BERKSHIRE INCOME REALTY INC
Form 10-K
March 28, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File number 001-31659

Berkshire Income Realty, Inc.

State of Incorporation - Maryland

Internal Revenue Service Employer Identification No. 32-0024337

One Beacon Street, Boston, Massachusetts 02108

(617) 523-7722

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

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

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

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

Yes [ ] No [X]

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

Yes [ ] No [X]

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

Yes [X] No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

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

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

Yes[X] No [ ]

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

There were 1,406,196 shares of Class B common stock outstanding as of March 28, 2007.

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

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SPECIAL NOTE REGARD FORWARD-LOOKING STATEMENTS

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

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

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

PART I

ITEM 1. BUSINESS

Executive Summary

2006 was another year of successful operations for Berkshire Income Realty, Inc. (the Company or BIR). BIR expanded its property holdings with the acquisition of an additional three properties in transactions that approximated $70,542,000 of aggregate purchase price at the time of purchase, while selling its interest in Marina Mile, a multifamily venture. The Company funded an additional $10,641,000 of its total commitment of capital of $23,400,000 in the Berkshire Multifamily Value Fund, a limited partnership, an affiliate of the Company, bringing the total that has been invested as of year end to $12,181,301, or approximately 52%.

As in previous years, the Company continued to monitor the debt markets and took advantage of favorable market conditions by fixing interest rates on more than $170,053,000 of both new and refinanced mortgages. Overall occupancy trends at the Same Portfolio Properties (properties acquired or placed in service prior to January 1, 2005) continue to be positive and the Company s strategy of implementing renovation opportunities at various properties within the portfolio continued to provide positive financial results during 2006.

The Company received an unsolicited offer for Berkshires at Marina Mile Apartments, one of its Florida properties owned through a multifamily venture with a partner. The partners of the multifamily venture accepted the offer and sold the underlying property owned by the venture. The Company s share of the proceeds from the sale was immediately reinvested in the purchase of substitute qualifying property. Chisholm Place and Briarwood Village Apartments were acquired using the Company s proceeds from the sale of the multifamily venture property. Finally, the third multifamily apartment community acquired during the year represented entry into the Atlanta, Georgia market, a new market for BIR in 2006.

During 2006 the Company continued to aggressively finance and refinance its portfolio to minimize the effect of rising mortgage interest rates and maximize the cash available for capital investments. Fixed rate first mortgages of $54,737,000 were financed on the newly acquired and one of the previously acquired properties at an average interest rate of approximately 6.2%. Fixed rate supplemental mortgages of $16,116,000 were obtained on a group of four existing properties at an average interest rate of approximately 6.44% and the Company refinanced approximately $69,000,000 of outstanding debt with new fixed rate first mortgage debt of $99,200,000 at 6.10%.

During 2006, occupancy levels remained stable in the low 90% range which was relatively consistent with average levels from the prior year at the Same Portfolio Properties. Occupancy levels benefit from the Company s strategy for setting rental rates, which generally tries to balance occupancy with rental increases to achieve market level occupancy rates. In periods of market softness, BIR will offer short-term rental concessions to new and renewing tenants to maintain occupancy without producing significant fluctuations in market rental rates. This strategy allows the Company to react more quickly to temporary changes in market conditions without obligating the Company to long-term commitments of lowered rental rates.

The substantial renovation of various properties continued to yield positive financial results during 2006. Seasons of Laurel in Maryland, a renovation project that began in 2003, was completed during the year and continued to meet the Company s expectations with respect to targeted returns on the capital invested in the project. Additionally, a renovation project at the Yorktowne property, also located in Maryland, was completed during the year with similar positive financial results. The retrofit of Hannibal Grove in Maryland to provide in unit washer and dryer connections and renovation of kitchens and bathrooms is progressing, as well as other major projects approved and implemented during 2005 and 2006 at the Brompton and Chisholm Place properties, both located in Texas.

In 2007, the Company will continue to consider the acquisition of properties through sourcing strategies that include market, non-market/seller direct, bank and lender owned real estate and foreclosure auctions. The Company has invested all funds currently available and will continue to invest additional funds, if any, as they become available in both new acquisitions and the renovation of established properties. The Company currently anticipates selling certain of the properties in the portfolio and expects to re-invest the proceeds of any of the sales into qualified replacement properties or the redevelopment of existing properties.

Business

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

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

Simultaneously with the completion of the Offering on April 4, 2003, KRF Company, L.L.C. (KRF Company), an affiliate of the Company, contributed its ownership interests in five multifamily apartment communities (the Properties) to our operating partnership, Berkshire Income Realty OP, L.P. (the Operating Partnership), in exchange for common limited partner interests in the Operating Partnership. KRF Company then contributed an aggregate of $1,283,213, or 1% of the fair value of the total net assets of the Operating Partnership, to the Company, which together with the $100 contributed prior to the Offering, resulted in the issuance of 1,283,313 shares of common stock of the Company to KRF Company. This amount was contributed by the Company to its wholly

owned subsidiary, BIR GP, L.L.C., who then contributed the cash to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership.

The Operating Partnership is the successor to the Berkshire Income Realty Predecessor Group (the Predecessor). The merger of the separate businesses into the Company and the Operating Partnership was considered a purchase business combination with the Predecessor being the accounting acquirer. Accordingly, the acquisition or contribution of the various Predecessor interests was accounted for at the interests historical cost. The acquisition of the Interests was accounted for using purchase accounting based upon the fair value of the Interests acquired. Certain minority ownership interests in three of the contributed multifamily properties are owned by an unaffiliated third party. As the minority interests did not change in connection with the completion of the Offering, the accounting for these interests is based on existing carrying amounts.

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

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

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

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

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

On May 30, 2003, the Operating Partnership and its wholly owned subsidiary, BIR McNab Sub, L.L.C., a newly formed Delaware limited liability Company, acquired all of the outstanding limited and general partner units of McNab KC3 Limited Partnership (McNab) from affiliates of the Company. The acquisition was structured as a contribution of units from an affiliate of the Company in exchange for the issuance by the Operating Partnership of 5,000 common limited partner units valued at $10.00 per unit. McNab is the fee simple owner of a 276-unit multifamily apartment community located in Pompano, Florida that is referred to as Windward Lakes Apartments. The former general and limited partners of McNab are affiliates of the Company, namely George and Douglas Krupp. George Krupp is former Chairman if the Board and Douglas Krupp is the current Chairman of the Board. The acquisition was approved by the audit committee of the Board, which is composed solely of directors who are independent under applicable rules and regulations of the SEC and American Stock Exchange. At the time of the contribution, control of both the Company and McNab rested with George and Douglas Krupp via their 100% ownership interest in the common stock of the Company through KRF Company s ownership of such shares and their 100% indirect ownership interest in the general and limited partnership units of McNab. Therefore, the acquisition or contribution of the general and limited partnership units of McNab by the Operating Partnership in exchange for the issuance by the Operating Partnership of common limited partner units is considered a transfer of net assets between entities under common control. As discussed below, Windward Lakes Apartments was sold on June 22, 2005.

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

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

On January 28, 2004, the Operating Partnership, through its newly formed and wholly owned subsidiary Marina Mile L.L.C., purchased Pond Apple Creek Apartments (subsequently renamed The Berkshires at Marina Mile (Marina Mile)), a 306-unit multifamily apartment community located in Fort Lauderdale, Florida, from Pond Apple Creek Associates Limited Partnership. The seller was an unaffiliated third party. The purchase and sale agreement, as amended, was agreed upon through arms-length negotiations and provided for the purchase price of $23,000,000 to be paid in cash. The purchase price was funded with available cash and new first mortgage financing. Effective May 1, 2004, the Company consummated a multifamily venture relationship (the Multifamily Venture) with an unaffiliated third party (the Venture Partner) whereby each of the parties to the agreement agreed to participate, on a pro rata basis, in the economic benefits of Marina Mile. Under the terms of the limited liability company agreement governing the Multifamily Venture, the Venture Partner contributed, in cash, 65% of the total Multifamily Venture equity in exchange for a 65% interest in the newly formed entity, JV Marina Mile, L.L.C. (the L.L.C.). The Operating Partnership contributed its interest in Marina Mile, L.L.C., the fee simple owner of the property, in exchange for a 35% interest in the L.L.C. and a cash distribution representing a return of capital of approximately $3,594,693 net of $387,236 of additional capital invested by the Operating Partnership. Both parties received proportional distributions of available cash up to an effective 10% internal rate of return on each party s capital (the Preferred Return). After payment of the Preferred Return and the return of each party s capital contribution, the Operating Partnership is entitled to, in addition to its 35% pro rata share, additional distributions equal to approximately 30% of the distributions otherwise payable to the Venture Partner. The Operating Partnership is the managing member of the L.L.C. The Company evaluated its investment in the Multifamily Venture and concluded that the investment did not fall under the requirements of FIN 46R; therefore the Company accounted for the investment under Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9) as an equity method investment. As discussed below Marina Mile was sold on April 18, 2006.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On July 1, 2005, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Lakeridge, L.L.C., consummated the acquisition of 100% of the fee simple interest of Lake Ridge Apartments, a 282 unit multifamily apartment community located in Hampton, Virginia, from an unaffiliated third party. The purchase price of $34,344,000 was paid in part from an escrow account administered by a qualified intermediary institution in connection with the prior sale of a qualified property structured to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended, and the balance was paid from borrowings under the revolving credit facility available to the Company from an affiliate of the Company.

