INDEPENDENCE REALTY TRUST, INC
Form S-11
November 19, 2013
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As filed with the Securities and Exchange Commission on November 19, 2013

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-11

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933

OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

Independence Realty Trust, Inc.

(Exact Name of Registrant as Specified in Governing Instruments)

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(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Proposed maximum aggregate offering price(1)(2)	Amount of registration fee(1)(3)
Common Stock, par value $0.01 per share	$50,000,000	$6,440

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.
(2) Includes shares the underwriters have the option to purchase to cover overallotments, if any.
(3) Pursuant to Rule 457(p) under the Securities Act, filing fees aggregating $61,101 have already been paid with respect to unsold securities registered pursuant to a registration statement on Form S-11 (File No. 333-160093) and were carried forward in connection with the filing of a registration statement Form S-11 (File No. 333-188577) (the First Registration Statement). Pursuant to the filing of the First Registration Statement, the registrant previously registered shares of common stock for which a filing fee of $6,902 was due, all of which was offset against the registration fee previously paid. Pursuant to Rule 457(p) under the Securities Act, the balance of these filing fees already paid, $54,199, is being carried forward. As a result, all of the filing fee of $6,440 due for this offering is offset against the registration fee previously paid.

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

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

Subject to completion dated November 19, 2013

PROSPECTUS

Shares

INDEPENDENCE REALTY TRUST, INC.

Common Stock

We are a Maryland corporation that owns apartment properties in geographic submarkets that we believe support strong occupancy and have the potential for growth in rental rates. We seek to provide stockholders with attractive risk-adjusted returns, with an emphasis on distributions and capital appreciation. We are externally advised by a subsidiary of RAIT Financial Trust, or RAIT (NYSE: RAS), which beneficially owns approximately 59.8% of our common stock prior to consummation of this offering, and our apartment properties are externally managed by Jupiter Communities, LLC, a professional apartment management company that is a majority owned subsidiary of RAIT. As of the date of this prospectus, we own nine apartment properties.

We are offering shares of our common stock in this offering. The underwriters will be obligated to purchase all of the shares of our common stock in this offering, if any are purchased, other than those shares covered by the overallotment option referred to below.

Our common stock is traded on the NYSE MKT under the symbol IRT. The last reported sale price on November 15, 2013, was $8.68 per share.

We elected to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2011. Shares of any class or series of our capital stock, including our common stock, are subject to ownership limitations that are primarily intended to assist us in maintaining our qualification as a REIT. Our charter contains certain restrictions relating to the ownership and transfer of our stock, including, subject to certain exceptions, an ownership limit that prohibits any person from beneficially owning or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of any class or series of our capital stock, including our common stock. See Description of Stock Restrictions on Ownership and Transfer. RAIT has informed us that it intends to purchase up to $10.0 million in shares of our common stock in this offering, at the public offering price, for which no underwriting discounts and commissions will be paid to the underwriters.

Investing in us involves a high degree of risk. See Risk Factors beginning on page 16 of this prospectus for a discussion of the risks which should be considered in connection with your investment in our common stock.

	Per Share	Total
Public offering price		
Underwriting discounts and commissions[1]		
Proceeds, before expenses, to us		

(1) Assumes RAIT purchases $ million in shares of our common stock in this offering, at the public offering price, for which no underwriting discounts and commissions will be paid to the underwriters. See Underwriting for a detailed description of compensation payable to the underwriters.

We have granted the underwriters the right to purchase up to an additional shares of our common stock at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of our common stock, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about , 2013.

The date of this prospectus is , 2013

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You should rely only on the information contained in this prospectus and any free writing prospectus that we authorize to be delivered to you. We have not, and the underwriters have not, authorized any other person to provide you with any additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus or another date specified herein. Our business, financial condition, liquidity, results of operations and prospects may have changed since such dates.

PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere or incorporated by reference in this prospectus. Because it is only a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read carefully the entire prospectus, including the more detailed information set forth under the heading Risk Factors the historical and pro forma financial statements and related notes, the documents incorporated by reference herein and the other documents to which we refer herein and therein, before you decide to invest in our common stock. Except where the context suggests otherwise, the terms company, we, us and our refer to Independence Realty Trust, Inc., a Maryland corporation, together with its consolidated subsidiaries, including Independence Realty Operating Partnership, LP, a Delaware limited partnership, which we refer to as our operating partnership. We refer to RAIT Financial Trust, a Maryland real estate investment trust, as RAIT; Independence Realty Advisors, LLC, a Delaware limited liability company, as our advisor; and Jupiter Communities, LLC, a Delaware limited liability company, as Jupiter or our property manager. Unless otherwise indicated, the information included in this prospectus assumes no exercise by the underwriters of their option to purchase additional shares of our common stock.

Our Company

We are a Maryland corporation that owns apartment properties in geographic submarkets that we believe support strong occupancy and have the potential for growth in rental rates. We seek to provide stockholders with attractive risk-adjusted returns, with an emphasis on distributions and capital appreciation. We are externally advised by a wholly-owned subsidiary of RAIT (NYSE: RAS), a REIT that invests primarily in commercial mortgages and, to a lesser extent, apartment properties. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2011.

We acquire and operate apartment properties that:

- have stable occupancy;
- are located in submarkets that we do not expect to experience substantial new apartment construction in the foreseeable future;
- in appropriate circumstances, present opportunities for repositioning or updating through capital expenditures; and
- present opportunities to apply tailored marketing and management strategies to attract and retain residents and enable rent increases.

As of September 30, 2013, we owned nine apartment properties containing an aggregate of 2,358 apartment units located in six states, with an average occupancy of 94.1% and an average monthly effective rent per occupied apartment unit of $789. See Management s Discussion and Analysis Historical Performance of our Apartment Properties. We refer to these nine apartment properties in our portfolio as of September 30, 2013 as our existing portfolio. Subsequent to September 30, 2013, we have entered into purchase agreements to acquire six apartment properties containing an aggregate of 2,090 apartment units for an aggregate purchase price of $88.0 million, including the assumption of existing mortgage debt with an outstanding principal balance of $46.1 million as of October 16, 2013. See Recent Developments.

We were formed in 2009. RAIT is currently our largest stockholder and beneficially owns approximately 59.8% of the outstanding shares of our common stock prior to consummation of this offering. RAIT has informed us that it intends to purchase up to $10.0 million in shares of our common stock in this offering at the public offering price. Each of our apartment properties is managed by Jupiter, a majority owned subsidiary of RAIT. See Certain Relationships and Related Party Transactions.

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Since our formation, we have sold our common stock in two public offerings. From June 2011 to April 2013, we engaged in a registered continuous offering carried out in a manner consistent with offerings of non-listed REITs and sold 348,300 shares of our common stock for aggregate gross proceeds of $3.5 million, including $0.5 million from unaffiliated investors. On August 16, 2013, we completed an underwritten public offering of 4,000,000 shares of our common stock for total gross proceeds of approximately $34.0 million and our common stock commenced trading on the NYSE MKT.

Recent Developments

Subsequent to September 30, 2013, we have entered into purchase agreements for the six properties described below, which we intend to acquire. We cannot provide any assurances that we will complete either of these acquisitions and the closing of each acquisition is subject to customary terms and conditions.

Oklahoma Portfolio. The Oklahoma portfolio consists of five properties and 1,658 units, consisting of 1,048 one bedroom, one bathroom units, 40 two bedroom, one bathroom units, 537 two bedroom, two bathroom units, 32 three bedroom, two bathroom units and one bungalow house. The properties were constructed between 1984 and 1986 and have been owned by the seller since 2000. Four properties are located in Oklahoma City s northwest submarket and the fifth in Edmond, Oklahoma, a suburb of Oklahoma City. The seller has spent approximately $12 million to improve the portfolio since 2010. The improvements include new roofs and siding, windows, parking lots, interior flooring and HVAC units. On October 16, 2013, we entered into a purchase and sale agreement with Kola Investments, LLC, or the seller, for the Oklahoma portfolio. Pursuant to the terms and conditions of the purchase and sale agreement, the purchase price for the Oklahoma portfolio is $65 million payable as follows: (1) a deposit of $650,000; (2) the assumption by our operating partnership of a first lien mortgage secured by the five properties in this portfolio and having an outstanding principal balance of approximately $46.1 million at October 16, 2013; and (3) the balance of the purchase price, after customary adjustments, in cash. The first lien mortgage that is to be assumed accrues interest at a fixed rate equal to 5.6% per annum, will mature in April 2013 and $43.6 million will be due upon maturity. The mortgage is not permitted to be prepaid prior to April 1, 2016; however, the mortgage may be defeased and the collateral securing the mortgage loan released, subject to our compliance with customary conditions to defeasance. We may terminate the purchase and sale agreement with or without cause prior to the expiration of the due diligence period on November 22, 2013. If we terminate the purchase and sale agreement after the expiration of the due diligence period, our deposit will be non-refundable. We intend to fund the cash portion of the purchase price for the Oklahoma portfolio with approximately $6.0 million of the net proceeds from this offering and the balance with available cash. We expect the closing of this acquisition to occur in the fourth quarter of 2013.

