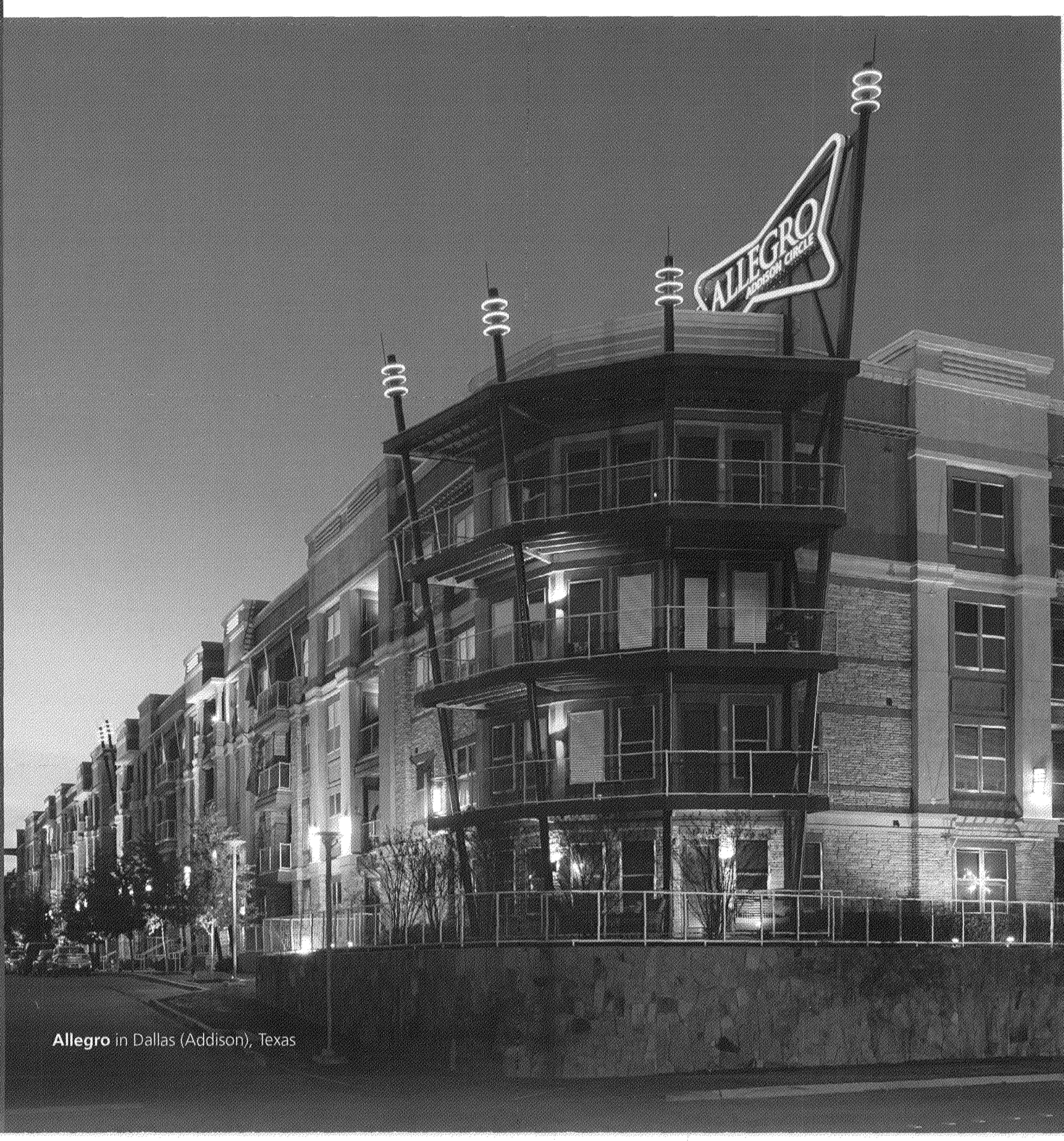
BEHRINGERHARVARD
MULTIFAMILY REIT I, INC.

2011 Annual Report



Allegro in Dallas (Addison), Texas

Dear Investors,

Although most commercial real estate markets have recovered since the recession, the multifamily sector has outperformed other sectors, particularly in growth of cash flow and rebounding levels of occupancy. Three factors are driving positive performance. First, falling homeownership levels and tighter lending standards have caused a collapse in demand for single-family, for-sale housing. Second, demographic forces are very positive for the multifamily sector. Finally, over the last three years, construction of new multifamily communities has fallen to historic lows, allowing owners of apartment communities to raise both rents and occupancy. Although we expect supply to return to more normalized levels over the next two to three years, we are optimistic about our prospects. All of this has added up to a very good 2011 for the REIT as well as an affirmation of our strategy since the REIT's inception.

At the end of 2011, the REIT's portfolio, with consolidated assets of approximately $2.8 billion, consisted of investments in 42 multifamily communities with a total of 11,115 units and approximately 173,000 square feet of associated rentable retail space. Of these multifamily communities, 36 are stabilized and six are in various stages of development. In comparison, at the end of 2010 we had investments in 33 multifamily communities, of which 26 were stabilized and seven were in lease-up.

During 2011, we made six new joint venture investments in multifamily communities in California, Massachusetts, and Texas, for which our share of the aggregate purchase price was $248.1 million. Although we continue to seek accretive acquisitions in 2012, we will also invest in multifamily developments, which can provide higher total returns than acquisitions because the REIT is essentially investing at cost, and should achieve higher operating returns once the community is leased up. We are currently pursuing several developments that could result in investing over $250 million over the next two to three years, adding more than 1,300 units.

Operational performance continues to improve

Operational results in 2011 continued to improve, reflecting the performance of our stabilized communities, the progression of communities into stabilization during 2011, and the six acquisitions we made during 2011.

Combined rental revenues for all our multifamily communities in which we have an equity interest improved 77% to $159.5 million in 2011, compared with 2010. In addition to contributions from our acquisitions, growth was driven by overall occupancy increases in our stabilized communities which were 93% occupied as of December 31, 2011, compared with 92% as of December 31, 2010. Growth was also generated from increases in average monthly rental rates in our stabilized communities to $1,520 in December 2011, compared to $1,421 in December 2010. Additionally, fourth quarter 2011 net operating income improved by 17% for the 20 communities that we held over the same period in 2010.

Selective dispositions create value for our stockholders

Where we believe that values have reached very favorable levels and re-investment could potentially provide better long-term returns, selective dispositions can create value for our stockholders. Accordingly, sales of interests in certain of our multifamily communities during 2011 have allowed the REIT to take advantage of increased property valuations and realize capital gains in the portfolio.

Specifically, during 2011, we sold our joint venture interests in a multifamily community for a gain of $18.1 million at a price 38% greater than our purchase price to an institutional buyer. We also sold partial interests in six communities to a new joint venture partner which resulted in net proceeds of $101.1 million. The cash gains from these 2011 sales plus our operating cash flow allowed us to cover all of our 2011 distributions.

As a result of 2011 operations and the one-time transactions described above, the REIT reported net income of $94.5 million, or $0.71 per share, compared with a net loss of $34.6 million in 2010, or $0.41 per share.

Increased competition for acquisitions results in distribution change

The strength of the multifamily recovery and projections for continued strength in operating fundamentals have attracted both private and institutional investors to the sector, increasing competition for assets, driving down capitalization rates, and driving up prices. In order to continue to accretively acquire assets consistent with those previously acquired and better align our distributions with our cash flows, the REIT's board decided to reduce the regular distribution rate in the second quarter of 2012 to 3.5% from 6%. The board also declared a special six cents per share cash distribution from the recent profitable sale of the Mariposa community in Atlanta. Combining the special cash distribution with the regular distributions declared in the first half of 2012, and assuming a 3.5% regular distribution rate for the rest of the year, the REIT will pay out 47.25 cents per share in distributions in 2012, close to the 60 cents we paid in 2011.

Exploring strategic alternatives

We believe that the outlook for the multifamily sector will remain positive and the sector will continue to attract capital. Although the targeted hold period for the REIT is four to six years from the termination of our initial public offering, the board has hired a prominent Wall Street investment bank to explore strategic alternatives. These strategies could include a sale or merger of the REIT, or acquisition opportunities, including portfolios that would allow us to quickly deploy our remaining offering proceeds. There are no assurances that a liquidity event will occur or that the timing of an exit would be sooner or later than the originally contemplated four- to six-year hold period.

