, each holder of Series A Preferred Stock may deliver written notice to the Corporation requesting that the Corporation redeem each share of Series A Preferred Stock, held by such holder for cash or equal value of Common Stock (as set forth in Section 9(a)) as follows:

(i)     On and after the date of original issuance of the shares of Series A Preferred Stock to be redeemed, the holder will have the right to require the Corporation to redeem such shares of Series A Preferred Stock at a redemption price equal to the Stated Value, less a 13% redemption fee, plus all accumulated, accrued and unpaid dividends.

(ii)    On and after the first anniversary of the date of original issuance of the shares of Series A Preferred Stock to be redeemed, the holder will have the right to require the Corporation to redeem such shares of Series A Preferred Stock at a redemption price equal to the Stated Value, less a 10% redemption fee, plus all accumulated, accrued and unpaid dividends.

(iii)   On and after the third anniversary of the date of original issuance of the shares of Series A Preferred Stock to be redeemed, the holder thereof will have the right to require the Corporation to redeem such shares of Series A Preferred Stock at a redemption price equal to the Stated Value, less a 5% redemption fee, plus all accumulated, accrued and unpaid dividends.

(iv)    On and after the fourth anniversary of the date of original issuance of the shares of Series A Preferred Stock to be redeemed, the holder thereof will have the right to require the

Corporation to redeem such shares of Series A Preferred Stock at a redemption price equal to the Stated Value, less a 3% redemption fee, plus all accumulated, accrued and unpaid dividends.

(v) On and after the fifth anniversary of the date of original issuance of the shares of Series A Preferred Stock to be redeemed, the holder thereof will have the right to require the Corporation to redeem such shares of Series A Preferred Stock at a redemption price equal to the Stated Value, plus all accumulated, accrued and unpaid dividends.

SECOND: There has been no change in the authorized stock of the Corporation effected by the amendment to the Charter as set forth above.

THIRD: The amendment to the Charter as set forth above have been duly advised by the Board of Directors and approved by the stockholders of the Corporation entitled to vote thereon as required by law.

FOURTH: The undersigned acknowledges these Articles of Amendment to be the corporate act of the Corporation and as to all matters or facts required to be verified under oath, the undersigned acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be signed in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 26<sup>th</sup> day of June, 2014.

ATTEST:

PREFERRED APARTMENT COMMUNITIES, INC.

/s/ Jeffrey R. Sprain  
Name: Jeffrey R. Sprain  
Title: Secretary

By: /s/ John A. Williams (SEAL)  
Name: John A. Williams  
Title: Chief Executive Officer

## **Preferred Apartment Communities, Inc. Announces Expansion of Redemption Rights for its Series A Redeemable Preferred Stock**

Atlanta, GA, June 26, 2014

Preferred Apartment Communities, Inc. (NYSE MKT: APTS) (the "Company" or "Preferred Apartment Communities") today announced that at the Company's reconvened Annual Meeting of Stockholders its common stockholders have approved Proposal 2, a proposal to approve Articles of Amendment to the Company's charter to add holder redemption options in the first two years of ownership of the Company's Series A Redeemable Preferred Stock. As previously reported on May 8, 2014, the Company's stockholders approved both Proposal 1 — election of eight directors, and Proposal 3 — ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014.

"We are extremely pleased that our common stockholders have overwhelmingly approved expanding the redemption rights of our Series A Redeemable Preferred Stock currently being offered to the public by eliminating the initial two-year redemption holding period. Of the shares voting on Proposal 2, 98.5% voted in favor of this proposal." Mr. Williams added, "The concept of including holder redemption options in the first two years of ownership of our Series A Redeemable Preferred Stock was created in response to feedback received from the financial advisor community and their clients, and applies to all of our outstanding Series A Redeemable Preferred Stock. We believe this change further enhances the value of our preferred stock as an investment vehicle and financial planning tool for our investors."