The Crossings. The Crossings, located in Jackson, Mississippi, was built between 1976 and 1980 and was significantly updated in 2006 with over $8 million spent by the seller. The property contains 52 two-story buildings housing 432 units, consisting of 144 one bedroom, two bathroom units, 200 two bedroom, one-and-a-half bathroom units and 88 three bedroom, two bathroom units. An additional building is home to the leasing office and clubhouse. On October 29, 2013 our operating partnership entered into a purchase and sale agreement with Ridgewood Land Company LLC, the seller, for the purchase of The Crossings for a purchase price of $23 million. Pursuant to the terms and conditions of the purchase and sale agreement, our operating partnership paid a deposit of $500,000. The due diligence period under the purchase and sale agreement expired on November 13, 2013. If we terminate the purchase and sale agreement our deposit will be non-refundable. We intend to fund the purchase price for The Crossings with $12.0 million in borrowings under our new revolving credit facility with The Huntington National Bank and available cash of approximately $11.0 million. We expect the closing of this acquisition to occur in the fourth quarter of 2013.

On October 25, 2013, we entered into a $20 million secured revolving credit agreement with The Huntington National Bank to be used to acquire properties, for capital expenditures and for general corporate purposes. The facility has a 3-year term, bears interest at LIBOR plus 2.75% and contains customary representations and warranties, events of default and financial and other covenants for this type of revolving credit agreement. As of November 15, 2013, there was approximately $8.0 million outstanding under the credit facility. See Outstanding Indebtedness Secured Revolving Credit Facility.

Our Business Objectives and Strategy

Our primary business objective is to maximize stockholder value by increasing cash flows at our existing apartment properties and acquiring additional properties that have strong and stable occupancies and the ability to raise rental rates or that have the potential for repositioning through capital expenditures or tailored management strategies. We intend to achieve this objective by executing the following strategies:

Use RAIT s extensive experience lending to, owning and/or managing apartment properties, and its networks of contacts in the apartment industry, to acquire additional apartment properties. RAIT has provided debt financing for apartment owners and operators since 1997 and currently owns 27 apartment properties. Jupiter manages over 10,600 apartment units in 17 states (including those owned by us). We believe these factors and RAIT s commercial real estate relationships will provide us with a strong pipeline of acquisition opportunities. As of the date of this prospectus, we are evaluating and discussing the potential acquisition of apartment properties containing approximately 1,068 units, with an estimated aggregate purchase price of approximately $93 million. We do not have letters of intent or binding agreements to acquire any of these properties and, accordingly, we have determined that no acquisitions are probable as of the date of this prospectus. We cannot assure you that we will acquire any of these properties or that any actual acquisition price will not be significantly different from what we currently estimate.

Focus on properties in markets that have strong apartment demand, reduced competition from national apartment buyers and no substantial new apartment construction. In evaluating potential acquisitions, our advisor analyzes apartment occupancy and trends in rental rates, employment and new construction, among many other factors, and seeks to identify properties located in areas where there is strong demand for apartment units and little to no apartment development. We generally will seek to avoid markets where we believe potential yields have decreased as a result of the acquisition and development efforts of large institutional buyers.

Acquire properties that have operating upside through targeted management strategies. Our advisor and Jupiter have expertise in acquiring and/or managing under-performing properties and increasing the net operating income of such properties through more effective marketing and leasing, better management of rental rates and more efficient expense management. We will seek to acquire properties that we believe possess significant prospects for increased occupancy and rental revenue growth.

Selectively use our capital to improve apartment properties where we believe the return on such capital is accretive to our stockholders. Jupiter has significant experience allocating capital to value-added improvements of apartment properties to produce better occupancy and rental rates. We will selectively deploy our capital into revenue-enhancing capital projects that our advisor and Jupiter believe will improve the physical plant or market positioning of particular apartment properties and generate increased income over time.

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Our Existing Portfolio

We hold fee title to all properties in our existing portfolio. The following table presents an overview of our existing portfolio as of September 30, 2013.

Property Name	Location	Purchase Date	Year Built or Renovated[(1)]	Units[(2)]	Average Occupancy[(3)]	Average Monthly Effective Rent per Occupied Unit[(4)]
Belle Creek	Henderson, Colorado	4/29/2011	2011	162[(5)]	97.5%	$ 920
Berkshire Square	Indianapolis, Indiana	9/19/2013	2012	354	98.0%	N/A[(6)]
Centrepoint	Tucson, Arizona	12/16/2011	2006	320	92.5%	817
Copper Mill	Austin, Texas	4/29/2011	2010	320	97.5%	728
Crestmont	Marietta, Georgia	4/29/2011	2010	228	93.9%	705
Cumberland Glen	Smyrna, Georgia	4/29/2011	2010	222	93.7%	666
Heritage Trace	Newport News, Virginia	4/29/2011	2010	200	90.5%	725
Runaway Bay	Indianapolis, Indiana	10/11/2012	2002	192	88.5%	923
Tresa at Arrowhead	Phoenix, Arizona	4/29/2011	2006	360	94.7%	827
Total/Weighted Average				2,358	94.1%	$ 789

(1) All dates are for the year in which a significant renovation program was completed, except for Runaway Bay, which is the year construction was completed. The year construction was completed for each of the other properties is: Belle Creek 2002; Berkshire Square 1970; Centrepoint 1995; Copper Mill 1984; Crestmont 1987; Cumberland Glen 1987; Heritage Trace 1973; and Tresa at Arrowhead 1998.

(2) Units represents the total number of apartment units available for rent at September 30, 2013.

(3) Average occupancy for each of our properties is calculated as (i) total units rented as of September 30, 2013 divided by (ii) total units available as of September 30, 2013, expressed as a percentage.

(4) Average monthly effective rent per occupied unit represents the average monthly rent for all occupied units for the nine months ended September 30, 2013.

(5) Includes 6,256 square feet of retail space in six units, of which 1,010 square feet of space is occupied by Jupiter for use as the leasing office. The remaining 5,246 square feet of space is 100% occupied by five tenants with an average monthly base rent of $1,487, or $15.40 per square foot per year. These five tenants are principally engaged in the following businesses: grocery retail and various retail services.

(6) We do not report average effective rent per unit in the month of acquisition as it is not representative of a full month of operations.

Our Properties Under Contract

The following table presents an overview of the apartment properties we have under contract as of the date of this prospectus.

Property Name[(1)]	Location	Year Renovated[(2)]	Units[(3)]	Average Occupancy[(4)]	Average Monthly Effective Rent per Occupied Unit[(5)]
Oklahoma Portfolio:					
Augusta	Oklahoma City, Oklahoma	2011	197	91.4%	$ 702
Heritage Park	Oklahoma City, Oklahoma	2011	453	86.0%	585
Invitational	Oklahoma City, Oklahoma	2011	344	94.1%	651
Raindance	Oklahoma City, Oklahoma	2011	504	96.2%	503
Windrush	Edmond, Oklahoma	2011	160	98.8%	746
The Crossings	Jackson, Mississippi	2006	432	96.3%	699

Total/Weighted Average	2,090	92.1%	$	648

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(1) The properties included in this table are properties for which we believe, as of the date of this prospectus, that an acquisition is likely or probable and for which we have entered into a binding acquisition agreement. We cannot provide any assurances that the acquisitions contemplated will be completed. The closing of each acquisition is subject to customary terms and conditions. We may terminate the purchase agreement for the Oklahoma portfolio with or without cause prior to the expiration of the due diligence period on November 22, 2013, in which event any deposit would be returned to us. The due diligence period under the purchase and sale agreement for The Crossings has expired. After expiration of the applicable due diligence period, if we terminate either of these acquisitions without cause, the deposit for such acquisition will be non-refundable.

(2) All dates are for the year in which a renovation program was completed. The year construction was completed for each of the properties is: Augusta 1986; Heritage Park 1984; Invitational 1984; Raindance 1984; Windrush 1984; The Crossings 1976**.**

(3) Units represents the total number of apartment units available for rent at September 30, 2013.

(4) Average occupancy for each of the properties is calculated as (i) total units rented as of September 30, 2013 divided by (ii) total units available as of September 30, 2013, expressed as a percentage.

(5) Average monthly effective rent per occupied unit represents the average monthly rent collected for all occupied units for the three months ended September 30, 2013, after giving effect to tenant concessions.

See Recent Developments for additional information regarding our properties under contract.

Summary Risk Factors

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

- There are inherent risks associated with real estate investments and with the real estate industry, each of which could have an adverse impact on our financial performance and the value of our properties.

- The illiquidity of real estate investments could significantly impede our ability to respond to changing economic, financial and investment conditions or changes in the operating performance of our properties, which could adversely affect our cash flows and results of operations.

- We may be limited in our ability to diversify our investments.

- We intend to use mortgage and other indebtedness to partially finance our company, which increases the risk to our business. Our leverage policy has been adopted by our board of directors and is therefore subject to change without stockholder consent.

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

- We depend upon RAIT, our advisor and their affiliates to conduct our operations and, therefore, any adverse changes in the financial health of RAIT, our advisor or their affiliates, or our relationship with any of them, could hinder our operating performance and adversely affect the trading price of our common stock,

Termination of our advisory agreement, even for poor performance, could be difficult and costly, including as a result of termination fees, and may cause us to be unable to execute our business plan.

If we internalize our management functions, your interest in our company could be diluted, and we could incur other significant costs associated with being self-managed.

There are numerous conflicts of interest between the interests of investors and our interests or the interests of our advisor, RAIT and their respective affiliates, including conflicts arising out of allocation of personnel to our activities, allocation of investment opportunities between us and RAIT, purchase or sale of apartment properties from or to RAIT or its affiliates and fee arrangements with our advisor that might induce our advisor to make investment decisions that are not in our best interests.

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

Although our common stock is currently listed on the NYSE MKT, we cannot assure that an active market for our common stock will exist in the future. In addition, the market price and trading volume of our common stock may be volatile.

If we fail to maintain our qualification as a REIT and no relief provisions apply, we will be subject to U.S. federal income tax on our taxable income, and our cash available for distribution to our stockholders would materially decrease.