The REIT had a very exciting 2011. The multifamily sector has been the most sought after of the asset classes as we come out of the recession, which has created value in our existing assets, but also created challenges as we compete for new acquisitions. We completed the offering and grew our portfolio, both in terms of the number of apartment homes we own and just as importantly, in operating fundamentals. We have a very attractive portfolio and a strong balance sheet.

We thank you for your continued support and look forward to reporting the continued progress of Behringer Harvard Multifamily REIT I, Inc.

Robert M. Behringer	Robert S. Aisner
Chairman	Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[Mark One]

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

Commission File Number: 000-53195

Behringer Harvard Multifamily REIT I, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**20-5383745**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15601 Dallas Parkway, Suite 600, Addison, Texas	**75001**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(866) 655-3600**

Securities registered pursuant to section 12(b) of the Act:
None

Securities registered pursuant to section 12(g) of the Act:
Common stock, $0.0001 par value per share
(Title of Class)

SEC MAIL PROCESSING RECEIVED APR 30 2012 WASH., D.C. 310 SECTION

Indicate by check mark if the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

While there is no established market for the Registrant's common stock, the Registrant has conducted an initial public offering of its shares of common stock pursuant to a registration statement on Form S-11, which shares were sold in the primary offering at $10.00 per share, with discounts available for certain categories of purchasers. The Registrant terminated the primary portion of its initial public offering on September 2, 2011. The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant as of June 30, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately $1.40 billion, assuming a market value of $10.00 per share.

As of February 29, 2012, the Registrant had 166,089,856 shares of common stock outstanding.

BEHRINGER HARVARD MULTIFAMILY REIT I, INC.
FORM 10-K
Year Ended December 31, 2011

Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include discussion and analysis of the financial condition of Behringer Harvard Multifamily REIT I, Inc. and its subsidiaries (which may be referred to herein as the "Company," "we," "us" or "our"), including, but not limited to, our ability to make accretive investments, our ability to generate cash flow to support cash distributions to our stockholders, our ability to obtain favorable debt financing, our ability to secure leases at favorable rental rates, our assessment of market rental rate trends, capital markets, and other matters. Words such as "may," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "would," "could," "should" and variations of these words and similar expressions are intended to identify forward-looking statements.

These forward-looking statements are not historical facts but reflect the intent, belief or current expectations of our management based on their knowledge and understanding of the business and industry, the economy and other future conditions. These statements are not guarantees of future performance, and we caution stockholders not to place undue reliance on forward-looking statements. Actual results may differ materially from those expressed or forecasted in the forward-looking statements due to a variety of risks, uncertainties and other factors, including but not limited to the factors listed and described under Item 1A, "Risk Factors" in this Annual Report on Form 10-K and the factors described below:

- market and economic challenges experienced by the U.S. economy or real estate industry as a whole and the local economic conditions in the markets in which our properties are located;
- our ability to make accretive investments in a diversified portfolio of assets;
- the availability of cash flow from operating activities for distributions;
- our level of debt and the terms and limitations imposed on us by our debt agreements;
- the availability of credit generally, and any failure to obtain debt financing at favorable terms or a failure to satisfy the conditions and requirements of that debt;
- our ability to secure resident leases at favorable rental rates;
- our ability to retain our executive officers and other key personnel of our advisor, our property manager and their affiliates;
- conflicts of interest arising out of our relationships with our advisor and its affiliates;
- unfavorable changes in laws or regulations impacting our business, our assets or our key relationships; and
- factors that could affect our ability to qualify as a real estate investment trust.

Forward-looking statements in this Annual Report on Form 10-K reflect our management's view only as of the date of this Report, and may ultimately prove to be incorrect or false. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. We intend for these forward-looking statements to be covered by the applicable safe harbor provisions created by Section 27A of the Securities Act and Section 21E of the Exchange Act.

Cautionary Note

The agreements filed as exhibits to this Annual Report on Form 10-K have been included to provide investors and security holders with information regarding their terms. They are not intended to provide via their terms any other factual information about us. The representations, warranties, and covenants made by us in any such agreement are made solely for the benefit of the parties to the agreement as of the specific dates, including, in some cases, for the purpose of allocating risk among the parties to the agreement, may be subject to limitations agreed upon by the contracting parties and should not be deemed to be representations, warranties, or covenants to or with any other parties. Moreover, these representations, warranties, or covenants should not be relied upon as accurately describing or reflecting the current state of our affairs. Any mention or description of any document contained herein does not purport to be complete and is qualified in its entirety by reference to such agreements.

PART I

Item 1. Business

Organization

Behringer Harvard Multifamily REIT I, Inc. (which, together with its subsidiaries as the context requires, may be referred to as the "Company," "we," "us," or "our") was organized in Maryland on August 4, 2006 and has elected to be taxed, and currently qualifies, as a real estate investment trust ("REIT") for federal income tax purposes. As a REIT, we generally are not subject to corporate-level income taxes. To maintain our REIT status, we are required, among other requirements, to distribute annually at least 90% of our "REIT taxable income," as defined by the Internal Revenue Code of 1986, as amended (the "Code"), to our stockholders. If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax on our taxable income at regular corporate tax rates. As of December 31, 2011, we believe we are in compliance with all applicable REIT requirements.

We have no employees and are supported by related party service agreements. We are externally managed by Behringer Harvard Multifamily Advisors I, LLC ("Behringer Harvard Multifamily Advisors I" or the "Advisor"), a Texas limited liability company. The Advisor is responsible for managing our affairs on a day-to-day basis and for identifying and making real estate investments on our behalf. Substantially all of our business is conducted through our operating partnership, Behringer Harvard Multifamily OP I LP, a Delaware limited partnership ("Behringer Harvard Multifamily OP I"). Our wholly owned subsidiary, BHMF, Inc., a Delaware corporation ("BHMF Inc."), owns less than 0.1% of Behringer Harvard Multifamily OP I as its sole general partner. The remaining ownership interest in Behringer Harvard Multifamily OP I is held as a limited partner's interest by our wholly owned subsidiary BHMF Business Trust, a Maryland business trust.

Our office is located at 15601 Dallas Parkway, Suite 600, Addison, Texas 75001, and our toll free telephone number is (866) 655-3600. The name Behringer Harvard is the property of Behringer Harvard Holdings, LLC ("Behringer Harvard Holdings") and is used pursuant to a service mark license agreement.

We invest in and operate high quality multifamily communities. These multifamily communities include conventional, multifamily assets, such as mid-rise, high-rise, garden style properties, and age-restricted properties, typically requiring residents to be age 55 or older. We may also invest in other types of multifamily communities, such as student housing. Our targeted communities include existing "core" properties that are already stabilized and producing rental income as well as more opportunistic properties in various phases of development, redevelopment, in lease up or repositioning. Further, we may invest in other types of commercial real estate, real estate-related securities, mortgage, bridge, mezzanine or other loans and Section 1031 tenant-in-common interests, or in entities that make investments similar to the foregoing.

We completed our first investment in April 2007 and, as of December 31, 2011, we have made equity investments in 37 consolidated multifamily communities, of which 34 are stabilized operating properties, and three are in development. In addition to our consolidated investments, we have one unconsolidated joint venture equity investment in another multifamily community, where the joint venture has also made a loan investment. In addition, we have made four separate debt investments in four other multifamily communities, primarily mezzanine and land loans. We have made and intend to continue making equity and debt investments both in wholly owned investments and through arrangements with institutional or other real estate investors ("Co-Investment Ventures").

Our Co-Investment Ventures are principally with Behringer Harvard Master Partnership I LP (the "BHMP Co-Investment Partner") and Milky Way Partners, L.P. (the "MW Co-Investment Partner"). We define our Co-Investment Ventures with the BHMP Co-Investment Partner as "BHMP CO-JVs" and those with the MW Co-Investment Partner as "MW CO-JVs." If a Co-Investment Venture makes an equity or debt investment in a separate entity with an additional third party owner, we refer to such a separate entity as a "Property Entity". As of December 31, 2011, only BHMP CO-JVs had investments in Property Entities. If specifically referred to by its context, we will name the BHMP CO-JV, the MW CO-JV or the Property Entity. We also have other Co-Investment Ventures with other real estate owners. Where we believe it is meaningful, we disclose our share of Co-Investment Venture activity, which represents amounts directly attributable to us and our wholly owned subsidiaries, based on our share of capital contributed.