The borrowings under the revolving credit facility were repaid subsequent to the closing on Lakeridge Apartments with proceeds from two new mortgages totaling $25,650,000 which were obtained by the Company and are collateralized by the Lakeridge Apartments property. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement.

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

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

As of December 31, 2006, the transaction and the purchase price allocation are subject to final adjustment pursuant to an outstanding commitment under the agreement for the seller to build 18 additional apartment units and 48 garages on the property. The Company is currently party to a legal proceeding initiated with the seller/developer from whom the Company acquired a property in 2005. The dispute involves the interpretation of certain provisions of the purchase and sales agreement related to post acquisition construction activities. The Company intends to vigorously defend its position in regards to the litigation.

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

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

Management has evaluated these restrictions and believes that they will not materially impact the Company. Management believes the Company had invested substantially all of its available capital, as of the date of the subscription agreement, and due to the Company s ability to consummate 1031 Exchanges with existing properties, will not be significantly restricted in its ability to appropriately manage its investments. As of December 31, 2006, BVF has made, and the Company has funded, capital calls totaling $12,181,301, or 52% of its total commitment.

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

On April 18, 2006, the Operating Partnership completed the sale of 100% of its interest in The Berkshires at Marina Mile property (Marina Mile) in Fort Lauderdale, Florida. The Company s share of the proceeds from the sale of Marina Mile were deposited in an escrow account with a qualified institution pursuant to a transaction structured to comply with a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The Company reinvested the proceeds from the sale of its interests in Marina Mile in the acquisitions of Chisholm Place and Briarwood Village Apartments, which the Company completed the acquisition of on June 28, 2006 and August 30, 2006, respectively. The operating results of Marina Mile have not been presented in the consolidated statement of operations as discontinued operations in accordance with FAS 144 Accounting for the Impairment or Disposal of Long Lived Assets as those results were not previously reported as part of continuing operations.

On June 28, 2006, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Chisholm Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Chisholm Place Apartments, a 142 unit multifamily apartment community located in Plano, Texas, from an unaffiliated third party. The purchase price of $9,625,000 was paid from an escrow account administered by a qualified intermediary institution in connection with the prior sale of a qualified property structured to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement. On August 1, 2006, the Company closed on $6,953,000 of first mortgage debt at a fixed interest rate of 6.25% for ten years collateralized by the Chisholm Place property.

On August 30, 2006, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Briarwood Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Briarwood Village Apartments, a 342 unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party. The purchase price of $13,816,700 was paid by the assumption of the existing mortgage debt on the property at the time of closing, cash from the buyer, and cash from the remaining balance of an escrow account administered by a qualified intermediary institution in connection with the prior sale of a qualified property structured to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement. Pursuant to the provisions of SFAS No. 141, Business Combinations , the assumed mortgage was recorded at fair value, based on the present value of the amounts to be paid under the obligations. The fair market value of the debt assumed on Briarwood was $8,958,818.

On December 6, 2006, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Lenox, L.L.C., consummated the acquisition of 100% of the fee simple interest of The Standard at Lenox Park Apartments, a 375-unit multifamily apartment community located in the Buckhead section of Atlanta, Georgia, from an unaffiliated third party. The purchase price was $47,100,000, and was subject to normal operating prorations, apportionments and adjustments as provided for in the purchase and sale agreement. The purchase price was paid with a combination of proceeds from new first mortgage debt of $35,000,000, which is collateralized by the property, and cash from available working capital. The loan is an unsecured first mortgage note with a fixed interest rate of 5.80% and a term of 10 years of which interest only payments are due for the first 60 months of the loan.

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

		Total
Multifamily apartment communities	$	47,060,403
In-place leases and tenant relationships		592,687
Replacement reserve accounts		5,000,000
Escrows		76,553
Deferred expenses		355,185
Prepaid expenses and other assets		58,686
Deferred revenue and other liabilities		(59,894)
New first mortgage		(35,000,000)
Cash paid	$	18,083,620

Subsequent to year end, on March 2, 2007, the Operating Partnership and its newly formed and wholly owned subsidiary, BIR Hampton L.L.C., consummated the acquisition of 100% of the outstanding interests of Hampton Apartments, LLC; the fee simple owner of Hampton House Apartments, a 222 unit multifamily high-rise apartment building located Towson, Maryland, from an unaffiliated third party. The purchase price was $20,500,000, subject to normal operating pro rations. The purchase price and related

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closing costs were funded through a $20,000,000 advance from the revolving credit facility available from an affiliate and available cash. The Company is currently pursuing financing to be secured by the property and anticipates closing on the first mortgage debt in the second quarter of 2007 at which time the proceeds will be used to repay the outstanding advance on the revolving credit facility. The acquisition of Hampton House is intended to be the qualified replacement property in connection with a possible future sale of a property structured to comply with the requirements of a reverse Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended.

The Company owns parcels of land held for development at certain of its multifamily apartment communities, which it currently intends to develop. Development of the available land is likely to include additional apartment units as well as other amenities such as private garages that would be available for lease by tenants for an additional fee. The Company is currently finalizing plans for one of the parcels and currently anticipates starting construction on the project in the second quarter of 2007. The Company continues to evaluate the remaining development projects and has not committed to the construction of those projects as of December 31, 2006.

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

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

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

ITEM 1A. RISK FACTORS

RISK FACTORS

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

Risk Factors Relating to the Company

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

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

Certain Federal Income Tax Risks

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

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

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

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

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

REIT distribution requirements could adversely affect our liquidity.

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

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

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

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

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

Risk Factors Relating to Our Business

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

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

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

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

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

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

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

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

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

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

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

One or more of our properties that we acquire may be owned through tenancies-in-common or by venture partnerships between us and the seller of the property, an independent third party or another investment entity sponsored by our affiliates. Our investment through tenancies-in-common or in venture partnerships that own properties may, under certain circumstances, involve risks that would not otherwise be present. For example, our tenant-in-common or venture partner may experience financial difficulties and may at any

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time have economic or business interests or goals that are inconsistent with our economic or business interests or our policies or goals. In addition, actions by, or litigation involving, any tenant-in-common or venture partner might subject the property owned through a tenancy-in-common or by the venture to liabilities in excess of those contemplated by the terms of the tenant-in-common or venture agreement. Also, there is a risk of impasse between the parties since generally either party may disagree with a proposed transaction involving the property owned through a tenancy-in-common or venture and impede any proposed action, including the sale or other disposition of the property.

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

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

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

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

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

Under our current investment policies, we may not incur indebtedness if by doing so our ratio of debt to total assets, at fair market value, exceeds 75%. However, we may reevaluate our borrowing policies from time to time, and the Board may change our investment policies without the consent of our stockholders. At December 31, 2006 and 2005, our ratio of debt to total assets, at fair market value, was 60.71% and 60.77%, respectively.

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

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

Additionally, the policy specifications of our insurance coverage on our properties include deductibles related to an insured loss. The deductibles applicable to an insured loss caused by Named Storms , as defined in the insurance policy, which are usually in the form of a hurricane, at certain of the properties we operate, are higher than deductibles for other insured losses covered by the policy. Specifically, the deductibles for Named Storms are based on a percentage of the insured property value with a specific minimum amount. Both the percentage and the related minimum amounts are higher than the standard policy deductibles for insured losses caused by a Named Storm in certain higher risk counties of certain states, including Florida, North Carolina, Texas and Virginia and

even higher amounts for insured losses caused by a Named Storm in the counties of Dade, Broward and Palm Beach, Florida. In addition to the higher deductibles, coverage also differs as some types of losses are specifically excluded when the cause of the loss is a Named Storm . Examples of items excluded from coverage include fencing and landscape items, such as trees. Losses resulting from Named Storms" could adversely affect us.