Financing Strategy

We intend to use prudent amounts of leverage in making our investments, which we define as having total indebtedness of no more than approximately 65% of the combined initial purchase price of all of the properties in our portfolio from time to time. However, we are not subject to any limitations on the amount of leverage we may use, and, accordingly, the amount of leverage we use may be significantly less or greater than we currently anticipate. By operating on a leveraged basis, we expect to have more funds available for property acquisitions and other purposes, which we believe will allow us to acquire more properties than would otherwise be possible, resulting in a larger and more diversified portfolio. See Risk Factors Risks Associated with Debt Financing for more information about the risks related to operating on a leveraged basis.

If our board of directors changes our policies regarding our use of leverage, we expect that it will consider many factors, including, among others, the lending standards of government-sponsored enterprises, such as the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, for loans in connection with the financing of apartment properties, the leverage ratios of publicly traded REITs with similar investment strategies, the cost of leverage as compared to expected operating net revenues and general market conditions.

Other than the existing mortgage financing secured by the apartment properties in our existing portfolio, and a secured revolving credit facility with The Huntington National Bank pursuant to which our operating partnership may borrow up to the lesser of $20.0 million, 60% of the total acquisition costs of all properties acquired with advances under the credit agreement and an amount that would not cause our operating partnership to exceed a defined debt service coverage ratio, we have no other established financing sources as of the date of this prospectus.

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Structure of Our Company

We were formed as a Maryland corporation on March 26, 2009 and commenced operations on April 29, 2011 upon our acquisition of six properties from RAIT. We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT, structure in which our properties are owned by our operating partnership directly or through subsidiaries. We are the sole general partner of, and we and a wholly-owned subsidiary own 100% of the limited partnership interests in, our operating partnership. We are externally advised by our advisor pursuant to an advisory agreement and subject to the oversight of our board of directors.

Our operating partnership was formed as a Delaware limited partnership on March 27, 2009. Substantially all of our assets are held by, and substantially all of our operations are conducted through, our operating partnership. As the sole general partner of our operating partnership, and direct and indirect holder of all limited partnership interests in our operating partnership, we have the exclusive power under the partnership agreement to manage and conduct its business. In the future, we may issue common units from time to time in connection with property acquisitions, as compensation or otherwise. Limited partners have certain limited approval and voting rights, as set forth in Description of Our Operating Partnership and Operating Partnership Agreement.

Independence Realty Advisors, LLC, our advisor, was formed on March 26, 2009 and is responsible for managing our day-to-day business operations and identifying properties for us to acquire. We pay our advisor and its affiliates fees and reimburse certain expenses for services rendered to us. The most significant items of compensation and reimbursement are outlined in Compensation of Our Advisor and Property Manager, below. For a more complete explanation of the fees and expenses, as well as restrictions on compensation, see Our Advisor, Our Property Manager and Related Agreements.

Our advisor is located at Cira Centre, 2929 Arch Street, 17th Floor, Philadelphia, Pennsylvania 19104 and its telephone number is (215) 243-9000.

Jupiter Communities, LLC, our property manager, was formed on April 9, 2009 as an indirect subsidiary of Jupiter Realty Company, a Chicago-based residential and commercial real estate firm established in 1985. In May 2009, RAIT acquired a 75% controlling equity interest in our property manager. Our property manager is a full-service apartment property management company that, as of September 30, 2013, employs approximately 275 staff and professionals and manages approximately 10,600 apartment units for RAIT and third parties. Our property manager provides services to us in connection with the rental, leasing, operation and management of our properties. Our property manager is located at 401 North Michigan Avenue, Suite 1300, Chicago, Illinois and its telephone number is (312) 924-1601.

Organizational Structure

The following chart shows our organizational structure following completion of this offering[1]:

(1) Assumes (i) the sale of shares of common stock in this offering; and (ii) RAIT purchases $ million in shares of our common stock in this offering, at the public offering price.

Compensation of Our Advisor and Our Property Manager

The following table sets forth the compensation of our advisor, property manager and their affiliates. For additional information with respect to the compensation of our advisor and our property manager, see Our Advisor, Our Property Manager and Related Agreements.

Type of Compensation (Recipient)	**Determination of Amount**	**Payment**
	Offerings	
Reimbursement of Offering Expenses (Advisor)[1]	Offering expenses include all expenses, other than underwriting discounts, paid or to be paid by us in connection with offerings of our securities (including shares of our common stock in this offering), including our legal, accounting, printing, mailing and filing fees and other documented offering expenses. To the extent that our advisor pays our offering expenses, we will reimburse our advisor for these amounts.	Cash in an amount equal to documented offering expenses incurred.

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Type of Compensation (Recipient)	**Determination of Amount**	**Payment**
	Ongoing Operations	
Quarterly Base Management Fee (Advisor)(2)(3)(4)	0.1875% of average gross real estate assets as of the last day of such quarter. Average gross real estate assets means the average of the aggregate book value of our real estate assets (excluding the book values attributable to the eight properties in our portfolio that were acquired prior to August 16, 2013) before reserves for depreciation or other similar non-cash reserves. We will compute average gross real estate assets by taking the average of the book values of our properties (excluding the eight properties in our portfolio that were acquired prior to August 16, 2013) at the end of each month during the quarter for which we are calculating the fee.	Quarterly in arrears in cash, shares of our common stock (valued at the volume-weighted average closing price for the ten trading days prior to the payment of the incentive fee, which we refer to as the fee VWAP) or any combination thereof at the election of our advisor.
Quarterly Incentive Fee (Advisor)(2)(3)	We pay our advisor an incentive fee based on our pre-incentive fee core funds from operations, or Core FFO, as defined below. The incentive fee is computed at the end of each fiscal quarter as follows: no incentive fee in any fiscal quarter in which our pre-incentive fee Core FFO does not exceed a hurdle rate equal to 1.75% (7% annualized) of the cumulative gross proceeds from the issuance of our equity securities during such quarter; and 20% of the amount of our pre-incentive fee Core FFO that exceeds 1.75% (7% annualized) of the cumulative gross proceeds from the issuance of our equity securities during such quarter. Core FFO is calculated by adjusting our funds from operations, or FFO, for items that do not reflect ongoing property operations, such as acquisition expenses, expensed costs related to the issuance of shares of our common stock and equity-based compensation expenses. We will further adjust Core FFO to include any realized gains or losses on our real estate investments when calculating the incentive fee only. See Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures for additional information.	Payable in cash, shares of our common stock (valued at the fee VWAP) or any combination thereof at the election of our advisor.

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Type of Compensation (Recipient)	Determination of Amount	Payment
Reimbursement of Operating Expenses (Advisor)[3]	We reimburse our advisor for all of its out-of-pocket expenses in performing its services, excluding salaries and other compensation of its personnel, but including the cost of legal, accounting, financial, due diligence and other services that outside professionals or outside consultants would otherwise perform. We also pay our pro rata share of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of our advisor required for our operations.	Monthly in cash based on documented expenses incurred.
Termination Fee (Advisor)[2]	Upon termination of the advisory agreement by us without cause or by our advisor if we materially breach the advisory agreement, our advisor will be entitled to a termination fee equal to four times the sum of (i) the average annual base management fee and (ii) the average annual incentive fee, in each case calculated based on the eight full calendar quarters immediately preceding the termination date.	Payable in cash, shares of our common stock (valued at the fee VWAP) or any combination thereof at the election of our advisor, upon termination of the advisory agreement by us without cause or by our Manager for good reason.
Property Management and Leasing Fees (Property Manager)	4% of our gross revenues, payable to Jupiter. Additionally, we may pay Jupiter a separate fee for the one-time initial rent-up or leasing-up of newly constructed properties in an amount not to exceed the fee customarily charged in arms length transactions by others rendering similar services in the same geographic area for similar properties as determined by a survey of brokers and agents in such area.	Payable quarterly in arrears in cash.

(1) We estimate that the total expenses of this offering (exclusive of the underwriting discount and commissions) will be approximately $.

(2) The advisor s ability to receive shares of our common stock as payment for all or a portion of any fee payable under the advisory agreement is subject to certain limitations. See Our Advisor, Our Property Manager and Related Agreements Our Advisory Agreement Limitations on Receiving Shares.

(3) With respect to joint venture investments, the base management fee, incentive fee and reimbursement of operating expenses will be calculated based upon our pro-rata share of the joint venture s assets, FFO and operating expense reimbursements, respectively.

(4) The properties in our portfolio acquired prior to August 16, 2013 consist of Belle Creek, Centrepoint, Copper Mill, Crestmont, Cumberland Glen, Heritage Trace, Runaway Bay and Tresa at Arrowhead. These properties, with the exception of Runaway Bay, were contributed to us by RAIT in 2011.

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Conflicts of Interest

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

- RAIT owns, and on completion of this offering will continue to own, a significant percentage of our outstanding shares of common stock, which gives RAIT the ability to exert significant influence over our company in a manner that may not be in the best interests of our other stockholders;

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

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

- the possibility that our advisor, its officers and their respective affiliates will face conflicts of interest relating to the purchase and leasing of properties (e.g., if RAIT or an affiliate has an existing direct or indirect investment in a property that would otherwise be suitable for us, RAIT or such affiliate, as the case may be, will have the right to acquire such property, directly or indirectly, without first offering us the opportunity to acquire the property), and that such conflicts may not be resolved in our favor, thus potentially limiting our investment opportunities, impairing our ability to make distributions and adversely affecting the trading price of our common stock;

- the possibility that our advisor and its affiliates may make investment recommendations to us in order to increase their own compensation even though the investments may not be in the best interests of our stockholders;

- the possibility that if we acquire properties from RAIT or its affiliates, the price may be higher than we would pay if the transaction were the result of arms length negotiations with a third party;

- the possibility that our advisor will face conflicts of interest caused by its ownership by RAIT, some of whose officers are also our officers and one of whom is a director of ours, resulting in actions that may not be in the long-term best interests of our stockholders;

- RAIT s ability to provide financing to us for acquisitions of properties; and

- the possibility that we may acquire or merge with our advisor, resulting in an internalization of our management functions.