The BHMP Co-Investment Partner is a partnership between our sponsor, Behringer Harvard Holdings and Stichting Depositary PGGM Private Real Estate Fund, a Dutch foundation acting in its capacity as depositary of and for the account and risk of PGGM Private Real Estate Fund, an investment vehicle for Dutch pension funds ("PGGM"). PGGM is the 99% limited partner of the BHMP Co-Investment Partner and Behringer Harvard Holdings is indirectly the 1% general partner of the BHMP Co-Investment Partner.

The MW Co-Investment Partner is a partnership between Heitman LLC, ("Heitman") and Korea Exchange Bank, as Trustee for and on behalf of National Pension Service (acting for and on behalf of the National Pension Fund of the Republic of Korea Government) ("NPS"). NPS is the 99.9% limited partner and Heitman is the 0.1% general partner of the MW Co-Investment Partner, respectively.

Offerings of our Common Stock

We are authorized to issue 875,000,000 shares of common stock, 1,000 shares of non-participating, non-voting convertible stock and 124,999,000 shares of preferred stock. All shares of our stock have a par value of $0.0001 per share. On August 4, 2006 (our date of inception), we sold 1,249 shares of our common stock to Behringer Harvard Holdings for $10,004 in cash. On November 28, 2007, we sold an additional 23,720 shares of our common stock to Behringer Harvard Holdings for cash of $189,997.

On November 22, 2006, we commenced a private offering pursuant to Regulation D of the Securities Act of 1933, as amended (the "Securities Act") to sell a maximum of approximately $400 million of common stock to accredited investors (the "Private Offering"). We terminated the Private Offering on December 28, 2007. We sold a total of approximately 14.2 million shares of common stock and raised a total of approximately $127.3 million in gross offering proceeds in the Private Offering. Net proceeds, after selling commissions, dealer manager fees, and other offering costs, were approximately $114.3 million.

On September 5, 2008, we commenced our initial public offering, in which we offered up to 200 million shares of common stock in a primary offering (referred to herein as our "Initial Public Offering") and up to 50 million shares of common stock pursuant to our distribution reinvestment plan ("DRIP"). We terminated offering shares of common stock in our Initial Public Offering on September 2, 2011, having aggregate gross primary offering proceeds of approximately $1.46 billion. Upon termination of our Initial Public Offering, we reallocated 50 million unsold shares remaining from our Initial Public Offering to the DRIP. As a result, we are currently offering up to 100 million total shares of our common stock pursuant to our DRIP at a price of $9.50 per share. As of December 31, 2011, we have sold approximately 8.6 million shares under our DRIP for gross proceeds of approximately $81.3 million. There are approximately 91.4 million shares remaining to be sold under the DRIP.

We currently expect to offer shares under the DRIP until the sixth anniversary of the termination of our primary Initial Public Offering. We may suspend or terminate the DRIP at any time by providing ten days' prior written notice to participants, and we may amend or supplement the DRIP at any time by delivering notice to participants at least 30 days' prior to the effective date of the amendment or supplement. Notice may be delivered by use of U.S. mail, electronic means or by including such information in a Current Report on Form 8-K or in our annual or quarterly reports, all of which are filed with the Securities and Exchange Commission (the "SEC").

As of December 31, 2011, we have issued approximately 169.2 million shares of our common stock, including 8.6 million shares through the DRIP, 24,969 shares owned by Behringer Harvard Holdings and 6,000 shares of common stock issued to our independent directors in connection with serving as a director. As of December 31, 2011, we have redeemed approximately 4.1 million shares of our common stock and had approximately 165.1 million shares of our common stock outstanding. As of December 31, 2011, we have 1,000 shares of non-participating, non-voting convertible stock issued and outstanding and no shares of preferred stock issued and outstanding. Aggregate gross offering proceeds from our offerings total approximately $1.67 billion, and net proceeds, after selling commissions, dealer manager fees, and organization and offering expenses, total approximately $1.38 billion.

Our common stock is not currently listed on a national securities exchange. Depending upon then-prevailing market conditions, we intend to consider the process of listing or liquidation within four to six years after the date of the termination of our Initial Public Offering.

2011 Highlights

Key transactions and highlights for 2011 included:

- We issued approximately 64.2 million shares in our Initial Public Offering and DRIP (excluding any redemptions for the period), resulting in gross proceeds to us of approximately $638.0 million;
- We paid cash distributions of $35.6 million and distributed $44.1 million by issuing shares under our DRIP, which together constitutes an annualized distribution rate of 6.0% (based on a purchase price of $10 per share);
- The combined rental revenues for all multifamily communities, in which we have an equity interest, increased from $90.2 million in 2010 to $159.5 million ($67.5 million from fully consolidated communities and $92.0 million from unconsolidated joint ventures) in 2011;
- Our disposition activity in 2011:
  - We sold partial joint venture interests in six multifamily communities to the MW Co-Investment Partner for an aggregate purchase price of $180.3 million, excluding closing costs. We recognized a gain of $5.7 million and an increase to additional paid-in capital of $39.6 million on the partial sales of joint venture interests. In connection with the sales, we entered into new joint venture agreements with the MW Co-Investment Partner and all of our joint venture agreements with the BHMP Co-Investment Partner were amended (including those unrelated to the joint venture interests sold to the MW Co-Investment Partner). As a result, we consolidated all of our Co-Investment Ventures with the MW Co-Investment Partner and the BHMP Co-Investment Partner effective as of December 1, 2011. Upon consolidation, we recognized a gain on revaluation of equity on business combinations of $103.8 million for the year ended December 31, 2011;
  - We sold the Waterford Place multifamily community for a sales price of $110 million, before closing costs, resulting in a gain of approximately $18.1 million;
- Our acquisition activity in 2011:
  - We made six new investments in Co-Investment Ventures for which our share of the purchase price was an aggregate of approximately $248.1 million. The Co-Investment Ventures acquired multifamily communities in California, Massachusetts, and Texas;

- We restructured investments in two Property Entities, converting an existing BHMP CO-JV loan investment of $20.8 million into an equity interest and investing $16.4 million of cash for additional equity interests. Our share of the cash investment was $9.0 million;

- We obtained financing for consolidated multifamily communities in three BHMP CO-JVs of $81.0 million at a weighted average fixed rate of 4.3%; and
- We increased net income to $94.5 million in 2011 from a net loss of $34.6 million in 2010. We also increased funds from operations ("FFO") to $149.0 million in 2011 from $8.5 million, and increased modified funds from operations ("MFFO") to $34.2 million in 2011 from $18.7 million in 2010 (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K for a discussion regarding FFO and MFFO, including reconciliations to GAAP net income).

Investment Objectives

Our overall investment objectives, in their relative order of importance are:

- to preserve and protect investors' capital investments;
- to realize growth in the value of our investments within four to six years of the termination of the Initial Public Offering;
- to generate distributable cash to our stockholders; and
- to enable investors to realize a return on their investment by beginning the process of liquidation and distribution cash or listing our shares on a national securities exchange within four to six years of termination of the Initial Public Offering.

Investment Policies

Our investment strategy is designed primarily to make investments in high quality multifamily assets, with a particular focus on acquiring multifamily communities that will produce rental income and will appreciate in value within our targeted life. We intend to acquire a diversified portfolio of core and more opportunistic assets on our own or through Co-Investment Ventures using multiple strategies. These strategies may include acquisitions of existing multifamily stabilized assets that are generating income, assets in the lease up phase, assets that may benefit from enhancement or repositioning and development assets. Some of these multifamily communities may contain retail space, which are positioned as an amenity to the multifamily community and not a separate line of business. We believe multifamily communities that are highly amenitized and with higher rents per unit are attractive acquisitions for institutional investors and accordingly have the potential for higher total returns, and therefore are a favorable market sector for us. As of December 31, 2011, all of our investments have been made in multifamily communities located in top 50 Metropolitan Statistical Areas located in the United States ("MSA"). Although we intend to primarily invest in real estate assets located in the United States, in the future, we may make investments in real estate assets located outside the United States. However, as discussed below, based on changing market factors, we may invest in other geographic areas and in other types of multifamily communities, including student housing and lesser amenitized communities.

We may also invest in real estate-related securities, including securities issued by other real estate companies, either for investment or in change of control transactions completed on a negotiated basis or otherwise. We also may originate or acquire investments in mortgage, bridge, mezzanine, land, development or other loans and Section 1031 tenant-in-common interests (including those issued by programs sponsored by Behringer Harvard Holdings, or in entities that make investments similar to the foregoing. Some of these investments may contain options for us to acquire partial or controlling interests in operating or development stage multifamily communities. We may invest in other types of commercial real estate, including but not limited to, mixed use developments where multifamily is a portion of the mixed use development.