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

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

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

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

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

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

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

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

Our multifamily residential properties must comply with Title II of the Americans with Disabilities Act (the ADA) to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the ADA. Compliance with the ADA requires removal of structural barriers to handicapped access in certain public areas of our properties where such removal is "readily achievable." The ADA does not, however, consider residential properties to be public accommodations or commercial facilities,

except to the extent portions of such facilities, such as a leasing office, are open to the public. We believe that our properties comply in all material respects with all current requirements under the ADA and applicable state laws. Noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The cost of defending against any claims of liability under the ADA or the payment of any fines or damages could adversely affect our financial condition.

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

We face risks associated with property acquisitions.

We intend to acquire additional properties in the future, either directly or by acquiring entities that own properties. These acquisition activities are subject to many risks. We may acquire properties or entities that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes, or other legal requirements. In each case, our acquisition may be without any recourse, or with only limited recourse, with respect to unknown liabilities or conditions. As a result, if any liability were asserted against us relating to those properties or entities, or if any adverse condition existed with respect to the properties or entities, we might have to pay substantial sums to settle or cure it, which could adversely affect our cash flow and operating results. However, some of these liabilities may be covered by insurance. In addition, we intend to perform customary due diligence regarding each property or entity we acquire. We also intend to obtain appropriate representations and indemnities from the sellers of the properties or entities we acquire, although it is possible that the sellers may not have the resources to satisfy their indemnification obligations if a liability arises. Unknown liabilities to third parties with respect to properties or entities acquired might include: liabilities for clean-up of undisclosed environmental contamination; claims by tenants, vendors or other persons dealing with the former owners of the properties; liabilities incurred in the ordinary course of business; and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

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

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

Risk Factors Relating to Our Management

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

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

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

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

Through December 31, 2004, our property manager, an affiliate of Berkshire Advisor, in most cases provided on-site management services for our properties. Our directors who are affiliates of our property manager might be subject to conflicts of interest in their dealings with our property manager. In order to mitigate these conflicts, the renegotiation, renewal or termination of the property management agreements requires the approval of the audit committee of the Board (which committee is comprised of our three directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange). As of January 1, 2005, Berkshire Advisor assumed the role of property manager for our properties, under the same terms as the agreements with the prior property manager.

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A summary of the multifamily apartment communities in which the Company had an interest as of December 31, 2006 is presented below. Schedule III included in Item 15 to this report contains additional detailed information with respect to individual properties consolidated by the Company in the financial statements contained herein and is incorporated by reference herein.

		Year	Total	Ownership	2006
Description	Location	Acquired	Units	Interest	Occupancy (1)
Century	Cockeysville, Maryland	1984	468	75.82%	96.80%
Dorsey s Forge	Columbia, Maryland	1983	251	91.38%	94.14%
Hannibal Grove	Columbia, Maryland	1983	316	91.38%	91.03%
Seasons of Laurel	Laurel, Maryland	1985	1,088	100.00%	89.69%
Walden Pond/Gables	Houston, Texas	1983/2003	556	100.00%	94.93%
St. Marin/Karrington	Coppell, Texas	2003	600	100.00%	95.07%
Laurel Woods	Austin, Texas	2004	150	100.00%	96.38%
Bear Creek	Dallas, Texas	2004	152	100.00%	95.07%
Bridgewater	Hampton, Virginia	2004	216	100.00%	97.18%
Trellis	Newport News, Virginia	2004	176	100.00%	93.72%
Arboretum	Newport News, Virginia	2004	184	100.00%	96.75%
Silver Hill	Newport News, Virginia	2004	153	100.00%	98.13%
Arrowhead	Palatine, Illinois	2004	200	58.00%	95.03%
Moorings	Roselle, Illinois	2004	216	58.00%	95.78%
Country Place I	Burtonsville, Maryland	2004	192	58.00%	97.54%
Country Place II	Burtonsville, Maryland	2004	120	58.00%	97.54%
Yorktowne	Millersville, Maryland	2004	216	100.00%	87.23%
Westchester West	Silver Spring, Maryland	2005	345	100.00%	96.26%
Berkshires on Brompton	Houston, Texas	2005	362	100.00%	71.35%
Berkshires at Westchase	Houston, Texas	2005	324	100.00%	93.63%
Riverbirch	Charlotte, North Carolina	2005	210	100.00%	90.56%
Lakeridge	Hampton, Virginia	2005	282	100.00%	98.47%
Berkshires at Citrus Park	Tampa, Florida	2005	264	100.00%	96.13%
Briarwood Village	Houston, Texas	2006	342	100.00%	83.92%
Chisholm Place	Dallas, Texas	2006	142	100.00%	87.78%
Standard at Lenox Park	Atlanta, Georgia	2006	375	100.00%	92.80%
Total			7,900		

All of the properties in the above table are encumbered by mortgages as of December 31, 2006.

During 2006, the Company became subject to a franchise tax in North Carolina. As of January 1, 2007, the Company will become subject to the revised franchise tax calculation in Texas.

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

ITEM 3. LEGAL PROCEEDINGS

The Company is currently party to a legal proceeding initiated by a seller/developer from whom the Company acquired a property in 2005. The dispute involves the interpretation of certain provisions of the purchase and sales agreement related to post acquisition construction activities. The Company intends to vigorously defend its position in regards to the litigation.

The Company and our properties are not subject to any other material pending legal proceedings and we are not aware of any such proceedings contemplated by governmental authorities.

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

None.

PART II

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

There is no established public trading market for the outstanding common stock of the Company, the majority of which is held by KRF Company. As of March 28, 2007, there were approximately 0 and 3 holders of shares of our Class A Common Stock and Class B Common Stock, respectively. During 2006, the Company declared a cash dividend on its common stock for each of the quarters ended March 31, June 30, September 30, and December 31, 2006 in the per share amount of $0.016996. The Company also declared a special dividend in November in the per share amount of $0.135970. The Company plans to declare cash dividends on its outstanding common stock in the future.

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

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

During the period October 1, 2006 to December 31, 2006, no purchases of any of the Company's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, were made by or on behalf of the Company or any "affiliated purchaser."

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data regarding the financial position and operating results of the Company. See Management s Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc. for a discussion of the entities that comprise the Company. The following financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of Berkshire Income Realty, Inc. and the financial statements of the Company (including the related notes contained therein). See the Index to Financial Statements and Financial Statement Schedule on page 70 to this report.

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

	Berkshire Income Realty, Inc. December 31, Company 2006	Company 2005	Company 2004	Company 2003	Predecessor 2002
Operating Data:					
Total Revenue	$ 76,809,924	$ 63,991,266	$ 37,541,446	$ 28,581,412	$ 28,359,756
Equity in income of Mortgage Funds	-	3,040,732	3,392,585	6,720,746	-
Depreciation	27,229,072	21,107,820	10,823,256	7,508,833	5,877,594
Income (loss) before minority interest in properties, equity in loss of Multifamily Venture and Limited Partnership, equity in income of Mortgage Funds, minority common interest in Operating Partnership, discontinued operations and gain on transfer of property to Multifamily Venture	(15,351,743)	(13,391,978)	(7,119,015)	(1,911,768)	1,557,596
Net income (loss) from continuing operations	(19,996,781)	(17,722,083)	(7,911,187)	3,933,385	37,596
Income (loss) from discontinued operations	-	24,110,830	(133,168)	(291,125)	-
Net income (loss)	(19,996,781)	6,388,747	(7,811,651)	3,642,260	37,596
Net loss available to common shareholders	(26,697,574)	(312,049)	(14,512,465)	(1,308,998)	-
Net income (loss) from continuing operations per common share, basic and diluted	$ (18.99)	$ (18.10)	$ (11.39)	$ (1.07)	$ -
Net income (loss) from discontinued operations per common share, basic and diluted	$ -	$ 17.87	$ (0.10)	$ (0.31)	$ -
Net loss per common share basic and diluted	$ (18.99)	$ (0.23)	$ (11.31)	$ (1.38)	$ -
Weighted average common shares outstanding - basic and diluted	1,406,196	1,348,963	1,283,313	948,733	-
Cash dividends declared on common OP Units and Shares	$ 12,000,000	$ 7,500,000	$ 1,000,000	$ 750,000	$ -
Balance Sheet Data, at year end:					
Real estate, before accumulated depreciation	$ 594,268,122	$ 510,957,049	$ 374,508,276	$ 247,832,637	$ 189,055,522
Real estate, after accumulated depreciation	445,597,599	384,046,110	260,554,434	145,222,916	94,343,424
Cash and cash equivalents	15,393,249	22,134,658	31,913,045	42,145,947	4,852,257
Total assets	492,700,178	425,661,892	321,105,499	238,875,093	105,472,654
Total long term obligations	469,378,510	370,521,700	268,716,955	184,471,204	122,318,027
Minority interest in properties	-	7,003,446	7,422,481	-	-
Stockholders equity (deficit)	5,939,014	32,923,388	33,235,183	47,757,319	(22,526,662)
Other Data:					
Total multifamily apartment communities (at end of year)	26	24	18	7	6
Total apartment units (at end of year)	7,900	7,347	5,836	3,555	2,815
Funds from operations (1)	$ 6,633,511	$ 8,203,365	$ 6,532,120	$ 10,623,663	$ 5,903,432
	$ 15,040,646	$ 14,115,221	$ 9,638,906	$ 7,809,045	$ 7,552,654