Distribution Policy

The Code generally requires that a REIT distribute annually at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, and imposes a tax on any taxable income retained by a REIT, including capital gains. To satisfy the requirements for qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular monthly distributions of all or substantially all of our REIT taxable income to holders of our common stock out of assets legally available for such purposes. Our board of directors has declared dividends for October, November and December 2013 of approximately $0.05333 per share per month, totaling $0.16 per share for the quarter. Our future distributions will be at the sole discretion of our board of directors. Our board of directors intends to continue to establish, on a quarterly basis, in advance, the dividend amount for our common stock for each month in the quarter.

REIT Status

So long as we maintain our qualification as a REIT, we generally will not be subject to U.S. federal income or excise tax on income that we distribute to our stockholders. Under the Code, a REIT is subject to numerous

organizational and operational requirements, including a requirement that it annually distribute at least 90% of its REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gain) to its stockholders. If we fail to maintain our qualification as a REIT in any year, our income will be subject to U.S. federal income tax at regular corporate rates, regardless of our distributions to stockholders, and we generally would be precluded from qualifying for treatment as a REIT for the four-year period immediately following the taxable year in which such failure occurs. Even if we maintain our qualification as a REIT, we may still be subject to state and local taxes on our income and property and to U.S. federal income and excise taxes on our undistributed income. Moreover, if we establish taxable REIT subsidiaries, or TRSs, such TRSs generally will be subject to U.S. federal income taxation and to various other taxes.

Restrictions on Ownership and Transfer of Our Common Stock

In order to assist in complying with requirements that limit the concentration of ownership of a REIT imposed by the Code, among other purposes, our charter generally prohibits any stockholder from beneficially owning or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of any class or series of outstanding shares of our capital stock, including our common stock. Our board may, in its sole discretion, prospectively or retroactively, waive the 9.8% ownership limit with respect to a particular stockholder if it is presented with evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT. Our board of directors has granted such an exception for RAIT and its subsidiaries to own, in the aggregate, up to 100% of our outstanding common stock.

Our charter also prohibits any person from beneficially or constructively owning capital stock such that we would be deemed to be closely held under the Code, would result in our capital stock being beneficially owned by fewer than 100 persons, or would otherwise cause us to fail to maintain our qualification as a REIT.

Corporate Information

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

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The Offering

Common stock offered by us	shares[1]
Common stock to be outstanding after this offering	shares[1][2]
Use of proceeds	We intend to use approximately $6.0 million of the net proceeds of this offering to finance the acquisition of the Oklahoma Portfolio, which acquisition is subject to standard closing conditions (see Prospectus Summary Recent Developments), and the balance to acquire additional properties in the ordinary course of business and, to a lesser extent, for general corporate purposes and working capital.
NYSE MKT symbol	IRT
Restrictions on Ownership	Our charter generally prohibits any stockholder from beneficially or constructively owning more than 9.8% in value or in number of shares, whichever is more restrictive, of any class or series of outstanding shares of our capital stock, including our common stock. Our board of directors has granted such an exception for RAIT and its subsidiaries to own, in the aggregate, up to 100% of our outstanding common stock
Risk Factors	Investing in our common stock involves a high degree of risk. You should carefully consider the risk factors beginning on page 16 of this prospectus in conjunction with the other information included or incorporated by reference in this prospectus before purchasing our common stock.

(1) Excludes (i) up to shares of our common stock issuable upon the exercise of the underwriters option and (ii) 791,000 shares of our common stock available for future issuance under our long-term incentive plan.

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Summary Selected Consolidated Financial and Operating Data

The summary consolidated financial and operating data set forth below as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The audited consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 have been audited by Grant Thornton LLP, an independent registered public accounting firm. The summary financial and operating data set forth below as of September 30, 2013 and 2012 and for the nine months ended September 30, 2013 and 2012 have been derived from our unaudited financial statements included elsewhere in this prospectus. We were formed on March 26, 2009 and commenced operations on April 29, 2011 when we acquired six apartment properties from RAIT. As a result, we had no material operations for the period from March 26, 2009 (date of inception) to April 29, 2011. The consolidated financial and operating data set forth below as of December 31, 2009 and for the period from March 26, 2009 (date of inception) to December 31, 2009 have been derived from our audited consolidated financial statements not included in this prospectus.

Our unaudited selected pro forma consolidated financial statements and operating information as of and for the nine months ended September 30, 2013 and for the year ended December 31, 2012 have been adjusted to give effect to: (i) the completion of this offering, (ii) the probable acquisition of The Crossings, (iii) the acquisition of Runaway Bay Apartments, which we acquired on October 11, 2012, (iv) the payment of cash dividends on our common stock in October, November and December 2013, which were declared by our board of directors on October 10, 2013, (v) the exchange by RAIT of 5,274,900 common units in our operating partnership for 5,274,900 shares of our common stock on May 7, 2013, (vi) borrowings drawn on our $20 million secured revolving credit facility, which we entered into on October 25, 2013, and (vii) the application of the net proceeds from this offering in the manner set forth under Use of Proceeds, which includes the probable acquisition of the Oklahoma Portfolio.

The unaudited pro forma consolidated balance sheet as of September 30, 2013 is presented as if the transactions described in items (i), (ii), (iv), (vi) and (vii) had occurred on September 30, 2013. The unaudited pro forma consolidated statements of operations for the nine-month period ended September 30, 2013 and the year ended December 31, 2012 are presented as if the transactions had occurred on January 1, 2012. The transactions described in items (iii) and (v) were completed prior to September 30, 2013 and are reflected in our historical unaudited consolidated balance sheet as of September 30, 2013.

The unaudited pro forma consolidated financial statements included in this prospectus are presented for informational purposes only. The unaudited pro forma adjustments are based on information and assumptions that we consider reasonable and factually supportable. This information includes various estimates and assumptions and may not necessarily be indicative of the financial condition or results of operations that would have occurred if each of the transactions described in (i) through (vii) above occurred on the date or at the beginning of the period indicated or which may be obtained in the future. The unaudited pro forma consolidated balance sheet and statements of operations and accompanying notes should be read in conjunction with our historical consolidated financial statements and the statements of revenue and certain expenses of Runaway Bay, the combined statements of revenue and certain expenses of the Oklahoma portfolio and the statement of revenue and certain expenses of The Crossings included elsewhere in this prospectus.

Since the information presented below is only a summary and does not provide all of the information contained in our historical pro forma consolidated financial statements, including the related notes, you should read it together with Management s Discussion and Analysis of Financial Condition and Results of Operations

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and our historical pro forma consolidated financial statements, including the related notes, which are included elsewhere in this prospectus.

	As of and for the Nine Month Periods Ended September 30,			As of and for the Years Ended December 31,				As of and for the Period from March 26, 2009 (inception) to December 31,
	2013		2012	2012		2011	2010	2009
	(unaudited) Pro Forma	(unaudited) Historical	(unaudited) Historical	(unaudited) Pro Forma	Historical	Historical	Historical	Historical
	(in thousands, except per share data)							
Operating Data:								
Total revenue		$ 14,175	$ 12,117		$ 16,629	$ 8,668	$ 5	$ 2
Total expenses		$ 10,516	$ 9,331		$ (16,202)	$ (9,038)	$ (1)	$ (1)
Net income (loss)		$ 966	$ 378		$ 427	$ (370)	$ 4	$ 1
Net income (loss) allocable to common shares		$ 307	$ (68)		$ (123)	$ (112)	$ 4	$ 1
Earnings (loss) per share:								
Basic		$ 0.08	$ (0.26)		$ (0.45)	$ (5.60)	$ 0.20	$ 0.06
Diluted		$ 0.08	$ (0.26)		$ (0.45)	$ (5.60)	$ 0.20	$ 0.06
Balance Sheet Data:								
Investments in real estate		$ 151,860	$ 126,523		$ 141,282	$ 128,124	$	$
Total assets		$ 172,025	$ 132,611		$ 146,197	$ 131,352	$ 209	$ 206
Total indebtedness		$ 92,284	$ 82,175		$ 92,413	$ 82,175	$	$
Total liabilities		$ 95,810	$ 84,559		$ 95,346	$ 84,294	$ 2	$ 3
Total equity		$ 76,215	$ 48,052		$ 50,851	$ 47,058	$ 207	$ 203
Other Data:								
Common shares outstanding		9,643,540	325,023		345,063	20,000	20,000	20,000
Limited partnership units outstanding			5,274,900		5,274,900	5,274,900		
Cash distributions declared per common share/unit		$ 0.47	$ 0.45		$ 0.60	$ 0.30		
FFO[1]		$ 3,843	$ 2,837		$ 3,799	$ 1,401		
Core FFO[1]		$ 3,893	$ 2,929		$ 3,956	$ 1,889		

(1) For definitions and reconciliations of FFO and Core FFO to net income (loss), as well as a statement disclosing the reasons why our management believes that FFO and Core FFO provide useful information to investors and, to the extent material, any additional purposes for which our management uses FFO and Core FFO, see Management s Discussion and Analysis of Financial Condition and Results of Operations Funds from Operations and Core Funds from Operations.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors in conjunction with the other information included or incorporated by reference in this prospectus before purchasing our common stock. The risks discussed in this prospectus could adversely affect our business, operating results, prospects and financial condition. This could cause the value of our common stock to decline and you could lose part or all of your investment. The risks and uncertainties described below are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that, as of the date of this prospectus, we deem immaterial may also harm our business. Some statements included or incorporated by reference this prospectus, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled Cautionary Note Regarding Forward-Looking Statements.