A part of our investment strategy is also to acquire and hold high quality multifamily investments through Co-Investment Ventures. We believe this strategy has allowed us to increase the number of our investments and may continue to do so in the future, thereby providing greater portfolio diversification, participation in larger real estate investments, and greater access to high quality investment opportunities. To accomplish this strategy, we may continue to enter into Co-Investment Ventures that invest in equity interests, mortgage, mezzanine or other loans, or other Co-Investment Ventures to acquire, develop or improve properties with third parties or certain affiliates of our Advisor, including real estate limited partnerships and REITs sponsored by affiliates of our Advisor. Accordingly, each of the strategies and policies discussed in this section may be executed directly by us or through Co-Investment Ventures. As of December 31, 2011, 31 of our equity and debt investments have been made through Co-Investment Ventures. We expect that the partners in these Co-Investment Ventures will primarily be large domestic or international institutional entities, but may also include local or regional real estate investors.

Investments in multifamily communities have benefited from changing demographic and finance trends. These trends include continued growth in non-traditional households, the echo-boomer generation coming of age and entering the rental market, increased immigration and recently higher credit standards for home buyers. Changes in domestic financial markets can affect the stability and direction of these historical trends and can significantly affect our strategy, both favorably and unfavorably. Due to higher capital requirements, the supply of new multifamily communities coming into the market since the onset of the recession in 2008 has significantly slowed. Even if these trends change, which we do expect, the period required to develop new multifamily communities would work in our favor (for the next two to four years). Demand for multifamily communities is also affected by changes in financial markets where changes in underwriting have affected the cost, availability and affordability of financing for purchase of single family homes. In the near term, we believe these trends will be favorable for multifamily demand as the key demographic population increases and single family housing options become more restrictive.

Our multifamily community acquisition strategy primarily concentrates on high quality multifamily communities located in the top 50 MSAs as we believe these types of investments, particularly those in submarkets with significant barriers of entry, are in demand by institutional investors which can result in better exit pricing. We also believe that economic conditions in the major U.S. metropolitan markets will continue to provide adequate demand for properly positioned multifamily communities; such conditions include job and salary growth, lifestyle trends, as well as single-family home pricing and availability of credit. The U.S. Census population estimates are used to determine the largest MSAs. Our top 50 MSA strategy will focus on acquiring communities and other real estate assets that provide us with broad geographic diversity.

We also concentrate on newer communities with higher rents per unit. We believe communities with higher rents per unit provide better exit pricing with institutional buyers and receive higher multiples for publicly traded multifamily REITs. Newer communities are also favored because of their lower maintenance and capital requirements.

While the recent investing trends have positively benefited our multifamily valuations and operations, these factors have also led to increased competition for multifamily investments, particularly in the markets and with the quality characteristics that we target. This competition has led to increased pricing for acquisitions, which has and may continue to make acquisitions more difficult to complete and reduce the returns on acquisitions we do complete. This may alter our acquisition strategy to include more on off-market transactions, which may take longer to identify and close, or expand our strategy to include other markets or multifamily characteristics.

In this acquisition environment, multifamily developments may also be more attractive as development returns in certain markets may be favorable as compared to acquisitions of stabilized multifamily communities. We will seek developments with similar characteristics as our stabilized multifamily investments, but at lower costs per unit, and potentially higher returns on costs. We also have and may continue to make loans, primarily during the development phase of multifamily community projects. Investments in mezzanine and mortgage loans generally can provide higher current income than equity investments in development real estate projects while, in some cases, providing the opportunity, at our discretion, to invest in the long-term equity of the projects. In these situations we may have the option of converting our loan investment into an equity position or an increased equity position, where we would participate in operating earnings and would attempt to realize value appreciation upon the sale of the property. We believe this combination of loan and equity investments can lead to higher average returns and a higher-quality portfolio over the longer term.

When appropriate, we may also incorporate into our investment portfolio value-added multifamily communities that have either been mismanaged or otherwise have not realized what we believe to be full appreciation and income-generation potential. Generally, we would make capital improvements or seek to aesthetically improve the asset and its amenities, increase rents, and stabilize occupancy with the goal of adding an attractive increase in yield and improving total returns.

Co-Investment Ventures

As of December 31, 2011, we have investments in 28 individual Co-Investment Ventures, of which 13 are BHMP CO-JVs, 14 are MW CO-JVs, and one is with a third party regional developer. These Co-Investment Ventures have equity and debt investments in 31 multifamily communities.

Structure of Co-Investment Ventures

Generally, each of our individual joint ventures with the BHMP Co-Investment Partner and the MW Co-Investment Partner is made through a separate entity that owns 100% of the voting equity interests and approximately 99% of the economic interests in one subsidiary REIT, through which substantially all of the joint venture's business is conducted. Each BHMP CO-JV and MW CO-JV is a separate legal entity formed for the sole purpose of holding its respective investment(s) and obtaining legally separated debt and equity financing. In certain circumstances the governing documents of the BHMP CO-JV and MW CO-JV may require the subsidiary REIT to be disposed of via a sale of its capital stock rather than as an asset sale by that subsidiary REIT. We have no ownership or other direct financial interests in either the BHMP Co-Investment Partner or the MW Co-Investment Partner.

Each BHMP CO-JV and MW CO-JV is managed by a subsidiary of ours. As the manager, we have control rights over operating plans. In addition, without the consent of all members of the BHMP CO-JV and MW CO-JV, we as the manager may not generally approve or disapprove on behalf of the BHMP CO-JV and MW CO-JV certain major decisions affecting the BHMP CO-JV and MW CO-JV, such as (1) selling or otherwise disposing of the BHMP CO-JV's or MW CO-JV's investment or any other property having a value in excess of $100,000, (2) selling any additional interests in the BHMP CO-JV or MW CO-JV, or (3) incurring or materially modifying any indebtedness of the BHMP CO-JV or MW CO-JV in excess of $100,000 or causing the BHMP CO-JV or MW CO-JV to become liable for any debt, obligation or undertaking of any other individual or entity in excess of $100,000 other than in accordance with the operating plans. Generally, if there are disagreements regarding these major decisions, then either member may exercise buy/sell rights. The BHMP Co-Investment Partner and the MW Co-Investment Partner, as applicable, may remove the manager for cause and appoint a successor. As of December 31, 2011, we consolidated all BHMP CO-JVs and MW CO-JVs in our financial statements.

We generally own 55% of each BHMP CO-JV and MW CO-JV with the other Co-Investment Partner owning the remaining 45%. Distributions of net cash flow from the BHMP CO-JVs and MW CO-JVs will be distributed to the members no less than quarterly in accordance with the members' ownership interests. BHMP CO-JV and MW CO-JV capital contributions and distributions are made pro rata in accordance with ownership interests.

Certain BHMP CO-JVs have made and may make equity and/or debt investments in Property Entities with third-party equity owners. These Property Entities own multifamily operating communities or development communities. Each Property Entity is a separate legal entity for the sole purpose of holding its respective operating property or development project and obtaining legally separated debt and equity financing. These Property Entities are specifically structured but generally have structures in which the BHMP CO-JV is the managing member or general partner and the other owners have certain approval rights over major decisions, which effectively require all owners to agree before these actions can be taken. These major decisions usually include actions pertaining to admittance or transfer of owners, sale of the property, and financing. The BHMP CO-JV generally provides the greater proportion of the equity capital, which generally ranges from 60% to 90%, but in some instances can be 100% of the equity capital. The third party equity owners in Property Entities have buy/sell rights with respect to the ownership interest in the Property Entities. The BHMP CO-JVs consolidate all but one these Property Entities.

Apart from investments through BHMP CO-JVs and MW CO-JVs, we have one other Co-Investment Venture directly with a third party regional developer (the "7 Rio Co-Investment Venture"), but we expect that we may enter into similar arrangements with other developers. These other Co-Investment Ventures are or are expected to be specifically structured but generally will have structures in which we are the managing member or general partner with sole control over setting operating budgets, selecting property management, financing and disposition of the multifamily community. The other owners are expected to generally have very limited approval rights, usually related to issues related to admittance or transfer of owners, changes in the business purpose of the Co-Investment Venture and bankruptcy. We expect to generally provide the greater proportion of the equity capital, and for the 7 Rio Co-Investment Venture we ultimately expect to be 100% of the equity capital. As of December 31, 2011, we consolidate the 7 Rio Co-Investment Venture.