Cash flows (used in) provided by operating activities					
Cash flows used in investing activities	(83,302,562)	(109,371,965)	(76,698,381)	(24,189,632)	(3,497,694)
Cash flows (used in) provided by financing activities	61,520,507	85,478,357	56,826,573	53,674,277	(3,597,813)

The Company did not have common shares or Operating Partnership units and shares outstanding for the year ended December 31, 2002.

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

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

The following table presents a reconciliation of net income (loss) to FFO for the years ended December 31, 2006, 2005 and 2004:

	December 31, 2006	2005	2004
Net income (loss)	$ (19,996,781)	$ 6,388,747	$ (7,811,651)
Add:			
Depreciation of real property	22,007,364	16,727,642	8,964,346
Depreciation of real property included in results of discontinued operations	-	388,541	-
Minority interest in Operating Partnership	11,713,200	7,320,750	976,100
Minority interest in properties	1,555,595	-	2,932,572
Amortization of acquired in-place leases and tenant relationships	1,167,869	3,321,236	1,603,612
Equity in loss of Multifamily Venture	-	133,150	276,085
Funds from operations of Multifamily Venture	-	230,445	-
Less:			
Minority interest in properties		(83,063)	-
Equity in income of Multifamily Venture	(8,623,757)	-	-
Funds from operations of Multifamily Venture	(250,674)	-	(1,260)
Minority interest in properties share of funds from operations	(939,306)	(1,008,978)	(174,980)
Gain on transfer of property to Multifamily Venture	-	-	(232,704)
Gain on disposition of real estate assets	-	(25,215,105)	-
Funds from Operations	$ 6,633,510	$ 8,203,365	$ 6,532,120

The decrease is FFO is due mainly to a component of net income (loss), which decreased in the year ended December 31, 2006 from the year ended December 31, 2005. Equity in income of Mortgage Funds was $0 for the year ended December 31, 2006 as compared to $3,040,732 in the year ended December 31, 2005. The reduction in equity income from the Mortgage Funds was due to the pay down of all of the underlying mortgages held by the Mortgage Funds as of December 31, 2005.

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

Certain statements contained in this report, including information with respect to our future business plans, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements, subject to a number of risks and uncertainties that could cause actual results to differ significantly from those described in this report. These forward-looking statements include statements regarding, among other things, our business strategy and operations, future expansion plans, future prospects, financial position, anticipated revenues or losses and projected costs and objectives of management. Without limiting the foregoing, the words may, will, should, could, expects, plans, anticipates, believes, estimates, potential, or continue or the negative of such terms and other comparable terminology are intended to identify forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, changes in economic conditions generally and the real estate and bond markets specifically, legislative/regulatory changes (including changes to laws governing the taxation of

real estate investment trusts (REITs)), possible sales of assets, the acquisition restrictions placed on the Company by its investment in Berkshire Multifamily Value Fund, LP (BVF or the Fund), availability of capital, the cost of rehabilitation projects, interest rates and interest rate spreads, changes in accounting principles generally accepted in the United States of America (GAAP) and policies and guidelines applicable to REITs, those factors set forth in the Risk Factors section of this Annual Report on Form 10-K for the year ended December 31, 2006 and other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission (SEC) filings. The risks listed herein are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Overview

The Company is engaged primarily in the ownership, acquisition and rehabilitation of multifamily apartment communities in the Baltimore/Washington D.C., Southeast, Southwest and Midwest areas of the United States. We conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets through the Operating Partnership, a Delaware limited partnership. The Company s wholly owned subsidiary, BIR GP, L.L.C., a Delaware limited liability company, is the sole general partner of the Operating Partnership. As of March 28, 2007, the Company is the owner of 100% of the preferred limited partner units of the Operating Partnership, whose terms mirror the terms of the Company s Preferred Shares and, through BIR GP, L.L.C., owns 100% of the general partner interest of the Operating Partnership, which represents approximately 2.39% of the common economic interest of the Operating Partnership.

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

Our highlights of the year ended December 31, 2006 included the following:

On March 22, 2006, the Company executed a non-recourse mortgage note payable on Bear Creek Apartments for $3,825,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.83% for a term of 10 years. The note is interest only for five years and matures on April 1, 2016, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On April 18, 2006, the Company completed the sale of Marina Mile, a 306-unit multifamily apartment community located in Ft Lauderdale, Florida, to an unaffiliated buyer. The sale price of the property was $41,978,700 and was subject to normal operating prorations and adjustments as provided for in the purchase and sale agreement. The Company has structured the transaction to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The Company has reinvested its entire share of the proceeds from the sale of Marina Mile in the purchase of two qualified replacement properties, Chisholm Place and Briarwood Village Apartments.

On June 9, 2006, the Company, through the Multifamily Venture, JV BIR/ERI, L.L.C., executed a non-recourse second mortgage note payable on Arrowhead Apartments for $3,120,000, which is collateralized by the related property. The interest rate on the note is fixed at 6.45% for a term of approximately 7.5 years. The note is interest only for 24 months and matures on December 1, 2013, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On June 9, 2006, the Company, through the Multifamily Venture, JV BIR/ERI, L.L.C., executed a non-recourse second mortgage note payable on The Moorings Apartments for $3,280,000, which is collateralized by the related property. The interest rate on the note is fixed at 6.45% for a term of approximately 7.5 years. The note is interest only for 24 months and matures on December 1, 2013, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On June 12, 2006, the Company, through the Multifamily Venture, JV BIR/ERI, L.L.C., executed a non-recourse second mortgage note payable on the Country Place I and Country Place II Apartments for $9,716,000, which is collateralized by the related properties. The interest rate on the note is fixed at 6.43% for a term of approximately 8.5 years. The note is interest only for 24 months and matures on January 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On June 28, 2006, the Company, through a newly formed and wholly owned subsidiary, BIR Chisholm Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Chisholm Place Apartments, a 142 unit multifamily apartment community located in Plano, Texas, from an unaffiliated third party. The purchase price of $9,625,000 was paid from an escrow account administered by a qualified Section 1031 tax deferred exchange intermediary institution in connection with the prior sale of Marina Mile. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement.

On August 1, 2006, the Company, through its wholly owned subsidiary, BIR Chisholm Limited Partnership, executed a non-recourse mortgage note payable on the Chisholm Place Apartments for $6,953,000, which is collateralized by the related property. The interest rate on the note is fixed at 6.25% for a term of 10 years. The note requires interest only payments for 60 months and matures on August 1, 2016, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On August 30, 2006, the Company, through a newly formed and wholly owned subsidiary, BIR Briarwood Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Briarwood Village Apartments, a 342 unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party. The purchase price of $13,816,700 was paid by the assumption of the existing mortgage debt on the property at the time of closing, cash from the buyer, and cash from the remaining balance of an escrow account administered by a qualified intermediary institution in connection with the prior sale of Marina Mile. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement.
On August 30, 2006, the Company, through its wholly owned subsidiary, BIR Briarwood Limited Partnership, in connection with the acquisition of Briarwood Village Apartments, assumed a non-recourse mortgage note payable with an outstanding balance of $8,811,733, which is collateralized by the related property. The interest rate on the note is fixed at 6.94% for a term of 19 months. The note requires monthly payments of principal and interest of $64,805 and matures on April 1, 2008, at which time the remaining principal and accrued interest is due. In accordance with FAS 141, Business Combinations , the Company recorded the mortgage at fair value, which was determined by calculating the present value of the future payments at current interest rates. The fair market value of the debt assumed on Briarwood is $8,958,818.