Risks Related to Our Business and Operations

We may be limited in our ability to diversify our investments.

Our ability to diversify our portfolio may be limited both as to the number of investments owned and the geographic regions in which our investments are located. While we will seek to diversify our portfolio by geographic location, we expect to focus on markets with high potential for attractive returns located in the United States and, accordingly, our actual investments may result in concentrations in a limited number of geographic regions. As a result, there is an increased likelihood that the performance of any single property, or the economic performance of a particular region in which our properties are located, could materially affect our operating results.

We may fail to consummate our pending property acquisitions, which could have a material adverse impact on our results of operations, earnings and cash flow.

We intend to use a significant portion of the net proceeds of this offering to fund a portion of the pending acquisition of the Oklahoma Portfolio (See Prospectus Summary Recent Developments). This acquisition is subject to the satisfaction of various closing conditions, and there can be no assurances that these conditions will be satisfied or that the acquisition will close on the terms described herein, or at all. In the event that we fail to consummate this or any other pending acquisition, we will have issued a significant number of additional shares of our common stock without realizing a corresponding increase in earnings and cash flow from acquiring the properties involved in such acquisitions. In addition, we will have broad authority to use the net proceeds of this offering for other purposes, including the repayment of indebtedness, the acquisition of other properties that we may identify in the future or for other investments, which may not be initially accretive to our results of operations. As a result, failure to consummate one or more of the pending property acquisitions could have a material adverse impact on our financial condition, results of operations and the market price of our common stock.

We may suffer from delays in locating suitable investments or, because of our public company status, may be unable to acquire otherwise suitable investments, which could adversely affect our growth prospects and results of operations.

Our ability to achieve our investment objectives and to make distributions to our stockholders depends upon our advisor s ability to locate, obtain financing for and consummate the acquisition of apartment properties that meet our investment criteria. The current market for apartment properties that meet our investment criteria is highly competitive. We cannot be sure that our advisor will be successful in obtaining suitable investments on financially attractive terms or at all.

Additionally, as a public company, we are subject to the ongoing reporting requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Pursuant to the Exchange Act, we may be

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required to file with the SEC financial statements of properties we acquire. To the extent any required financial statements are not available or cannot be obtained, we may not be able to acquire the property. As a result, we may be unable to acquire certain properties that otherwise would be suitable investments.

If we are unable to invest our offering proceeds in real properties in a timely manner, we may invest the proceeds in short-term, investment-grade investments which typically will yield significantly less than what we expect our investments will yield. As a result, delays we encounter in identifying and consummating potential acquisitions may adversely affect our growth prospects, results of operations and our ability to make distributions to our stockholders.

We have not established a minimum dividend payment level and we cannot assure you of our ability to pay dividends in the future or the amount of any dividends.

Our board of directors will determine the amount and timing of distributions. In making this determination, our directors will consider all relevant factors, including REIT minimum distribution requirements, the amount of cash available for distribution, restrictions under Maryland law, capital expenditures and reserve requirements and general operational requirements. We cannot assure you that we will be able to make distributions in the future or in amounts similar to our past distributions. We may need to fund distributions through borrowings, returning capital or selling assets, which may be available only at commercially unattractive terms, if at all. Any of the foregoing could adversely affect the market price of our common stock.

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

Stockholders have no rights to buy additional shares of stock if we issue new shares of stock. We may issue common stock, convertible debt or preferred stock pursuant to a subsequent public offering or a private placement, to sellers of properties we directly or indirectly acquire instead of, or in addition to, cash consideration, or to our advisor in payment of some or all of the quarterly base or incentive fee that may be earned by our advisor or in payment of some or all of the termination fee that may be payable to our advisor. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Investors purchasing common stock in this offering who do not participate in any future stock issuances will experience dilution in the percentage of the issued and outstanding stock they own.

We may decide to borrow funds to satisfy our REIT minimum distribution requirements, which could adversely affect our overall financial performance.

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

To maintain our qualification as a REIT, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and adversely affect the trading price of our common stock.

To maintain our qualification as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution.

Compliance with the REIT qualification requirements may hinder our ability to operate solely on the basis of maximizing profits and adversely affect the trading price of our common stock.

Risks Related to Our Organization, Structure and Management

We depend upon RAIT, our advisor and their affiliates to conduct our operations and, therefore, any adverse changes in the financial health of RAIT, our advisor or their affiliates, or our relationship with any of them, could hinder our operating performance and adversely affect the trading price of our common stock.

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

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

RAIT conducts a substantial real estate and real estate finance business which has, in the past, resulted in substantial losses. If these losses were to recur, the ability of RAIT and its affiliates, including our advisor and our property manager, to provide us with the services we need to operate our business could be impaired and we could be required to seek alternative service providers. We cannot assure you that we would be able to obtain alternative service providers on acceptable terms, or at all, which would reduce or eliminate our ability to make distributions and, possibly, if we could not find acceptable alternative service providers, require us to liquidate our portfolio.

If our advisor loses or is unable to retain or obtain key personnel, our ability to implement our investment strategies could be hindered, which could reduce our ability to make distributions and adversely affect the trading price of our common stock.

Our success depends to a significant degree upon the contributions of certain of the officers and other key personnel of our advisor, all of whom are officers or employees of RAIT. We cannot guarantee that all, or any, will remain affiliated with us, our advisor or RAIT. If any of our key personnel were to cease their affiliation with our advisor, our operating results could suffer. Further, we do not intend to maintain key person life insurance that would provide us with proceeds in the event of death or disability of any of our key personnel.

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

Termination of our advisory agreement, even for poor performance, could be difficult and costly, including as a result of termination fees, and may cause us to be unable to execute our business plan.

Termination of our advisory agreement without cause, even for poor performance, could be difficult and costly. Our advisory agreement provides that we may terminate the advisory agreement only for cause upon the affirmative vote of two-thirds of our independent directors or a majority of our outstanding common stock or a change of control of RAIT or the advisor (each as defined in the advisory agreement) if a majority of our independent directors determine that such a change of control of RAIT or our advisor is materially detrimental to

us. If we terminate the agreement without cause, or if the advisor terminates the agreement because of a material breach of the agreement by us or as a result of a change of control of our company, we must pay our advisor a termination fee, which is payable in cash, shares of our common stock or any combination thereof at the election of our advisor. The termination fee, if any, will be equal to four times the sum of (i) the average annual base management fee and (ii) the average annual incentive fee, in each case earned by the advisor during the eight full calendar quarters immediately preceding the termination date. These provisions may substantially restrict our ability to terminate the advisory agreement without cause and would cause us to incur substantial costs in connection with such a termination. Furthermore, if our advisory agreement is terminated and we are unable to identify a suitable replacement to manage us, our ability to execute our business plan could be adversely affected.

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

Under the Maryland General Corporation Law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder became an interested stockholder. These business combinations include a merger, consolidation, share exchange, or in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as (i) any person who beneficially owns 10% or more of the voting power of the then outstanding voting stock of the corporation; or (ii) an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation.

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

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

- 80% of the votes entitled to be cast by holders of the then outstanding shares of voting stock of the corporation; and

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

These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under the Maryland General Corporation Law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. The Maryland General Corporation Law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and any other person from these provisions of the Maryland General Corporation Law, provided that the business combination is first approved by our board of directors and, consequently, the five year prohibition and the supermajority vote requirements will not apply to such business combinations. As a result, any person approved by our board of directors will be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by us with the supermajority vote requirements and other provisions of the statute. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or our board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. See Material Provisions of Maryland Law and Our Charter and Bylaws.

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

Our board of directors determines our major policies, including those regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under our charter and the Maryland General Corporation Law, our stockholders generally have a right to vote only on the following matters:

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

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

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

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

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

We are a holding company with no business operations of our own. Our only significant asset is and will be the partnership interests in our operating partnership. We conduct, and intend to continue to conduct, all of our business operations through our operating partnership. Accordingly, our only source of cash to pay our obligations is distributions from our operating partnership and its subsidiaries of their net earnings and cash flows. We cannot assure you that our operating partnership or its subsidiaries will be able to, or be permitted to, make distributions to us that will enable us to make distributions to our stockholders from cash flows from operations. Each of our operating partnership s subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to

obtain cash from such entities. In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its

subsidiaries will be able to satisfy your claims as stockholders only after all of our and our operating partnership s and its subsidiaries liabilities and obligations have been paid in full.

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

The Maryland General Corporation Law provides that a director has no liability in such capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our directors and officers will not be liable to us or our stockholders for monetary damages unless the director or officer actually received an improper benefit or profit in money, property or services, or is adjudged to be liable to us or our stockholders based on a finding that his or her action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. We will indemnify and advance expenses to our directors and officers to the maximum extent permitted by the Maryland General Corporation Law and we are permitted to purchase and maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents, including our advisor and its affiliates, against any liability asserted which was incurred in any such capacity with us or arising out of such status. As of the date of this prospectus, we are insured under RAIT s directors and officers insurance policy as a subsidiary of RAIT. If RAIT owns less than 50% of our outstanding equity interests, whether as a result of this offering or otherwise, we will no longer be covered by RAIT s policy and, at that, time we expect that we would obtain our own directors and officers insurance policy. Obtaining such insurance will result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders.