Co-Investment Venture Partners

The 99% limited partner of our BHMP Co-Investment Partner is PGGM. PGGM is an investment vehicle for Dutch pension funds. We understand PGGM has assets that exceed over 4 billion euro. We formed our first BHMP Co-Investment Venture with PGGM in 2007, and prior to December 1, 2011, PGGM was our only Co-Investment Partner. PGGM has committed to invest up to $300 million in co-investments with affiliates of investment programs of our sponsor. As of December 31, 2011, approximately $6.9 million of the $300 million commitment remains unfunded; however, in the event that certain investments are refinanced or new property debt is placed within two years from the date of acquisition, the amount of the unfunded commitment may be increased. The 1% general partner of our BHMP Co-Investment Partner is Behringer Harvard Institutional GP, LP, an affiliate of Behringer Harvard Holdings, our sponsor.

The 99.9% limited partner of our MW Co-Investment Partner is NPS and Heitman is the 0.1% general partner. NPS is one of the largest pension funds in the world, generally covering all citizens of South Korea ages 18 to 59. NPS was established to provide pension benefits in contingency of old-age, disability or death of the primary income provider for a household with a view to contributing to the livelihood stabilization for the promotion of the welfare of South Korea. According to the NPS website, the NPS fund estimated its total value at 333 trillion won (approximately $300 billion, based on exchange rates as of April 30, 2011), and counted over 3.15 million people in its beneficiary base. The 0.1% general partner of our MW Co-Investment Partner is Heitman, an international investment advisory firm. The MW Co-Investment Venture does not have a commitment for additional investments with us or our sponsor. As discussed further below, we entered into Co-Investment Ventures with the MW Co-Investment Partner in December 2011. As of December 31, 2011, the MW Co-Investment Partner has invested $263.7 million in joint ventures with us.

For our 7 Rio Co-Investment Venture and the six Property Entities, the other equity owners are national or regional developers or real estate investors.

As of December 31, 2011, we believe all of our Co-Investment Ventures and Property Entities are in compliance with their contractual obligations, and we are not aware of factors that would indicate an inability to meet their obligations.

Sale of Joint Venture Interests During 2011

In May 2011, a BHMP CO-JV sold Waterford Place for an aggregate purchase price of $110.0 million, a 38% increase from the purchase price in September 2009. Our share of the proceeds was $27.6 million and we recognized a gain related to the sale of $18.1 million.

In December 2011, we sold partial joint venture interests in three wholly owned multifamily communities and three BHMP CO-JVs to the MW Co-Investment Partner for an aggregate purchase price of $180.3 million, excluding closing costs. These joint venture interests ranged from 15% to 45% interests in the following multifamily communities: 7166 at Belmar, Acacia on Santa Rosa Creek, Argenta, Cyan/PDX, The Gallery at NoHo Commons and The Lofts at Park Crest (the "BH Sale Properties"). We have retained a 55% joint venture interest in each of these communities. Our share of the proceeds was $101.1 million, which represented a 24% weighted average increase from our initial investments made in 2009 through 2011.

Simultaneously with the closing on the sale of the above joint venture interests, the BHMP Co-Investment Partner also closed on a sale of all of its joint venture interests in 12 BHMP CO-JVs to the MW Co-Investment Partner. These joint venture interests ranged from 5% to 45% in the following multifamily communities: 4550 Cherry Creek, 7166 at Belmar, Argenta, Briar Forest Lofts, Burrough's Mill, Calypso Apartment and Lofts, Cyan/PDX, Eclipse, Fitzhugh Urban Flats, Forty55 Lofts, The Venue and West Village (the "Master Sale Properties"). The BHMP Co-Investment Partner remains a Co-Investment Partner in 13 BHMP CO-JVs.

As a result of the transactions described above, the MW Co-Investment Partner became our co-investment partner in each of the communities noted above and has replaced the BHMP Co-Investment Partner in the applicable Co-Investment Ventures, which are now MW CO-JVs. Our interest in each of these MW CO-JVs is 55%, with the MW Co-Investment Partner owning the other 45% interest.

In connection with these sales of the joint venture interests, we entered into new joint venture agreements with the MW Co-Investment Partner and amended all of our joint venture agreements with the BHMP Co-Investment Partner (including those unrelated to the joint venture interests sold to the MW Co-Investment Partner). These amendments included changes to the governance rights such as the control rights over operating plans, which, along with other factors have resulted in our having sufficient control over the BHMP CO-JVs and MW CO-JVs, such that we have consolidated all of them effective December 1, 2011.

Portfolio

See Item 2. "Properties" of this Annual Report on Form 10-K for a description of each of our investments in our portfolio.

Borrowing Policies

There is no limitation on the amount we may invest in any single property or other asset or on the amount we can borrow for the purchase of any individual property or other investment. Under our charter, our consolidated borrowings shall not exceed 300% of our adjusted consolidated net assets however, unless approved by a majority of our independent directors. For these purposes and consistent with our charter, we define adjusted consolidated net assets as our consolidated net equity less certain intangibles plus accumulated property and finance related depreciation and amortization. In addition to our charter limitation, our board of directors has adopted a policy to generally limit our aggregate borrowings to approximately 75% of the aggregate value of our assets, unless substantial justification exists that borrowing a greater amount is in our best interests (for purposes of this policy limitation and the target leverage ratio discussed below, the value of our assets is based on methodologies and policies determined by the board of directors that may include, but do not require, independent appraisals). Our policy limitation, however, does not apply to unconsolidated investments of individual real estate assets. As a result, we may borrow more than 75% of the value of any particular asset to the extent our board of directors determines that borrowing such amount is prudent. Our policy limitation will also apply only after we have ceased raising capital under the Initial Public Offering or any subsequent offering and invested substantially all of our capital. This limitation does not currently apply because we have not invested substantially all of our capital from our Initial Public Offering.

As of December 31, 2011, we have $940.3 million in consolidated borrowings, which represents less than 52% of our adjusted consolidated net assets and 45% of the carrying value of our real estate assets. Accordingly, as of December 31, 2011, our charter limitation has not constrained our ability to incur debt. Our board of directors must review our aggregate borrowings at least quarterly. In addition to these formal policies, our board will evaluate other factors in determining the aggregate borrowings both on a consolidated basis and individually on a per property basis as assets are acquired, disposed and refinanced. These factors may include debt service coverage, fixed rate and variable rate targets and scheduling of maturities. Following the investment of substantially all of the remaining proceeds of our Initial Public Offering and the completion of the financing of our assets, we will seek a long term leverage ratio of approximately 50% to 60% of the aggregate value of our assets.

As with our investment policies, the current state of the capital markets may require us to take a very flexible policy to borrowings in the short term in order to achieve our long term objectives. Generally, a higher spread between capitalization rates and financing rates will accommodate higher leverage and lower spreads will necessitate lower leverage. Accordingly, notwithstanding the above policies, depending on these and other market conditions and the current life cycle of an acquired property, we may have higher or lower leverage percentages or not borrow at all on a consolidated basis. We may also choose to have relatively less financing in our Co-Investment Ventures. On an on-going basis we will also continue to evaluate both the individual and portfolio maturity terms. In certain market conditions and for certain investments, we may elect to extend maturities or increase leverage for financings deemed to have favorable terms. If we do choose to incur fewer borrowings, we would expect to acquire fewer investments. Depending on the market capitalization rates and interest rates, this may result in lower net returns on our investments.

Tax Status

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code and have qualified as a REIT since the year ended December 31, 2007. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income to our stockholders. As a REIT, we generally will not be subject to federal income tax at the corporate level. We are organized and operate in such a manner as to qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify or remain qualified as a REIT.

Distribution Policy

Distributions are authorized at the discretion of our board of directors, based on its analysis of our earnings, cash flow, anticipated cash flow, capital expenditure requirements, general financial condition or other factors that our board of directors deems relevant. The board's discretion will be influenced, in substantial part, by its obligation to cause us to comply with the REIT requirements. In order to qualify as a REIT, we are required to distribute at least 90% of our annual REIT taxable income to our stockholders. Our board of directors currently declares daily distributions on a quarterly basis, which are paid on a monthly basis. Distributions are based on daily record dates so our investors will be entitled to be paid distributions beginning on the day they purchase shares.