On September 29, 2006, the Company, through its wholly owned subsidiary, Season of Laurel II, L.L.C., executed $99,200,000 of fixed rate non-recourse mortgage debt on the Season Apartments, which is collateralized by the related property. The interest rate on the note is fixed at 6.10% for a term of 15 years. The note requires interest only payments for 120 months and matures on October 1, 2021, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. The new mortgage debt was a refinancing of outstanding debt of $69,218,989. The Company incurred a $1,540,851 loss in connection with the prepayment penalty upon the early principle repayment and write-off of unamortized deferred financing costs.

On October 30, 2006, the Company exercised its option to extend the maturity date of the Revolving Credit Agreement between Krupp Capital Associates and Berkshire Income Realty Inc. Pursuant to the credit agreement, the maturity date has been extended by six months until June 30, 2007.

On December 6, 2006, the Company, through a newly formed and wholly owned subsidiary, BIR Lenox, consummated the acquisition of 100% of the fee simple interest of The Standard at Lenox Park, a Class A, 375 unit multifamily apartment community located in in the Buckhead section of Atlanta, Georgia, from an unaffiliated third party. The purchase price of $47,100,000 was paid with a combination of proceeds from new first mortgage debt of $35,000,000, which is collateralized by the property, and cash from available working capital. The loan is an unsecured first mortgage note with a fixed interest rate of 5.80% and a term of 10 years of which interest only payments are due for the first 60 months of the loan. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement.

Acquisition Strategy

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

Financing and Capital Strategy

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

On January 28, 2005, the Board approved the investment of up to $25,000,000 in, or 10% of the total equity raised by, the Berkshire Multifamily Value Fund, L.P. (the Fund). The investment was also approved by the audit committee of the Board, which is composed solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange. The Fund, which was sponsored by our affiliate, Berkshire Advisors, was formed in August of 2005 and successfully raised equity in excess of expectations. The Company has committed to invest $23,400,000, or approximately 7%, in the Fund and has made contributions totaling $12,181,301, or approximately 52.1% of its total commitment of $23,400,000 as of December 31, 2006. The Company has evaluated its investment in the Fund and concluded that the investment, although subject to the requirements of FIN 46R Consolidation of Variable Interest Entities , does not require the Company to consolidate the activity of the Fund. The Company accounts for its investment in the Fund under Statement of Position 78-9, Accounting for Investments in Real Estate (SOP 78-9), as an equity method investment.

The investment objectives of the Fund are similar to those of the Company and under the terms of the Fund, Berkshire Advisors is generally required to present investment opportunities, which meet the Fund s investment criteria, only to the Fund. However, the Company has invested the majority of its available capital as of December 31, 2006 and intends to finance its commitment to the Fund with proceeds from the refinancing of properties in its portfolio and funds from operations. Under the terms of the Fund, the Company has the right to acquire assets that: (i) satisfy the requirements of Section 1031 of the Internal Revenue Code for like-kind exchanges for properties held by the Company or (ii) involve less than $8,000,000 of equity capital in any 12-month period if such capital is generated as a result of refinancing of debts of the Company.

The Company owns parcels of land held for development at certain of its multifamily apartment communities, which it currently intends to develop. Development of the available land is likely to include additional apartment units as well as other amenities such as private garages that would be available for lease by tenants for an additional fee. The Company is currently finalizing plans for one of the parcels and currently anticipates starting construction on the project in the second quarter of 2007. The Company continues to evaluate the remaining development projects and has not committed to the construction of those projects as of December 31, 2006.

Critical Accounting Policies

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

Company s financial statements and related notes. We believe that the following critical accounting policies affect significant judgments and estimates used in the preparation of the Company s financial statements.

Purchase Accounting for Acquisition of Real Estate

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

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

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

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

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

Impairment of Long-Lived Assets

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

Capital Improvements

The Company s policy is to capitalize costs related to the acquisition, rehabilitation and improvement of properties. Capital improvements are costs that increase the value and extend the useful life of an asset.

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

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

Revenue Recognition

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

Investments in Multifamily Venture and Multifamily Limited Partnership

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

Corporate Governance

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

- We have elected annually three independent directors, Messrs. Robert Kaufman, Richard Peiser and Randolph Hawthorne, each of whom the Board determined to be independent under applicable SEC and American Stock Exchange rules and regulations;
- The Board has determined annually that Robert Kaufman, the Chairman of our Audit Committee, qualifies as an "audit committee financial expert" under applicable rules and regulations of the SEC;
- The Board s Audit Committee adopted our Audit and Non-Audit Services Pre-Approval Policy, which sets forth the procedures and the conditions pursuant to which permissible services to be performed by our independent public accountants must be pre-approved;
- The Board s Audit Committee established "Audit Committee Complaint Procedures" for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including the anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- The Board adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees. A copy of this Code is available in print to stockholders upon written request addressed to the Company, c/o Investor Relations, One Beacon Street, Suite 1500, Boston, MA 02108;
- The Board established an Ethics Hotline that employees may use to anonymously report possible violations of the Code of Business Conduct and Ethics, including concerns regarding questionable accounting, internal accounting controls or auditing matters.

Recent Accounting Pronouncements

On June 1, 2005, the Financial Accounting Standards Board (FASB) issued Statement No. 154, Accounting Changes and Error Corrections (FAS 154) which is a replacement of APB Opinion No. 20 and FASB Statement No. 3. FAS 154 addresses the accounting for voluntary changes in accounting principles and changes the requirements of the accounting for and reporting of a change in accounting principles. The Statement requires the retrospective application, to prior periods financial statements, of voluntary changes in accounting principles unless it is impracticable to do so. APB Opinion 20 previously required that most voluntary changes in accounting principles be included in the net income of the period of the change of the cumulative effect of changing to the new accounting principles. The FASB believes that FAS 154 improves financial reporting because its requirements enhance the consistency of financial information between accounting periods. FAS 154 is effective for changes and corrections made in fiscal years beginning after December 15, 2005. The Company is not currently contemplating any changes in accounting principles and is not aware of any errors that would require correction as promulgated by Statement No. 154. FAS 154 became effective and was adopted by the Company as required effective January 1, 2006. The adoption of FAS 154 did not have a material impact on the financial position or operating results of the Company.

In June 2006, the FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48 or the Interpretation), which clarifies the accounting for uncertainty in income taxes recognized in companies financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition whereby companies must determine whether it is more likely than not that a tax position will be sustained upon examination. The second step is measurement whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The Interpretation also provides guidance on derecognition of recognized tax benefits, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007. The Company is currently assessing the impact of FIN 48 but believes that FIN 48 will not have a material impact on the financial position or operating results of the Company.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 addresses how the effect of prior year uncorrected misstatements should be evaluated when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantified error that is material in light of the relevant quantitative and qualitative factors. In the case when the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings. The provisions of SAB 108 are effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 by the Company did not have a material impact on the financial position or operating results of the Company.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. SFAS No. 157 provides guidance for, among other things, the definition of fair value and the methods used to measure fair value. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 may have on the financial position, operating results and related disclosures of the Company.

Liquidity and Capital Resources

Cash and Cash Flows

As of December 31, 2006, 2005 and 2004, the Company had approximately, $15,393,249, $22,134,658 and $31,913,045 of cash and cash equivalents, respectively.

	Year ended December 31, 2006	2005	2004
Cash provided by operating activities	$ 15,040,646	$ 14,115,221	$ 9,638,906
Cash used in investing activities	(83,302,562)	(109,371,965)	(76,698,381)
Cash provided by financing activities	61,520,507	85,478,357	56,826,573

During 2006, cash decreased by $6,741,409. The main component of the overall decrease was $83,302,562 used in the investing activities of the Company. The activities relate mainly to the acquisition of multifamily apartment communities, capital expenditures for the renovation and rehabilitation of the Company s properties and contributions of capital into BVF. The investing activities were mainly offset by an increase of approximately $61,521,000 provided by financing activities, principally from proceeds of new mortgage loans net of prepayment of the outstanding balance of the Seasons mortgage, including a prepayment penalty of approximately $1,216,000 on Seasons, payments of principal on existing mortgage loans and distributions to our preferred and common shareholders, including a special distribution of $8,000,000 to common shareholders and an increase of approximately $15,041,000 provided by the operating activities of the Company.