If we internalize our management functions, your interest in our company could be diluted, and we could incur other significant costs associated with being self-managed.

In the future, our board of directors may consider internalizing the functions performed for us by our advisor by, among other methods, acquiring our advisor s assets. The method by which we could internalize these functions could take many forms, subject to certain limitations set forth in our advisory agreement and described under Our Advisor, Our Property Manager and Related Agreements Our Advisory Agreement Potential Acquisition of Our Advisor. We cannot assure you that internalizing our management functions will be beneficial to us or our stockholders. If we internalize our advisor, certain key personnel of our advisor may remain employees of RAIT or its affiliates rather than becoming our employees, which could make it difficult for us to manage our business effectively. An acquisition of our advisor could also result in dilution of your interests as a stockholder and could reduce earnings per share and funds from operations per share. Additionally, we may not realize the perceived benefits or we may not be able to properly integrate the advisor s operations with ours, or we may not be able to effectively replicate the services provided previously by our advisor, our property manager or their affiliates. In addition, if we become internally managed, our overhead costs may increase by an amount that is greater than the costs of the advisory fees and reimbursements currently paid to our advisor, as we would be responsible for compensation and benefits of all of our officers and other employees, including those who were previously paid by our advisor, as well as new employees. Internalization transactions, including without limitation, transactions involving the acquisition of advisors or property managers affiliated with entity sponsors, have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced to spend significant amounts of money defending claims which would reduce the amount of funds available for us to invest in properties or other investments and to pay distributions. All of these factors could have a material adverse effect on our results of operations, financial condition and ability to pay distributions. See Our Advisor, Our Property Manager and Related Agreement Our Advisory Agreement Potential Acquisition of Our Advisor for more information about the potential internalization of our management functions.

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If our advisor is acquired by a non-affiliated third party, we could incur significant costs and we could be in competition for the acquisition and leasing of properties with such third party or its affiliates.

If there is a change of control of our advisor (as defined in our advisory agreement), our advisory agreement provides that we may terminate the advisory agreement; however, we may incur substantial costs in connection with such a termination. If we terminate the advisory agreement upon a change of control of our advisor, unless a majority of our independent directors determines that such a change of control is materially detrimental to us, we must pay our advisor a termination fee payable in cash, shares of our common stock or any combination thereof at the election of our advisor. The termination fee, if any, will be equal to four times the sum of (i) the average annual base management fee and (ii) the average annual incentive fee, in each case earned by the advisor during the eight full calendar quarters immediately preceding the termination date. Furthermore, if our advisor is acquired by a non-affiliated third party, we could be in competition with such third party or its affiliates for the acquisition or leasing of properties. Moreover, such an acquisition could cause our advisor to devote significantly less time to the management of our business. Although our advisory agreement may allow us to terminate the advisory agreement if the advisor is acquired by a non-affiliated third party, any termination by us could adversely impact our ability to execute our business plan if we are unable to identify a suitable replacement to manage us.

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

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

We may have conflicts of interest with our advisor and other affiliates, which could result in investment decisions that are not in the best interests of our stockholders.

There are numerous conflicts of interest between our interests and the interests of our advisor, RAIT and their respective affiliates, including conflicts arising out of allocation of personnel to our activities, allocation of investment opportunities between us and RAIT, purchase or sale of apartment properties from or to RAIT or its affiliates and fee arrangements with our advisor that might induce our advisor to make investment decisions that are not in our best interests. Examples of these potential conflicts of interest include:

- RAIT owns, and on completion of this offering will continue to own, a significant percentage of our outstanding shares of common stock, which gives RAIT the ability to exert significant influence over our company in a manner that may not be in the best interests of our other stockholders;

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

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

- the possibility that our advisor, its officers and their respective affiliates will face conflicts of interest relating to the purchase and leasing of properties (e.g., if RAIT or an affiliate has an existing direct or indirect investment in a property that would otherwise be suitable for us, RAIT or such affiliate, as the case may be, will have the right to acquire such property, directly or indirectly, without first offering us the opportunity to acquire the property), and that such conflicts may not be resolved in our favor, thus potentially limiting our investment opportunities, impairing our ability to make distributions and adversely affecting the trading price of our common stock;

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- the possibility that our advisor and its affiliates may make investment recommendations to us in order to increase their own compensation even though the investments may not be in the best interests of our stockholders;
- the possibility that if we acquire properties from RAIT or its affiliates, the price may be higher than we would pay if the transaction were the result of arms length negotiations with a third party;
- the possibility that our advisor will face conflicts of interest caused by its ownership by RAIT, some of whose officers are also our officers and one of whom is a director of ours, resulting in actions that may not be in the long-term best interests of our stockholders;
- RAIT s ability to provide financing to us for acquisitions of properties which could result in conflicts with respect to negotiation and enforcement of loan terms; and
- the possibility that we may acquire or merge with our advisor, resulting in an internalization of our management functions.

Any of these and other conflicts of interest between us and our advisor could have a material adverse effect on the returns on our investments, our ability to make distributions to stockholders and the trading price of our common stock. See Conflicts of Interest.

General Risks Related to Investments in Real Estate

There are inherent risks associated with real estate investments and with the real estate industry, each of which could have an adverse impact on our financial performance and the value of our properties.

By owning our common stock, you will be subject to the risks associated with the ownership and operation of real properties, including risks related to:

- changes in national, regional and local conditions, which may be affected by concerns about inflation, deflation, government deficits, high unemployment rates, decreased consumer confidence, liquidity concerns and other adverse business concerns;
- changes in local real estate conditions, such as an oversupply of space or reduction in demand for rental properties;
- changes in interest rates and the availability of financing;
- changes in property-level operating expenses, including increased real property taxes, maintenance, insurance and utilities costs;
- the existence and quality of the competition, such as the attractiveness of our properties as compared to our competitors properties based on considerations such as convenience of location, property design and appearance, rental rates, amenities and safety record;
- a favorable interest rate environment that may result in a significant number of potential residents of our apartment properties deciding to purchase homes instead of renting; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Any of these changes could cause our net revenues and the value of our assets to decrease.

The illiquidity of real estate investments could make it difficult for us to respond to changing economic, financial, and investment conditions or changes in the operating performance of our properties, which could reduce our cash flows and adversely affect results of operations.

Real estate investments are relatively illiquid and, as a result, we will have a limited ability to vary our portfolio in response to changes in economic, financial and investment conditions or changes in the operating

performance of our properties. We will also have a limited ability to sell assets in order to fund working capital and similar capital needs. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We also may be required to expend funds to correct defects or to make improvements before a property can be sold, and we cannot assure you that we will have funds available to correct those defects or to make those improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations.

Moreover, the Code imposes restrictions on a REIT s ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect our cash flows, our ability to make distributions to our stockholders and the market price of our common stock.

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

A residential property s income and value may be adversely affected by international, national and regional economic conditions. During the past five years, the U.S. and international markets have experienced increased levels of volatility due to a combination of many factors, including decreased values of home prices and commercial real estate, limited access to credit markets, increased energy costs, increased unemployment rates, and a national and global recession. Although recently some economic conditions appear to have improved, if such improvement does not continue or if new economic or capital markets problems arise, the value of our portfolio may decline significantly. A deterioration in economic conditions may also have an adverse effect on our operations if they result in our tenants or prospective tenants being unable to afford the rents we need to charge to be profitable.

In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, availability of for sale properties and competition from other similar properties, our ability to provide adequate maintenance, insurance and management services, increased operating costs (including real estate taxes), the attractiveness and location of the property and changes in market rental rates, may adversely affect a property s income and value. A rise in energy costs could result in higher operating costs, which may affect our results from operations. In addition, local conditions in the markets in which we own or intend to own properties may significantly affect occupancy or rental rates at such properties. Layoffs, plant closings, relocations of significant local employers and other events reducing local employment rates and the local economy; an oversupply of, or a lack of demand for, apartments; a decline in household formation; the inability or unwillingness of residents to pay rent increases; and rent control, rent stabilization and other housing laws, all could prevent us from raising or maintaining rents, and could cause us to reduce rents.

Rising expenses could reduce cash flow and funds available for future acquisitions, which may have a material effect on the trading price of our common stock.

Our properties may be subject to increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance, administrative and other expenses. If we are unable to match increased costs with increased rental rates, our growth prospects, our ability to make distributions to stockholders and the trading price of our common stock may be materially and adversely affected.

Properties we purchase may not appreciate or may decrease in value.

The residential real estate market may experience substantial influxes of capital from investors. A substantial flow of capital, combined with significant competition for real estate, may result in inflated purchase

prices for such assets. To the extent we purchase real estate in such an environment, we are subject to the risk that, if the real estate market subsequently ceases to attract the same level of capital investment, or if the number of investors seeking to acquire such assets decreases, our returns will be lower and the value of our assets may not appreciate or may decrease significantly below the amount we paid for such assets.

We may incur liabilities in connection with properties we acquire.

We may acquire properties that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes, or other legal requirements, many of which may not be known to us at the time of acquisition. In each case, our acquisition may be without any, or with only limited, recourse with respect to unknown liabilities or conditions. 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. While we will attempt to obtain appropriate representations and undertakings from the sellers of the properties or entities we acquire, the sellers may not have the resources to satisfy their indemnification obligations if a liability arises.