Until proceeds from our Initial Public Offering are fully invested and generating sufficient operating cash flow to fully fund the payment of distributions to stockholders, we have and will continue to pay some or all of our distributions from sources other than operating cash flow. Given the degree of our remaining proceeds from our Initial Public Offering and the competition for acquisition of stabilized multifamily communities, there may be an extended period to deploy these proceeds into investments and to receive the income from such investments. During this period, we may use portions of the remaining proceeds from our Initial Public Offering to fund a portion of the distributions paid to our common stockholders, which could reduce the amount available for new investments. We may also refinance or dispose of our share of our investments and use the proceeds to reinvest in new investments, re-lever debt, or use for other obligations, including distributions on our common stock. To the extent our investments are in properties in lease up, development or redevelopment projects or properties that have significant capital requirements, our ability to make distributions may be negatively impacted, especially during our early periods of operation of these types of investments. In addition, from time to time, our Advisor and its affiliates may agree to waive or defer all or a portion of the acquisition, asset management or other fees or incentives due to them, pay general administrative expenses or otherwise supplement investor returns in order to increase the amount of cash that we have available to pay distributions to our stockholders.

We cannot assure as to when we will begin to generate sufficient cash flow solely from operating activities to make distributions. Many of the factors that can affect the availability and timing of cash distributions to stockholders are beyond our control, and a change in any one factor could adversely affect our ability to pay future distributions. There can be no assurance that future cash flow will support paying our currently established distributions or maintaining distributions at any particular level or at all.

Since we began operations, our board of directors has declared daily distributions as summarized below:

Period	Approximate Amount per Share (Rounded)
September 1, 2010 - December 31, 2011	$0.001643800
March 1, 2009 - August 31, 2010	$0.001917800
October 1, 2008 - February 28, 2009	$0.001780800
December 1, 2007 - September 30, 2008	$0.001013699
July 1, 2007 - November 30, 2007	$0.000986301

On March 19, 2012, our board of directors authorized distributions payable to the stockholders of record each day during the months of April, May and June 2012 equal to a daily amount of $0.000958904 per share of common stock. If the rate we are paying was paid for each day for a 365-day period, it would equal a 3.5% annualized rate based on a purchase price of $10.00 per share which is a reduction from the previous annualized rate of 6.0% that was paid to stockholders from September 1, 2010 through March 31, 2012.

Competition

We are subject to significant competition in seeking real estate investments, capital, particularly debt capital, and residents. We compete with many third parties engaged in real estate investment activities including other REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, lenders, hedge funds, governmental bodies and other entities. We also face competition from other real estate investment programs, including other Behringer Harvard programs, for investments that may be suitable for us. Many of our competitors have substantially greater financial and other resources than we have and may have substantially more operating experience than either us or our Advisor. They also may enjoy significant competitive advantages related to, among other things, cost of capital, governmental regulation, access to real estate investments and resident services.

Regulations

Our investments are subject to various federal, state, local and foreign laws, ordinances and regulations, including, among other things, zoning regulations, land use controls, environmental controls relating to air and water quality, noise pollution and indirect environmental impacts such as increased motor vehicle activity. We believe that we have all permits and approvals necessary under current law to operate our investments.

Environmental

As an owner of real estate, we are subject to various environmental laws of federal, state and local governments. Compliance with existing laws has not had a material adverse effect on our financial condition or results of operations, and management does not believe it will have such an impact in the future. However, we cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on properties in which we hold an interest, or on properties that may be acquired directly or indirectly in the future.

Employees

We have no employees and are dependent on our Advisor and other affiliates of Behringer Harvard Holdings for services that are essential to us. Our Advisor and other affiliates of Behringer Harvard Holdings perform a full range of real estate services for us, including investment and disposition decisions, property management, accounting, legal, asset management, wholesale brokerage and investor relations services, and other general administrative responsibilities. In the event that these companies are unable to provide these services to us, we would be required to provide such services ourselves or obtain such services from other sources.

Industry Segment

Our current business consists of investing in and operating multifamily communities. Substantially all of our consolidated net income is from multifamily communities and related investments that we wholly own or own through joint ventures. Our management evaluates operating performance on an individual property and/or joint venture level. However, as each of our wholly owned communities and joint ventures has similar economic characteristics, we are managed on an enterprise-wide basis with one reportable segment.

Available Information

We electronically file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports with the SEC. We also have filed with the SEC registration statements on Form S-11 in connection with the Initial Public Offering of our common stock. The public may read and copy any materials we file with the SEC and the SEC's Public Reference Room as 100F Street, NE, Washington, D. C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of our filings with the SEC may be obtained from the website maintained for us and our affiliates at www.behringerharvard.com or at the SEC's website at www.sec.gov. Access to these filings is free of charge. We are not incorporating our website or any information from the website into this Annual Report on Form 10-K.

Item 1A. Risk Factors

The factors described below represent our principal risks. Other factors may exist that we do not consider to be significant based on information that is currently available or that we are not currently able to anticipate. Our stockholders or potential investors may be referred to as "you" or "your" in this Item 1A, "Risk Factors" section.

Risks Related to an Investment in Behringer Harvard Multifamily REIT I

There is no public trading market for shares of our common stock; therefore, it will be difficult for you to sell your shares. If you are able to sell your shares, you may have to sell them at a substantial discount from price you paid to acquire the shares.

There is no public market for the shares. In addition, the price you receive for the sale of any shares of our common stock is likely to be less than the proportionate value of our investments. The minimum purchase requirements and suitability standards imposed on prospective investors in the just completed Initial Public Offering also apply to subsequent purchasers of our shares. If you are able to find a buyer for your shares, you may not sell your shares to such buyer unless the buyer meets certain applicable blue sky (state-mandated) suitability standards, which may inhibit your ability to sell your shares. Moreover, our board of directors may reject any request for redemption of shares or amend, suspend or terminate our share redemption program at any time. Therefore, it will be difficult for you to sell your shares promptly or at all. You may not be able to sell your shares in the event of an emergency, and, if you are able to sell your shares, you may have to sell them at a substantial discount from the price you paid to acquire the shares. It is also likely that your shares would not be accepted as the primary collateral for a loan.

The prior performance of real estate investment programs sponsored by Behringer Harvard Holdings and Robert M. Behringer may not be an indication of our future results.

You should not rely upon the past performance of other real estate investment programs sponsored by Behringer Harvard Holdings and Robert M. Behringer, our Chairman of the Board and director, to predict our future results. Accordingly, the prior performance of real estate investment programs sponsored by Behringer Harvard Holdings and Mr. Behringer may not be indicative of our future results.

We and the other public Behringer Harvard sponsored programs have experienced losses in the past, and we may experience similar losses in the future.

For the year ended December 31, 2011, we reported net income of $94.5 million, due in part to non-recurring gains related to revaluation of equity on business combinations. For the years ended December 31, 2010 and 2009, we had net losses of $34.6 million and $8.3 million, respectively. Our losses can be attributed, in part, to depreciation and amortization of operating properties and related intangibles. Also beginning in 2009, many acquisition costs, which prior to 2009 were generally capitalized, are expensed. Historically, other public programs sponsored by affiliates of our Advisor have also experienced losses, especially during the early periods of their operation. For the reasons described above, we cannot assure you that, in the future, we will be profitable or that we will realize growth in the value of our assets.

We may suffer from delays in locating suitable investments, which could adversely affect the return on your investment.

Our ability to achieve our investment objectives and to make distributions to our stockholders is dependent upon the performance of our Advisor in the acquisition of our investments and the determination of any financing arrangements as well as the performance of our property manager, the selection of multifamily community residents and the negotiation of leases. We currently have substantial uninvested proceeds raised our from Initial Public Offering, which we are seeking to invest on attractive terms. The current market for properties that meet our investment objectives is highly competitive as is the leasing market for such properties. Except for the investments described in this Annual Report on Form 10-K, you will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the oversight of our board of directors, the management ability of our Advisor and the performance of the property manager. We cannot be sure that our Advisor will be successful in obtaining suitable investments on financially attractive terms.

We could suffer from delays in locating suitable investments as a result of our reliance on our Advisor at times when management of our Advisor is simultaneously seeking to locate suitable investments for other Behringer Harvard sponsored programs, some of which have investment objectives and employ investment strategies that are similar to ours.

Additionally, as a public company, we are subject to the ongoing reporting requirements under the Exchange Act. Pursuant to the Exchange Act, we may be required to file with the SEC financial statements of properties we acquire and investments we make in real estate-related assets. To the extent any required financial statements are not available or cannot be obtained, we will not be able to acquire the investment. As a result, we may not be able to acquire certain properties or real estate-related assets that otherwise would be a suitable investment. We could suffer delays in our investment acquisitions due to these reporting requirements.