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

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

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

As of December 31, 2006, the Company has fixed interest rate mortgage financing on the Multifamily Communities in the portfolio. The Company does not have current plans to obtain financing on the Arboretum land.

The Company has a $20,000,000 revolving credit facility in place with an affiliate of the Company. During 2006, the Company borrowed $7,000,000 from the credit facility for the potential acquisition of a property pursuant to a foreclosure auction. The Company was not the winning bidder and the funds were immediately repaid including $3,860 of interest accrued on the borrowings. There ware no borrowings outstanding on the credit facility as of December 31, 2006. The Company currently expects that repayment of future advances

from the credit facility, if any, will be funded by proceeds from conventional mortgages on newly acquired properties and potential re-financing of existing properties, including those properties undergoing substantial rehabilitation projects where resulting increases in value, if any, would allow refinancing of the properties at increased levels from the existing mortgages currently outstanding on the rehabilitated properties. The credit facility was due to expire on December 31, 2006, but on October 30, 2006, the Company exercised a one-time six-month extension available to it pursuant to the revolving credit agreement. The extended credit facility is now due to expire on June 30, 2007. The Company intends to negotiate an extension to the revolving credit facility prior to the date the current extension expires.

The Company has completed the refinancing of the existing mortgage debt on its Seasons of Laurel property which was previously due in 2009 but is now due in 2021. The loan is interest only for 10 years with the entire principal balance currently classified as long-term debt and included in the total long-term obligations due thereafter in the schedule of aggregate principal maturities presented in Note 8 of the financial statements.

Indebtedness

The following table provides summary information with respect to the mortgage debt incurred by the Company during the year ended December 31, 2006:

Property Name	Previous Balance	New Balance	Closing Date	InterestRate	Term
Fixed Rate Mortgages:					
Bear Creek	$ -	$ 3,825,000	March 22, 2006	5.83%	5 Years
Arrowhead	-	3,120,000	June 9, 2006	6.45%	7 Years
Moorings	-	3,280,000	June. 9, 2006	6.45%	7 Years
Country Place I	-	5,886,483	June 12, 2006	6.43%	8 Years
Country Place II	-	3,829,517	June 12, 2006	6.43%	8 Years
Chisholm	-	6,953,000	August 1, 2006	6.25%	10 Years
Briarwood (1)	-	8,958,818	August 30, 2006	6.94%	2 Years
The Seasons	69,218,989	99,200,000	September 29, 2006	6.10%	15 Years
Standard at Lenox Park	-	35,000,000	December 6, 2006	5.80%	10 Years
	$ 69,218,989	$ 170,052,818			

(1) The outstanding mortgage was assumed at the time of acquisition of the property. The balance recorded at time of assumtion represents the assumed balance of the mortgage note payable as adjusted to its fair valueas required by FAS 141, Business Combinations. The debt matures 20 months after the assumption on the original maturity date of April 10, 2008.

Capital Expenditures

The Company incurred $7,709,993 and $7,090,580 in recurring capital expenditures during the year ended December 31, 2006 and 2005, respectively. Recurring capital expenditures typically include items such as appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements.

The Company incurred $10,404,857 and $14,796,780 in renovation-related capital expenditures during the year ended December 31, 2006 and 2005, respectively. Renovation related capital expenditures generally include capital expenditures of a significant non-recurring nature, including construction management fees payable to an affiliate of the Company, where the Company expects to see a financial return on the expenditure or where the Company believes the expenditure preserves the status of a property within its sub-market.

In April 2003, the Company began a significant renovation project at its Seasons of Laurel property. The renovation involved substantial upgrades to the kitchens and bathrooms in all of the property s 1,088 apartment units and was originally expected to cost approximately $8,100,000, or $7,444 per apartment unit. In 2004, the original contractor sent notification to the Company of its desire to renegotiate the contract. As a result of that notification, the Company sought new bids from several contractors and ultimately dismissed the original contractor and awarded the contract to a new company based on the new bids. As of December 31, 2006, the project was 100% complete at a total cost of $8,085,600 or $23,400 less than the most current total cost estimate of $8,109,000.

In January 2004, the Company authorized the renovation of 252 apartment units at its Hannibal Grove property (Hannibal) to provide for in-unit washer and dryer hookups. The total cost of the project was estimated to be approximately $1,455,000, or $5,775 per apartment unit. The Company believes the renovations are necessary to maintain the property s competitiveness in its sub-market and that the property will also achieve significant growth in rental rates as a result of the renovations. In September 2005, in addition to the washer and dryer program, the Company approved, after a successful trial project on a limited number of units, the interior renovation of all 252 units at Hannibal, including the in-unit washer and dryer hookups in units not yet converted, at an anticipated total cost of $5,292,000, or $21,000 per unit. As of December 31, 2006, 151 units, or 60%, of 252 apartment units at Hannibal have been renovated at a cost of approximately $1,892,428. The Company currently anticipates spending, and has budgeted in 2006, approximately $2,923,000 for continued renovations at Hannibal and currently anticipates completing the project in the third quarter of 2007. Total costs committed to date are below original estimates and are anticipated to remain under budget through the remainder of the project.

In May 2005, the Company authorized the interior renovation of 216 apartment units as well as significant renovation to the exterior siding and decks of its Yorktowne property. The interior renovation included the replacement and upgrade of the kitchens, bathrooms and doors of each unit. As of December 31, 2006, both the interior and exterior renovations were finished and both were completed on time and close to budget. Total costs for the interior renovations were estimated at approximately $1,176,000 of which $1,258,950 was actually incurred, representing an overspend to budget of approximately 7%. The Company believed the renovations would yield significant growth in rental rates and were required in order to maintain its competitiveness in its sub-market. Returns on the investment in the renovations are positive and consistent with the company s original expectations

Also in May 2005, the Company authorized the renovation of its Berkshires on Brompton property. The renovations at the 362-unit property include significant rehabilitation to the interior and exterior common areas as well as individual interior unit renovations. The total cost of the project, including interior and exterior renovations, is currently estimated at approximately $6,800,000. The Company initially tested the interior rehabilitation plan on 100 units, at a cost of approximately $6,300 per unit or $630,000, and has determined that the financial returns estimated in the plan are achievable. Based on the successful financial returns of the 100 unit test, the Company decided to move forward with the renovation of the remaining 262 units. The costs associated with the renovation of the remaining 262 units were approved as part of the 2006 capital budget, which included a per unit estimated cost of $7,300 or $1,912,600. As of December 31, 2006, approximately 320 units, or 88%, including the 100 test units, have been renovated at a cost of $3,876,404.

Other properties underwent limited-scope renovation projects during 2006. The projects included exterior renovations of the Savannah at Citrus Park property. The renovations were approved as part of the decision to acquire the property in 2005 and were complete as of December 31, 2006. Total costs were estimated at approximately $670,500 of which $612,631 was actually incurred. The project was completed on time and within budget. Additionally, exterior renovations of the Riverbirch property, also approved as part of the decision to acquire the property in 2005, were complete as of December 31, 2006. Total costs were estimated at approximately $1,334,000 of which $1,293,601 was actually incurred. The project was also completed on time and within budget. During 2006, the Company, as part of the decision to acquire the Standard at Lenox Park property, approved a rehabilitation project of approximately $5,000,000 for interior and exterior improvements at the property. As of December 31, 2006, the project is in the initial planning stage.

The Company owns two parcels of vacant land, which are contiguous with other properties the Company currently owns. The Company continues to assess the viability of developing additional apartment units on those parcels. A tentative decision to move forward with the development of one parcel, the Arboretum Land, which is contiguous with the Arboretum Place Apartments, has been made by the Company. Development plans are currently being assessed and permitting of the anticipated project is in process. Estimated cost of the project has not been determined as of December 31, 2006. No decision to proceed nor have any funds been committed to the development of the other parcel of vacant land as of December 31, 2006.

The Company s capital budgets for 2007 anticipate spending approximately $20,092,718 for ongoing rehabilitation and development of current portfolio properties during the year. As of December 31, 2006, the Company has not committed to any new significant rehabilitation projects other than the rehabilitation project at the Standard at Lenox Park.