RAIT may provide loan financing to us through the use of a securitization or other special purpose vehicle.

RAIT has used securitizations in which it has a retained interest to finance many of its investments, and has retained interests in these vehicles consisting of their subordinated notes and equity. Although RAIT s securitization vehicles holding properties have passed their reinvestment periods, RAIT may form new securitization vehicles in the future which it may use to provide financing on properties we may acquire.

The servicer for the loans held in such securitization vehicles, which may not be an entity affiliated with RAIT, would be responsible for ensuring timely payments under the terms of the loans. If we are unable to make payments on these loans, we may not be able to modify them on terms acceptable to us as a result of the securitization.

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

Our advisor and its affiliates will perform services for us in connection with the management and leasing of our properties. They will be paid significant fees for these services, none of which were the result of arm s-length negotiations. Payment of these fees will reduce the amount of cash available for investment and for distribution to stockholders.

We may have assumed unknown liabilities in connection with the acquisition of the apartment properties contributed by RAIT.

RAIT contributed seven apartment properties to us subject to all existing liabilities. Not all of the liabilities may have been known at the time of contribution and we cannot assure you that all possible liabilities have been discovered as of the date of this prospectus. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with those properties before we acquired them, tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. As part of the contribution to us of the apartment properties in our portfolio, RAIT made limited representations and warranties to us regarding the properties. Because of these limited warranties, we may have no recourse against RAIT with respect to those unknown liabilities should they arise in the future.

We may suffer losses that are not covered by insurance.

If we suffer losses that are not covered by insurance or that are in excess of insurance coverage, we could lose invested capital and anticipated profits. We maintain comprehensive insurance for our properties, including

casualty, liability, fire, extended coverage, terrorism, earthquakes, hurricanes and rental loss customarily obtained for similar properties in amounts which our advisor determines are sufficient to cover reasonably foreseeable losses, and with policy specifications and insured limits that we believe are adequate and appropriate under the circumstances. Material losses may occur in excess of insurance proceeds with respect to any property, and there are types of losses, generally of a catastrophic nature, such as losses due to wars, pollution, environmental matters and mold, which are either uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Moreover, we cannot predict whether all of the coverage that we currently maintain will be available to us in the future, or what the future costs or limitations on any coverage that is available to us will be.

We may be unable to secure funds for property improvements, which could reduce cash distributions to our stockholders.

When tenants do not renew their leases or otherwise vacate, we may be required to expend funds for capital improvements to the vacated apartment units in order to attract replacement tenants. In addition, we may require substantial funds to renovate an apartment property in order to sell, upgrade or reposition it in the market. If our reserves are insufficient to fund these improvements, we may have to obtain financing. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Moreover, some reserves required by lenders may be designated for specific uses and may not be available for capital improvements to other properties. Additional borrowing will increase our interest expense, and could result in decreased net revenues and a decreased ability to make cash distributions to our stockholders.

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

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

The profitability of our acquisitions is uncertain.

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

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

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

increase in the number of apartment units available which could potentially decrease our occupancy and apartment rental rates. We may also be required to expend substantial sums to attract new residents. The resale value of the property could be diminished because the market value of a particular property will depend principally upon the net revenues generated by the property. In addition, increases in operating costs due to inflation may not be offset by increased apartment rental rates. Further, costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced when circumstances cause a reduction in income from the investment. These events would cause a significant decrease in revenues and the trading price of our common stock, and could cause us to reduce the amount of distributions to our stockholders.

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

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

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

If we decide to sell any of our properties, we intend to use commercially reasonable efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk of default by the purchaser which would reduce the value of our assets, impair our ability to make distributions to our stockholders and reduce the price of our common stock.

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

We may make investments in properties that have existing cash flow which are in various phases of development, redevelopment or repositioning and where we believe that, through limited capital expenditures, we can achieve enhanced returns (which we refer to as value-add properties), which may cause our revenues and net income to fluctuate significantly from one period to another. Projects do not produce revenue while in development or redevelopment. During any period when the number of our projects in development or redevelopment or those with significant capital requirements increases without a corresponding increase in stable revenue-producing properties, our revenues and net income will likely decrease and we could have losses. Moreover, value-add properties subject us to the risks of higher than expected construction costs, failure to complete projects on a timely basis, failure of the properties to perform at expected levels upon completion of development or redevelopment, and increased borrowings necessary to fund higher than expected construction or other costs related to the project. The occurrence of one or more of these risks could decrease our cash available for distribution.

We may acquire properties with lock-out provisions, or agree to such provisions in connection with obtaining financing, which may prohibit us from selling or refinancing a property during the lock-out period.

We may acquire properties in exchange for operating partnership units and agree to restrictions on sales or refinancing, called lock-out provisions, which are intended to preserve favorable tax treatment for the owners

of such properties who sell them to us. Additionally, we may agree to lock-out provisions in connection with obtaining financing for the acquisition of properties. Lock-out provisions could materially restrict us from selling, otherwise disposing of or refinancing properties. This would affect our ability to turn our investments into cash and thus affect cash available to return capital to you. Lock-out provisions could impair our ability to take actions during the lock-out period that would otherwise be in the best interests of our stockholders and, therefore, could adversely impact the market value of our common stock. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

We may acquire properties through joint ventures, which could subject us to liabilities in excess of those contemplated or prevent us from taking actions which are in the best interests of our stockholders, which could adversely affect our trading price.

We may enter into joint ventures with affiliates and/or other third parties to acquire or improve properties. We may also purchase properties in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including the following:

- a co-venturer, co-owner or partner may have certain approval rights over major decisions, which may prevent us from taking actions that are in the best interest of our stockholders but opposed by our partners or co-venturers;
- a co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
- a co-venturer, co-owner or partner in an investment might become insolvent or bankrupt (in which event we and any other remaining partners or members would generally remain liable for the liabilities of the partnership or joint venture);
- we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;
- a co-venturer, co-owner or partner may be in a position to take actions contrary to our instructions, requests, objectives or policies, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- agreements governing joint ventures, limited liability companies and partnerships often contain restrictions on the transfer of a member s or partner s interest or buy-sell or other provisions that may result in a purchase or sale of the interest at a disadvantageous time or on disadvantageous terms;
- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; and
- that under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture.

If any of the foregoing were to occur we may be subject to liabilities in excess of those contemplated, which could adversely affect our trading price.

Risks Associated with Debt Financing

We plan to incur mortgage indebtedness and other borrowings and are not limited in the amount or percentage of indebtedness that we may incur, which may increase our business risks.

We intend to acquire properties subject to existing financing or by borrowing new funds. In addition, we intend to incur additional mortgage debt by obtaining loans secured by some, or all, of our real properties to

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obtain funds to acquire additional real properties and/or make capital improvements to properties. We may also borrow funds, if necessary, to satisfy the requirement that we generally distribute to stockholders as dividends at least 90% of our annual REIT taxable income (computed without regard to dividends paid and excluding net capital gain), or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for U.S. federal income tax purposes.

Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur. We are subject to risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

In particular, loans obtained to fund property acquisitions will generally be secured by mortgages or deeds in trust on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing its debt.

In addition, for U.S. federal income tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may, in some circumstances, give a guaranty on behalf of an entity that owns one or more of our properties. In these cases, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that we could lose part or all of our investment in multiple properties. Each of these events could in turn cause the value of our common stock and distributions payable to stockholders to be reduced.

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

We may also finance our property acquisitions using interest-only mortgage indebtedness. During the interest-only period, the amount of each scheduled payment will be less than that of a traditional amortizing mortgage loan. The principal balance of the mortgage loan will not be reduced (except in the case of prepayments) because there are no scheduled monthly payments of principal during this period. After the interest-only period, we will be required either to make scheduled payments of amortized principal and interest or to make a lump-sum or balloon payment at maturity. These required principal or balloon payments will increase the amount of our scheduled payments and may increase our risk of default under the related mortgage loan. If the mortgage loan has an adjustable interest rate, the amount of our scheduled payments also may increase at a time of rising interest rates. Increased payments and substantial principal or balloon maturity payments will reduce the funds available for distribution to our stockholders because cash otherwise available for distribution will be required to pay principal and interest associated with these mortgage loans.

Failure to procure adequate capital and funding may decrease our profitability and our ability to make distributions, reducing the market price of our common stock.

We depend upon the availability of adequate funding and capital for our operations. As a REIT, we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and are therefore not able to retain significant amounts of our earnings for new investments. Consequently, we will depend upon the availability of financing and additional capital to execute our investment strategy. If sufficient financing or capital is not available to us

on acceptable terms, we may not be able to achieve anticipated levels of profitability either due to the lack of funding or an increase in funding costs and our ability to make distributions and the price of our common stock may decline.

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

If we incur high levels of debt, our interest costs will increase, resulting in higher debt service payments which could reduce cash available for distribution to stockholders. If we incur variable rate debt, increases in interest rates would also increase our interest costs and decrease our ability to make distributions to you. If we need to repay existing debt during periods of rising interest rates, any refinancing we may obtain would likely increase our interest and other costs; if we were unable to obtain acceptable financing, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments and could result in a loss.

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

In providing financing to us, a lender may impose restrictions on us that would affect our ability to incur additional debt, make certain investments, reduce liquidity below certain levels, make distributions to our stockholders and otherwise affect our distribution and operating policies. Our credit facility with The Huntington National Bank restricts our ability to encumber or otherwise transfer our interest in properties without the prior consent of the lender and includes other restrictions and requirements relating to the incurrence of debt, permitted investments, maintenance of insurance, the amendment of our charter documents and the charter documents of our operating partnership and its subsidiaries, mergers and sales of assets and transactions with affiliates. We expect that any other loan agreements we enter into will contain similar covenants and may also impose other restrictions and limitations. Any such covenants, restrictions or limitations may limit our ability to make distributions to you and could make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes.