Furthermore, if we acquire properties prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in the receipt of distributions attributable to those particular properties.

Delays we encounter in the selection, acquisition and development of properties could adversely affect your returns. In addition, if we are unable to invest our offering proceeds in real properties and real estate-related assets in a timely manner, we will hold the proceeds of the Initial Public Offering in an interest-bearing account, invest the proceeds in short-term, liquid investments, including, but not limited to, money market accounts and FDIC-insured deposits, or, ultimately, liquidate. In such an event, our ability to pay distributions to our stockholders and the returns to our stockholders would be adversely affected.

Investors who invested in us earlier in our offering may realize a lower rate of return than later investors.

There can be no assurances as to when we will begin to generate sufficient cash flow from operating activities to fully fund the payment of distributions. As a result, investors who invest in us before we generate substantial cash flow may realize a lower rate of return than later investors. We expect to have greater cash flow from operating activities available for distribution after we invest the remaining proceeds from our Initial Public Offering, but there may be delays in finding attractive investments. In addition, to the extent our investments are in development or redevelopment projects, communities in lease up, or other assets that have significant capital requirements, our ability to make distributions may be negatively impacted. Therefore, until such time as we have sufficient cash flow from operating activities to fully fund the payment of distributions therefrom, some or all of our distributions will be paid from other sources, such as from the proceeds our offerings, cash advances to us by our Advisor, cash resulting from a waiver of asset management fees, and borrowings, including borrowings secured by our assets, in anticipation of future cash flow from operating activities.

To the extent sources other than cash flow from operating activities are used to pay fees to our Advisor or its affiliates or to fund distributions, our investors will realize dilution and later investors may also realize a lower rate of return than investors who invest earlier in this offering.

Our Advisor and its affiliates provide services for us in connection with, among other things, the selection and acquisition of our investments, the management and leasing of our properties, the servicing of our mortgage, bridge, mezzanine or other loans, and the disposition of our assets. We pay them substantial fees for these services, which reduces the amount of cash available for investment in real estate or distribution to you. In addition, we have used offering proceeds to fund distributions, and later investors who did not receive those distributions will therefore experience additional immediate dilution of their investment. The use of sources other than cash flow from operating activities to pay fees to our Advisor and its affiliates or to fund distributions also increases the risk that the amount available for distribution to stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in our offering, and that later investors may not share a pro rata return with earlier investors.

Because the offering price in our distribution reinvestment plan exceeds our net tangible book value per share, investors in our distribution reinvestment plan will experience immediate dilution in the net tangible book value of their shares.

We are currently offering shares in our distribution reinvestment plan at $9.50 per share, which amount exceeds our net tangible book value per share. Our net tangible book value per share is a rough approximation of value calculated as total book value of our assets (exclusive of certain intangible items which include our net lease intangibles (both assets and liabilities), deferred financing costs and deferred lease revenues) minus total liabilities and noncontrolling interests, divided by the total number of shares of common stock outstanding. This calculation assumes that the value of real estate assets diminishes predictably over time as shown through the depreciation and amortization of real estate investments. Real estate values have historically risen or fallen with market conditions. Net tangible book value is used generally as a conservative measure of net worth that we do not believe reflects our estimated value per share. It is not intended to reflect the value of our assets upon an orderly liquidation of the company in accordance with our investment objectives. For example, if our assets have appreciated in value since acquisition, or depreciated in a manner that is different than GAAP straight-line depreciation, our net tangible book value would not reflect this. Our net tangible book value reflects dilution in the value of our common stock from the Initial Public Offering and distribution reinvestment plan issue prices as a result of (i) operating losses, which reflect accumulated depreciation and amortization of real estate investments as well as the fees and expenses paid to our advisor and its affiliates in connection with the selection, acquisition, management and sale of our investments, (ii) the funding of distributions from sources other than our cash flow from operations, and (iii) fees paid in connection with our Initial Public Offering, including selling commissions and marketing fees re-allowed by our dealer manager to participating broker dealers. As of December 31, 2011, our net tangible book value per share excluding noncontrolling interest is $8.34.

Our distribution reinvestment plan offering price was not established on an independent basis and bears no relationship to the net value of our assets. Further, even without depreciation in the value of our assets, the other factors described above with respect to the dilution in the value of our common stock are likely to cause our offering price to be higher than the amount you would receive per share if we were to liquidate at this time.

We may have to make decisions on whether to invest in certain properties or real estate-related assets, including prior to receipt of detailed information on the investment.

In order to effectively compete for the acquisition of properties and other real estate-related assets in the current market, our Advisor and board of directors may be required to make investment decisions and be required to make substantial non-refundable deposits prior to the completion of our analysis and due diligence on a property or real estate-related asset acquisition. In such cases, the information available to our Advisor and board of directors at the time of making any particular investment decision, including the decision to pay any non-refundable deposit and the decision to consummate any particular acquisition, may be limited, and our Advisor and board of directors may not have access to detailed information regarding any particular investment property, such as physical characteristics, environmental matters, zoning regulations or other local conditions affecting the investment property. Therefore, no assurance can be given that our Advisor and board of directors will have knowledge of all circumstances that may adversely affect an investment. In addition, our Advisor and board of directors expect to rely upon independent consultants in connection with their evaluation of proposed investment properties, and no assurance can be given as to the accuracy or completeness of the information provided by such independent consultants.

If we are unable to achieve significant diversification of our portfolio, the value of your investment in us will fluctuate with the performance of the specific investments we make.

We are dependent on funds from the Initial Public Offering to make additional investments resulting in greater diversification in terms of the number of investments owned, the geographic regions in which our properties and real estate-related assets are located and the types of investments that we acquire. If we cannot achieve significant diversification, the likelihood of our profitability being affected by the performance of any one of our investments will increase. We are not limited in the number or size of our investments or the percentage of net proceeds we may dedicate to a single asset. Your investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio.

If we lose or are unable to obtain key personnel, our ability to implement our investment strategies could be delayed or hindered.

Our success depends to a significant degree upon the continued contributions of our chairman and certain executive officers and other key personnel of us, our Advisor and its affiliates, including Robert M. Behringer, Robert S. Aisner, Robert J. Chapman, Mark T. Alfieri, Gerald J. Reihsen, III, Gary S. Bresky, Howard S. Garfield, M. Jason Mattox, Daniel J. Rosenberg, Andrew J. Bruce, Robert T. Poynter, Ross P. Odland, James A. Fadley and Margaret M. Daly, each of whom would be difficult to replace. We do not have employment agreements with our chairman, executive officers and other key personnel of us, our Advisor and its affiliates, and we cannot guarantee that they will remain affiliated with us. Although our chairman, several of the executive officers and other key personnel of us, our Advisor and its affiliates, including Mr. Behringer and Mr. Aisner, have entered into employment agreements with affiliates of our Advisor, including Harvard Property Trust, these agreements are terminable at will, and we cannot guarantee that such persons will remain affiliated with our Advisor. If any of our key personnel were to cease their affiliation with us, our Advisor or its affiliates, our operating results could suffer. We believe that our future success depends, in large part, upon our Advisor's and its affiliates' ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for persons with these skills is intense, and we cannot assure you that our Advisor will be successful in attracting and retaining such skilled personnel. Further, we have established, and intend in the future to establish, strategic relationships with firms that have special expertise in certain services or as to assets both nationally and in certain geographic regions. Maintaining these relationships will be important for us to effectively compete for assets. We cannot assure you that we will be successful in attracting and retaining such strategic relationships. If we lose or are unable to obtain the services of key personnel or do not establish or maintain appropriate strategic relationships, our ability to implement our investment strategies could be delayed or hindered.

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

Our strategy may involve becoming "self-managed" by internalizing our management functions. The method by which we could internalize these functions could take many forms. We may hire our own group of executives and other employees or we may elect to negotiate to acquire our Advisor's and property manager's assets and personnel. Under our advisory management agreement, we are restricted from hiring or soliciting any employee of our Advisor or its affiliates for one year from the termination of the agreement. We are similarly restricted under our property management agreement with respect to the employees of our property manager or its affiliates. These restrictions could make it difficult to internalize our management functions without acquiring assets and personnel from our Advisor and its affiliates for consideration that would be negotiated at that time. At this time, we cannot be sure of the form or amount of consideration or other terms relating to any such acquisition. Such consideration could take many forms, including cash payments, promissory notes and shares of our stock. An internalization transaction could result in significant payments to affiliates of our Advisor irrespective of whether you enjoyed the returns on which we have conditioned other back-end compensation. The payment of such consideration could result in dilution of your interests as a stockholder and could reduce the net income per share and modified funds from operations per share attributable to your investment. We will not be required to seek a stockholder vote to become self-managed.