Acquisitions and Dispositions

On June 28, 2006, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Chisholm Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Chisholm Place Apartments, a 142 unit multifamily apartment community located in Plano, Texas, from an unaffiliated third party. The purchase price of $9,625,000 was paid from an escrow account administered by a qualified intermediary institution in connection with the prior sale of a qualified property structured to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement. On August 1, 2006, the Company closed on $6,953,000 of first mortgage debt at a fixed interest rate of 6.25% for ten years collateralized by the Chisholm Place property.

On August 30, 2006, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Briarwood Limited Partnership, consummated the acquisition of 100% of the fee simple interest of Briarwood Village Apartments, a 342 unit multifamily apartment community located in Houston, Texas, from an unaffiliated third party. The purchase price of $13,816,700 was paid by the assumption of the existing mortgage debt on the property at the time of closing, cash from the buyer, and cash from the remaining balance of an escrow account administered by a qualified intermediary institution in connection with the prior sale of a qualified property structured to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The purchase price was subject to normal operating pro rations and adjustments as provided for in the purchase and sale agreement. Pursuant to the provisions of SFAS No. 141, Business Combinations , the assumed mortgage was recorded at fair value, based on the present value of the amounts to be paid under the obligations. The fair market value of the debt assumed on Briarwood was $8,958,818.

On December 6, 2006, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Lenox, L.L.C., consummated the acquisition of 100% of the fee simple interest of The Standard at Lenox Park Apartments, a 375-unit multifamily apartment community located in the Buckhead section of Atlanta, Georgia, from an unaffiliated third party. The purchase price was $47,100,000, and was subject to normal operating prorations, apportionments and adjustments as provided for in the purchase and sale agreement. The purchase price was paid with a combination of proceeds from new first mortgage debt of $35,000,000, which is collateralized by the property, and cash from available working capital. The loan is an unsecured first mortgage note with a fixed interest rate of 5.80% and a term of 10 years of which interest only payments are due for the first 60 months of the loan

Cash flows from Investment in Mortgage Funds

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

During 2005, the remaining Mortgage Funds were liquidated as the remaining participating insured mortgage investments in each portfolio were paid off. For the year ended December 31, 2005, the Company received

cash distributions totaling approximately $13,208,425 from the Mortgage Funds on which the Company has recognized approximately $3,041,000 in equity in the income of the Mortgage Funds.

Contractual Obligations and Other Commitments

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

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

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

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

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

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

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

On January 26, 2005, the Company, through its wholly owned subsidiary, BIR Yorktowne, L.L.C., executed a non-recourse mortgage note payable on Yorktowne for $16,125,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.13% for a term of 10 years. The note is interest only for two

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

On February 15, 2005, the Company, through its wholly owned subsidiary, BIR Westchester West, L.L.C., executed a non-recourse mortgage note payable on Westchester West for $29,500,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.03% for a term of 10 years. The note is interest only for two years and matures on March 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On July 8, 2005 and August 1, 2005, the Company, through its wholly owned subsidiary, BIR Lakeridge, L.L.C., executed two non-recourse mortgage notes payable on Lakeridge for $13,130,000 and $12,520,000, respectively. Both notes are collateralized by the related property. The interest rates on the notes are fixed at 5.07% and 5.08%, respectively, and are for a term of 9 years. The notes are interest only for two years and mature on August 1, 2014, at which time the remaining principal and accrued interest is due. The notes may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. As a condition of the financing, the lender required a guarantee of $1,444,000 from the Company to ensure achievement of certain minimum levels of occupancy within the first eighteen months of the loan period. On May 26, 2006, the Company met the requirements to satisfy the guarantee and obtained a complete reduction in the base guaranty to $0.

On July 22, 2005, the Company, through its wholly owned subsidiary, BIR Brompton Limited Partnership, executed a non-recourse mortgage note payable on Berkshires on Brompton for $6,400,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.11% for a term of 10 years. The note is interest only for two years and matures on August 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. As a condition of obtaining the mortgage, the lender required a guarantee of $4,100,000 from the Company to ensure the completion of the rehabilitation project currently under way at the property. As of December 31, 2006 the rehabilitation project continues to move forward and the Company currently anticipates satisfying the guarantee per the mortgage requirements.

On July 22, 2005, the Company, through its wholly owned subsidiary, BIR Westchase Limited Partnership, executed a non-recourse mortgage note payable on Berkshires at Westchase for $6,500,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.08% for a term of 10 years. The note is interest only for two years and matures on August 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. As a condition of obtaining the mortgage, the lender required a guarantee of $2,215,000 from the Company to ensure achievement of certain minimum levels of occupancy within the first eighteen months of the loan period. On June 21, 2006, the Company met the requirements to satisfy the guarantee and obtained a complete reduction in the base guaranty to $0.

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

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

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

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

On March 22, 2006, the Company, through its wholly owned subsidiary, BIR Bear Creek Limited Partnership, executed a non-recourse mortgage note payable on Bear Creek Apartments for $3,825,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.83% for a term of 10 years. The note is interest only for five years and matures on April 1, 2016, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On June 9, 2006, the Company, through the Multifamily Venture, JV BIR/ERI, L.L.C., executed a non-recourse second mortgage note payable on Arrowhead Apartments for $3,120,000, which is collateralized by the related property. The interest rate on the note is fixed at 6.45% for a term of approximately 7.5 years. The note is interest only for 24 months and matures on December 1, 2013, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On June 9, 2006, the Company, through the Multifamily Venture, JV BIR/ERI, L.L.C., executed a non-recourse second mortgage note payable on The Moorings Apartments for $3,280,000, which is collateralized by the related property. The interest rate on the note is fixed at 6.45% for a term of approximately 7.5 years. The note is interest only for 24 months and matures on December 1, 2013, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On June 12, 2006, the Company, through the Multifamily Venture, JV BIR/ERI, L.L.C., executed a non-recourse second mortgage note payable on the Country Place I and Country Place II Apartments for $9,716,000, which is collateralized by the related properties. The interest rate on the note is fixed at 6.43% for a term of approximately 8.5 years. The note is interest only for 24 months and matures on January 1, 2015, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On August 1, 2006, the Company, through its wholly owned subsidiary, BIR Chisholm Limited Partnership, executed a non-recourse mortgage note payable on the Chisholm Place Apartments for $6,953,000 which is collateralized by the related property. The interest rate on the note is fixed at 6.25% for a term of 10 years. The note requires interest only payments for 60 months and matures on August 1, 2006, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On August 30, 2006, the Company, through its wholly owned subsidiary, BIR Briarwood Limited Partnership, in connection with the acquisition of Briarwood Village Apartments, assumed a non-recourse mortgage note payable with a then outstanding balance of $8,811,733, which is collateralized by the related property. The interest rate on the note is fixed at 6.94% for a term of 19 months. The note requires monthly payments of principal and interest of $64,805 and matures on April 1, 2008, at which time the remaining principal and accrued interest is due. In accordance with FAS 141, Business Combinations , the Company recorded the mortgage at fair value, which was determined by calculating the present value of the future payments at current interest rates. The fair market value of the debt assumed on Briarwood is $8,958,818.

On September 29, 2006, the Company, through its wholly owned subsidiary, Season of Laurel II, L.L.C., executed $99,200,000 of fixed rate non-recourse mortgage debt on the Season Apartments, which is collateralized by the related property. The interest rate on the note is fixed at 6.10% for a term of 15 years. The note requires interest only payments for 120 months and matures on October 1, 2021, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at any time with 30 days of notice. The new mortgage debt was a refinancing of then outstanding debt of $69,218,989. The Company incurred a prepayment penalty of $1,215,911 in connection with the pay off of the re-financed debt.

On December 6, 2006 the Company, through its wholly owned subsidiary, BIR Lenox, executed a non-recourse mortgage note payable on the Standard at Lenox Park Apartments for $35,000,000 which is collateralized by the related property. The interest rate on the note is fixed at 5.80% for a term of 10 years. The note requires interest only payments for 60 months and matures on December 10, 2016, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

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

The primary obligations of the Company relate to its borrowings under the mortgage notes payable. The $469,378,510 in mortgage notes payable have varying maturities ranging from 2 to 15 years. The following table summarizes our contractual obligations as of December 31, 2006:

	2007	2008	2009	2010	2011	Thereafter
Long Term Debt (1)	$ 3,439,348	$ 13,219,272	$ 20,519,931	$ 5,053,594	$ 5,374,383	$ 421,771,982
Capital Lease Obligations	-	-	-	-	-	-
Operating lease Obligations	-	-	-	-	-	-
Purchase Obligations (2)	-	-	-	-	-	-
Other long-term liabilities reflected on Balance Sheet under GAAP	-	-	-	-	-	-

(1) Amounts include principal payments only. The Company will pay interest on outstanding indebtedness based on the rates and terms as summarized in note 8 to the consolidated financial statements.