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

In purchasing properties subject to financing, we may obtain financing with due-on-sale and/or due-on-encumbrance clauses. Due-on-sale clauses in mortgages allow a mortgage lender to demand full repayment of the mortgage loan if the borrower sells the mortgaged property. Similarly, due-on-encumbrance clauses allow a mortgage lender to demand full repayment if the borrower uses the real estate securing the mortgage loan as security for another loan. In such event, we may be required to sell our properties on an all-cash basis, which may make it more difficult to sell the property or reduce the selling price.

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

In financing our property acquisitions, we will seek to obtain secured nonrecourse loans. However, only recourse financing may be available, in which event, in addition to the property securing the loan, the lender would have the ability to look to our other assets for satisfaction of the debt if the proceeds from the sale or other disposition of the property securing the loan are insufficient to fully repay it. Also, in order to facilitate the sale of a property, we may allow the buyer to purchase the property subject to an existing loan whereby we remain responsible for the debt.

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

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

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

We may be subject to risks related to interest rate fluctuations if any of our debt is subject to a floating interest rate. At September 30, 2013, we had $92.3 million of outstanding indebtedness, $38.1 million of which was floating-rate indebtedness and none of which was subject to interest rate hedges. To the extent that we use derivative financial instruments in the future to hedge our exposure to floating interest rate debt, we will be exposed to credit, basis and legal enforceability risks. Derivative financial instruments may include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options or repurchase agreements. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. Basis risk occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. Finally, legal enforceability risks encompass general contractual risks, including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. If we are unable to manage these risks effectively, our results of operations, financial condition and ability to make distributions to you will be adversely affected.

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

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

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Compliance with Laws

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

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

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

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

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

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

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

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

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

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

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

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

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

We generally expect that our properties will be subject to the Americans with Disabilities Act of 1990, as amended, or the Disabilities Act. Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for public accommodations and commercial facilities that generally require that buildings and services be made accessible and available to people with disabilities. The Disabilities Act does not, however, consider residential properties, such as apartment properties, to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as the leasing office, are open to the public. The Disabilities Act s requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We will attempt to acquire properties that comply with the Disabilities Act or place the burden on the seller or a third party to ensure compliance with such laws. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, costs in complying with these laws may affect cash available for distributions and the amount of distributions to you.

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

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

United States Federal Income Tax Risks

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

We intend to maintain our qualification as a REIT under the Code. A REIT generally is not taxed at the corporate level on income and gains that it distributes to its stockholders on a timely basis. Although we do not intend to request a ruling from the Internal Revenue Service, or the IRS, as to our REIT status, we expect to receive the opinion of our tax counsel, Ledgewood, P.C., with respect to our qualification as a REIT. Investors should be aware, however, that opinions of counsel are not binding on the IRS or on any court. The opinion of Ledgewood, P.C. will represent only the view of our counsel based on our counsel s review and analysis of existing law and on certain representations as to factual matters and covenants made by us and RAIT, including representations relating to the values of our and RAIT s assets and the sources of our and RAIT s income and representations related to our future conduct. Ledgewood, P.C. will have no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed in its opinion or of any subsequent change in applicable law. Qualification as a REIT involves the application of highly technical and complex rules for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to continue to qualify as a REIT. In addition, new legislation, regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or the U.S. federal income tax consequences of such qualification, including changes with retroactive effect.

If we fail to qualify as a REIT in any taxable year:

- we would not be allowed to deduct our distributions to our stockholders when computing our taxable income;
- we would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;
- we generally would be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;
- we would have less cash to make distributions to our stockholders; and
- we might be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations we may incur as a result of our disqualification.

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

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

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

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

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

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

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

A REIT s net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held in inventory or primarily for sale to customers in the ordinary course of business. It may be possible to reduce the impact of the prohibited transaction tax and the holding of assets not qualifying as real estate assets for purposes of the REIT asset tests by conducting certain activities, or holding non-qualifying REIT assets through a TRS, subject to certain limitations as described below. To the extent that we engage in such activities through a TRS, the income associated with such activities will be subject to full U.S. federal corporate income tax.

If RAIT failed to qualify as a REIT in its 2007 through 2011 taxable years, we would be prevented from qualifying as a REIT under applicable Treasury Regulations.

We elected to qualify as a REIT commencing with our taxable year ended December 31, 2011. However, under applicable Treasury Regulations, if RAIT failed to qualify as a REIT in its 2007 through 2011 taxable years, unless RAIT s failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we would be prevented from electing to qualify as a REIT prior to the fifth calendar year following the year in which RAIT failed to qualify. RAIT received opinions of its counsel that it qualified as a REIT for each of those years.

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

Our ability to dispose of property is restricted to a substantial extent as a result of our REIT status. Under applicable provisions of the Code regarding prohibited transactions by REITs, we will be subject to a 100% tax on any gain recognized on the sale or other disposition of any property (other than foreclosure property) that we own, directly or through any subsidiary entity, including our operating partnership, but excluding a TRS, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of trade or business. Whether property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property. No assurance can be given that any particular property we own, directly or through any subsidiary entity, including our operating partnership, but excluding a TRS, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

The use of TRSs would increase our overall tax liability.

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

Dividends paid by REITs do not qualify for the reduced tax rates provided for under current law.

Dividends paid by REITs are generally not eligible for the reduced 20% maximum tax rate applicable to qualified dividends paid to individuals. The more favorable rates applicable to qualified dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends to which more favorable rates apply, which could reduce the value of the stocks of REITs.

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

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to investments similar to an investment in shares of our common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of our stockholders. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your own tax adviser with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares.

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

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If our operating partnership is not treated as a partnership or disregarded entity for U.S. federal income tax purposes, its income may be subject to taxation.

We intend to maintain the status of our operating partnership as a partnership or disregarded entity for U.S. federal income tax purposes. However, if the IRS were to successfully challenge the status of our operating partnership as a partnership or disregarded entity for such purposes, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that our operating partnership could make to us. This would also result in our losing REIT status, and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the yield on your investment. In addition, if any of the partnerships or limited liability companies through which our operating partnership owns its properties, in whole or in part, loses its characterization as a partnership for U.S. federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to our operating partnership. Such a recharacterization of an underlying property owner could also threaten our ability to maintain REIT status.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Offering and the Market for our Common Stock

An active trading market may not exist for our common stock or, if it does, you may not be able to sell your shares at or above the offering price.

Although our common stock is currently listed on the NYSE MKT, we cannot assure that an active trading market for our common stock will exist in the future. In addition, the market price and trading volume of our common stock may be volatile. As a result, you may not be able to sell your shares at or above the public offering price set forth on the front cover of the prospectus. The market price of our common stock may also be subject to significant fluctuations in response to our future operating results, analyst reports about us, additions to or departures of key management personnel, actual or projected interest rate changes and other factors, including conditions affecting securities markets generally

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

Stockholders have no rights to buy additional shares of stock if we issue new shares of stock. We may issue common stock, convertible debt or preferred stock pursuant to a subsequent public offering or a private placement, to sellers of properties we directly or indirectly acquire instead of, or in addition to, cash consideration, or to our advisor in payment of some or all of the quarterly base or incentive fee that may be earned by our advisor or in payment of some or all of the termination fee that may be payable to our advisor. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Investors purchasing common stock in this offering who do not participate in any future stock issuances will experience dilution in the percentage of the issued and outstanding stock they own.

Sales of our common stock, or the perception that such sales will occur, may have adverse effects on our share price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock, including shares

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of common stock issuable upon the exchange of units of our operating partnership that we may issue from time to time, the sale of shares of common stock held by our current stockholders, particularly RAIT and its affiliates, and the sale of any shares we may issue under our long-term incentive plan, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution yield, which is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution yield on our common stock or may seek securities paying higher dividends or interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our properties and our related distributions to stockholders, and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions are likely to affect the market price of our common stock, and such effects could be significant. For example, if interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease because potential investors may require a higher distribution yield on our common stock as market rates on interest-bearing securities, such as bonds, rise.

Some of our distributions may include a return of capital for U.S. federal income tax purposes.

Some of our distributions may include a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for U.S. federal income tax purposes to the extent of the holder s adjusted tax basis in its shares, and thereafter as gain on a sale or exchange of such shares. See Material U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of Stockholders Taxation of Taxable Domestic Stockholders.

Future issuances of debt securities, which would rank senior to our common stock upon liquidation, or future issuances of preferred equity securities, may adversely affect the trading price of our common stock.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities, other loans and preferred stock will receive a distribution of our available assets before common stockholders. Any preferred stock, if issued, likely will also have a preference on periodic distribution payments, which could eliminate or otherwise limit our ability to make distributions to common stockholders. Common stockholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings may negatively affect the trading price of our common stock.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements included in this prospectus and information incorporated herein by reference that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on information currently available to us and on certain assumptions we have made. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as may, should, expect, could, intend, plan, anticipate, estimate, believe, continue, predict, potential or the negative of such terms a terminology.

The forward-looking statements included herein and information incorporated herein by reference are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements and may be affected by a variety of risks and other factors, including, among others:

- the factors included in this prospectus, including those set forth under the headings Prospectus Summary, Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations ;
- the competitive environment in which we operate;
- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;
- decreased rental rates or increasing vacancy rates;
- our ability to lease units in newly acquired or newly constructed apartment properties;