### **About Preferred Apartment Communities, Inc.**

Preferred Apartment Communities, Inc. is a Maryland corporation formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and we may make mezzanine loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties. As a secondary strategy, we also may acquire or originate senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 10% of our total assets in other real estate related investments, as determined by our manager as appropriate for us. Preferred Apartment Communities, Inc. has elected to be taxed as a real estate investment trust under the Internal Revenue Code of 1986, as amended, commencing with its tax year ended December 31, 2011.

### ***Forward-Looking Statements***

*This press release may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. As a general matter, forward-looking statements reflect our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. These statements may be identified by the use of forward-looking*

*terminology such as "may," "will," "expects," "should," "plans," "estimates," "anticipates," "projects," "intends," "believes," "outlook" and similar expressions.*

*The forward-looking statements contained in this press release and in our Supplemental Financial Data are based upon our historical performance, current plans, estimates, expectations and other factors we believe are appropriate under the circumstances. The inclusion of this forward-looking information is inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: our business and investment strategy; our projected operating results; estimates relating to our ability to make distributions to our stockholders in the future; availability of qualified personnel; local and national market conditions and trends in our industry; demand for and lease-up of apartment homes, supply of competitive housing product, and other economic conditions; availability of debt and/or equity financing and availability on favorable terms; changes in our asset values; our ability to maintain our qualification as a REIT for U.S. federal income tax purposes; and economic trends and economic recoveries.*

*Additional discussions of risks, uncertainties and certain other important information appear in our publicly available filings made and to be made with the SEC, including our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed with the SEC on May 12, 2014, and our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 17, 2014, all under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." All information in this release is as of June 26, 2014. The Company undertakes no obligation to update forward-looking statements, including its projected operating results. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company may, in its discretion, provide information in future public announcements regarding its outlook that may be of interest to the investment community.*

## **Additional Information**

The SEC has declared effective the registration statement (including prospectus) filed by the Company for each of the offerings to which this communication may relate. Before you invest, you should read the final prospectus, and any prospectus supplements, forming a part of the registration statement and other documents the Company has filed with the SEC for more complete information about the Company and the offering to which this communication may relate. In particular, you should carefully read the risk factors described in the final prospectus and in any related prospectus supplement and in the documents incorporated by reference in the final prospectus and any related prospectus supplement to which this communication may relate. You may get these documents for free by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, the Company or its dealer manager, International Assets Advisory, LLC, with respect to the Follow-On Offering, or its sales agent, MLV & Co. LLC, with respect to the ATM Offering, will arrange to send you a prospectus if you request it by calling Leonard A. Silverstein at (770) 818-4100, 3625 Cumberland Boulevard, Suite 1150, Atlanta, Georgia 30339. In addition, you may request a copy

of the Follow-On Offering prospectus by calling the dealer manager at (855) 330-6594 and the ATM Offering prospectus by calling the sales agent at (888) 344-2272.

The final prospectus for the Follow-On Offering, dated October 11, 2013, can be accessed through the following link:

[http://www .sec.gov/Archives/edgar/data/1481832/000148183213000128/  
a424b3prospectus900m.htm](http://www.sec.gov/Archives/edgar/data/1481832/000148183213000128/a424b3prospectus900m.htm)

The final prospectus and prospectus supplement for the ATM Offering, dated July 19, 2013 and February 28, 2014, respectively, can be accessed through the following link:

[http://www .sec.gov/Archives/edgar/data/1481832/000148183214000015/  
prospectussupplementatm-20.htm](http://www.sec.gov/Archives/edgar/data/1481832/000148183214000015/prospectussupplementatm-20.htm)

**SOURCE: Preferred Apartment Communities, Inc.**

Preferred Apartment Communities, Inc.  
Leonard A. Silverstein 770-818-4147  
President and Chief Operating Officer  
Email: lsilverstein@pacapts.com



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# PREFERRED APARTMENT COMMUNITIES

**Maximum of 900,000 Units consisting of 900,000 Shares of Series A Redeemable Preferred Stock  
and Warrants to Purchase 18,000,000 Shares of Common Stock**

**(Liquidation Preference \$1,000 per share of Series A Redeemable Preferred Stock  
(subject to adjustment))**

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## PROSPECTUS

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**International Assets Advisory, LLC**  
as Dealer Manager

**October 11, 2013**

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