(2) - The Company has obligations under numerous contracts with various service providers at its properties. None of these contracts are for periods greater than one year or are material either individually or in aggregate to the Company s operations.

Competition

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

Market Environment

The Company believes the multifamily sector will benefit from the ongoing economic recovery and favorable current demographic trends. While the apartment sector has experienced slower growth over the past four years due to rising unemployment and a significant renter migration to single family homes, a reversal of both trends

is now expected to spur an apartment recovery. The economic recovery is generating increased job growth which typically translates into household formation and rising apartment occupancy. The Company feels, for single family homebuyers over the next several years, increasing housing costs and potentially higher interest rates may make purchases increasingly expensive and out of reach. In addition, we believe the projected demographic trends strongly favor the multifamily sector, driven primarily by the initial wave of echo boomers (children of baby boomers, age 20 to 29), the fastest growing segment of the population, and an increasing number of immigrants who are typically renters by necessity. Most of the Company s properties are located in markets where zoning restrictions, scarcity of land, and high construction costs create significant barriers to new development.

In the future, changes in zoning restrictions and deflation in the markets in which the Company currently owns properties or in markets in which the Company may enter, which could reduce or eliminate some of the barriers to new development, could have an adverse affect on the Company s financial condition, results of operations or cash flows.

Declaration of Dividends and Distributions

On March 25, 2003, the Board declared a dividend at an annual rate of 9% the stated liquidation preference of $25 per share, on the outstanding Preferred Shares of the Company, which is payable quarterly in arrears, on February 15, May 15, August 15 and November 15 of each year to shareholders of record in the amount of $0.5625 per share per quarter. The dividend paid on May 15, 2003 was prorated to reflect the issue date of the Preferred Shares.

On May 11, 2004, the Board authorized the general partner of the Operating Partnership to distribute two quarterly distributions of $250,000 each from its operating cash flows to common general and common limited partners, payable on May 15, 2004 and August 15, 2004. On the same day, the Board also declared a common dividend of $0.004656 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distributions.

On August 19, 2004, the Board authorized the general partner of the Operating Partnership to distribute two additional quarterly distributions of $250,000 each from its operating cash flows to common general and common limited partners, payable on November 15, 2004 and February 15, 2005. On the same day, the Board also declared a common dividend of $0.004656 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distributions.

On May 10, 2005, the Board authorized the general partner of the Operating Partnership to distribute a quarterly distribution of $250,000 from its operating cash flows to common general and common limited partners, payable on May 16, 2005. On the same day, the Board also declared a common dividend of $0.004656 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distributions.

On August 9, 2005, the Board authorized the general partner of the Operating Partnership to distribute a quarterly distribution of $250,000 from its operating cash flows to common general and common limited partners, payable on August 15, 2005. On the same day, the Board also declared a common dividend of $0.004249 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distributions.

On November 9, 2005, the Board authorized the general partner of the Operating Partnership to distribute a special distribution of $6,000,000 from its operating cash flows to common general and common limited partners, payable on November 15, 2005. On the same day, the Board also declared a common dividend of $0.101977 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distribution.

Also on November 9, 2005, the Board authorized the general partner of the Operating Partnership to distribute quarterly distributions of $1,000,000 from its operating cash flows to common general and common limited partners, payable on February 15, 2006 and May 15, 2006. On the same day, the Board also declared a common dividend of $0.016996 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distributions.

On August 10, 2006, the Board authorized the general partner of the Operating Partnership to distribute a special distribution of $8,000,000 from its operating cash flows to common general and common limited partners, payable on November 15, 2006. On the same day, the Board also declared a common dividend of $0.135970 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distribution.

Also on August 10, 2006, the Board authorized the general partner of the Operating Partnership to distribute quarterly distributions of $1,000,000 from its operating cash flows to common general and common limited partners, payable on August 15, 2006 and November 15, 2006. On the same day, the Board also declared a common dividend of $0.016996 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distributions.

Also on November 8, 2006, the Board authorized the general partner of the Operating Partnership to distribute quarterly distributions of $1,000,000 from its operating cash flows to common general and common limited partners, payable on February 15, 2007 and May 15, 2007. On the same day, the Board also declared a common dividend of $0.016996 per share on the Company s Class B common stock payable concurrently with the Operating Partnership distributions.

For the year ended December 31, 2006 and 2005, the Company declared a total of $12,000,000 and $7,500,000, respectively, of distributions to common shareholders, of which $1,000,000 was payable and included on the balance sheet in Dividends and Distributions Payable at December 31, 2006 and 2005.

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

Results of Operations and Financial Condition

During 2006, the Company s portfolio increased from 24 to 26 properties, which was an increase in the total number of properties in the portfolio as compared to the previous year s portfolio of 24 properties, which also represented a growth of 6 properties from the prior year end portfolio of 18 properties (the Total Portfolio). As a result of changes in the Total Portfolio over time, the financial statements show considerable changes in revenue and expenses from period to period. The Company does not believe that its period-to-period financial data are comparable. Therefore, the comparison of operating results for the years ended December 31, 2006 and 2005 reflect changes attributable to the properties that were owned by the Company throughout each period presented (the Same Property Portfolio).

Net Operating Income (NOI) falls within the definition of a non-GAAP financial measure as stated in Item 10(e) of Regulation S-K promulgated by the SEC. The Company believes NOI is a measure of operating results that is useful to investors to analyze the performance of a real estate company because it provides a direct measure of the operating results of the Company s multifamily apartment communities. The Company also believes it is a useful measure to facilitate the comparison of operating performance among competitors. The calculation of NOI requires classification of income statement items between operating and non-operating expenses, where operating items include only those items of revenue and expense which are directly relate to the income producing activities of the properties. We believe that to achieve a more complete understanding of the Company s performance, NOI should be compared with our reported net income (loss). Management uses NOI to evaluate the operating results of properties without reflecting the effect of capital decisions such as the issuance of mortgage debt and investments in capital items, in turn these capital decisions have an impact of interest expense and depreciation and amortization.

The most directly comparable financial measure of our NOI, calculated and presented in accordance with GAAP, is net income (loss), shown on the statement of operations. For the years ended December 31, 2006, 2005 and 2004, the net income (loss) was $(19,996,781), $6,388,747 and $(7,811,651), respectively. A reconciliation of our NOI to net income (loss) for the years ended December 31, 2006, 2005 and 2004 are presented as part of the following tables on pages 44 and 49.

Comparison of year ended December 31, 2006 to the year ended December 31, 2005.

The table below reflects selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of the 18 properties acquired or placed in service on or prior to January 1, 2005 and owned through December 31, 2006. The Total Property Portfolio includes the effect of the additional rental properties acquired after January 1, 2005. (The 2005 activity for the Windward Lakes property has been removed from the presentation as the results have been reflected as discontinued operations in the consolidated statements of operations.)

	Same Property Portfolio Years ended December 31,			
			Increase/	%
	2006	2005	(Decrease)	Change
Revenue:				
Rental	$ 54,134,768	$ 50,593,244	$ 3,541,524	7.00%
Interest utility reimbursement and other	2,989,098	2,664,246	324,852	12.19%
Total revenue	57,123,866	53,257,490	3,866,376	7.26%
Operating expenses:				
Operating	13,848,306	13,183,796	664,510	5.04%
Maintenance	4,245,261	4,056,769	188,492	4.65%
Real estate taxes	5,930,080	5,826,400	103,680	1.78%
General and administrative	870,867	881,668	(10,801)	(1.23)%
Management fees	2,241,765	2,134,780	106,985	5.01%
Total operating expenses	27,136,279	26,083,413	1,052,866	4.04%
Net operating income	29,987,587	27,174,077	2,813,510	10.35%
Non-operating expenses:				
Depreciation	18,372,564	16,848,865	1,523,699	9.04%
Interest	16,414,502	12,460,167	3,954,335	31.74%
Loss on extinguishment of debt	1,540,851	80,017	1,460,834	1,825.65%
Amortization of acquired in-place leases and tenant relationships	282,459	2,029,236	(1,746,777)	(86.08)%
Total non operating expenses	36,610,376	31,418,285	5,192,091	16.53%