In addition, while we would no longer bear the costs of the various fees and expenses we pay to our Advisor under the advisory management agreement if we internalize, our direct expenses would include general and administrative costs, including legal, accounting and other expenses related to corporate governance and SEC reporting and compliance. We would also incur the compensation and benefits costs of our officers and other employees and consultants that are now paid by our Advisor or its affiliates. In addition, we may issue equity awards to officers, employees and consultants, which awards would decrease net income and modified funds from operations and may further dilute your investment. We cannot reasonably estimate the amount of fees to our Advisor we would save and the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to our Advisor, our net income per share and modified funds from operations per share would be lower as a result of the internalization than it otherwise would have been, potentially decreasing the amount of funds available to distribute to our stockholders and the value of our shares.

As currently organized, we do not directly employ any employees. If we elect to internalize our operations, we would employ personnel and would be subject to potential liabilities commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances. Nothing in our charter prohibits us from entering into the transaction described above.

Additionally, there is no assurance that internalizing our management functions will prove to be beneficial to us and our stockholders. We could have difficulty integrating our management functions as a stand-alone entity. As of December 31, 2011, certain personnel of our Advisor and its affiliates perform property management, asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. We could fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage an internalization transaction effectively could thus result in our incurring excess costs and/or suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management's attention could be diverted from most effectively managing our portfolio of investments.

If we were to internalize our management or if another investment program, whether sponsored by our sponsor or otherwise, hires the employees of our Advisor in connection with its own internalization transaction or otherwise, our ability to conduct our business may be adversely affected.

We rely on persons employed by our Advisor to manage our day-to-day operations. If we were to effectuate an internalization of our Advisor, we may not be able to retain all of the employees of the Advisor or to maintain a relationship with our sponsor. In addition, some of the employees of the Advisor may provide services to one or more other investment programs. These programs or third parties may decide to retain some or all of the Advisor's key employees in the future. If this occurs, these programs could hire certain of the persons currently employed by the Advisor who are most familiar with our business and operations, thereby potentially adversely impacting our business.

We have, and may in the future, pay distributions from sources other than our cash flow from operating activities and if we continue to do so, we will have less funds available to make investments and your overall return may be reduced.

Our organizational documents permit us to fund distributions from any source, such as from the proceeds of our prior private offering, our Initial Public Offering, our distribution reinvestment plan or other offerings, cash advances to us by our Advisor, cash resulting from a waiver of asset management fees, and borrowings, including borrowings secured by our assets, in anticipation of future cash flow from operating activities. The distributions paid in the twelve months ended December 31, 2011 and 2010 were approximately $35.6 million and $25.1 million, respectively. For the twelve months ended December 31, 2011 and 2010, cash flows from operating activities were approximately $31.7 million and $2.6 million, respectively. Accordingly, for the twelve months ended December 31, 2011 and 2010, total distributions exceeded cash flow from operating activities for the same periods, which differences were funded from proceeds from our offerings. If we continue to fund a portion of distributions from the net proceeds from our offerings or from additional sources that are other than operating activities, we will have fewer funds available for acquiring properties and other investments, and your overall return may be reduced. Further, to the extent distributions exceed cash flow from operating activities, a stockholder's basis in our stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize capital gain.

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

Maryland law provides that a director has no liability in that 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. Our charter provides that generally no independent director shall be liable to us or our stockholders for monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct. As a result, you and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce your and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees of our Advisor and its affiliates and agents) in some cases, which would decrease the cash otherwise available for distributions to you. We will also purchase and maintain insurance on behalf of all of our directors and officers against liability asserted against or incurred by them in their official capacities with us, whether we are required or have the power to indemnify them against the same liability.

We have relatively less experience with respect to international investments as compared to domestic investments, which could adversely affect our return on international investments.

The experience of our Advisor and its affiliates with respect to investing in multifamily communities or other real estate-related assets located outside the United States is not as extensive as it is with respect to investments in the United States. We may make international investments after one of our independent directors has at least three years of relevant experience acquiring and managing such international investments. If and when we do make international investments, our relatively limited experience with respect to such investments could adversely affect our return on them.

Your investment may be subject to additional risks if we make international investments.

In the future, we may make investments in real estate assets located outside the United States and may make or purchase mortgage, bridge, mezzanine or other loans or joint venture interests in mortgage, bridge, mezzanine or other loans made to a borrower located outside the United States or secured by property located outside the United States. Any international investments may be affected by factors peculiar to the laws of the jurisdiction in which the borrower or the property is located. These laws may expose us to risks that are different from and in addition to those commonly found in the United States. Foreign investments could be subject to the following risks:

- governmental laws, rules and policies, including laws relating to the foreign ownership of real property or mortgages and laws relating to the ability of foreign persons or corporations to remove profits earned from activities within the country to the person's or corporation's country of origin;
- variations in currency exchange rates;
- adverse market conditions caused by inflation or other changes in national or local economic conditions;
- changes in relative interest rates;
- changes in the availability, cost and terms of mortgage funds resulting from varying national economic policies;
- changes in real estate and other tax rates, the tax treatment of transaction structures and other changes in operating expenses in a particular country where we have an investment;
- our REIT tax status not being respected under foreign laws, in which case our income or gains from foreign sources would likely be subject to foreign taxes, withholding taxes, transfer taxes and value added taxes;
- lack of uniform accounting standards (including availability of information in accordance with U.S. generally accepted accounting principles);
- changes in land use and zoning laws;
- more stringent environmental laws or changes in these laws;
- changes in the social stability or other political, economic or diplomatic developments in or affecting a country where we have an investment;

- we, our sponsor, our Advisor and its affiliates have relatively less experience investing in real property or other investments outside the United States than within the United States; and
- legal and logistical barriers to enforcing our contractual rights.

Any of these risks could have an adverse effect on our business, results of operations and ability to pay distributions to our stockholders.

If our sponsor, our Advisor or its affiliates waive or defer certain fees due to them, our results of operations and distributions may be artificially high.

From time to time, our sponsor, our Advisor or its affiliates have agreed, and may agree in the future, to waive or defer all or a portion of the acquisition, asset management or other fees, compensation or incentives due to them, pay general administrative expenses or otherwise supplement stockholder returns in order to increase the amount of cash available to make distributions to stockholders. If our sponsor, our Advisor or its affiliates choose to no longer waive or defer such fees and incentives, our results of operations will be lower than in previous periods and your return on your investment could be negatively affected.

Risks Related to Conflicts of Interest

We will be subject to conflicts of interest arising out of our relationships with our Advisor and its affiliates, including the material conflicts discussed below.

Because a number of Behringer Harvard sponsored real estate programs use investment strategies that are similar to ours, our Advisor and its and our executive officers will face conflicts of interest relating to the purchase of properties and other real estate-related assets, and such conflicts may not be resolved in our favor.

There may be periods during which one or more Behringer Harvard sponsored programs are seeking to invest in similar properties and other real estate-related investments. In particular, Behringer Harvard Opportunity REIT II (which is recently terminated a follow-on public offering) has raised significant offering proceeds for investment in a broad range of property types, including multifamily communities, and Behringer Harvard Multifamily REIT II (a recently organized program that has filed with the SEC a registration statement relating to a planned initial public offering, but which has not yet commenced its offering) is seeking to raise significant offering proceeds for investment in multifamily communities. As a result, we may be buying properties and other real estate-related investments at the same time as one or more of the other Behringer Harvard sponsored programs managed by officers and employees of our Advisor and/or its affiliates, and these other Behringer Harvard sponsored programs may use investment strategies that are similar to ours. Our executive officers and the executive officers of our Advisor are also the executive officers of other Behringer Harvard sponsored REITs and their advisors, the general partners of Behringer Harvard sponsored partnerships and/or the advisors or fiduciaries of other Behringer Harvard sponsored programs, and these entities are and will be under common control. There is a risk that our Advisor will choose a property that provides lower returns to us than a property purchased by another Behringer Harvard sponsored program. In the event these conflicts arise, we cannot assure you that our best interests will be met when officers and employees acting on behalf of our Advisor and on behalf of advisors and managers of other Behringer Harvard sponsored programs decide whether to allocate any particular property to us or to another Behringer Harvard sponsored program or affiliate of our Advisor, which may have an investment strategy that is similar to ours. In addition, we may acquire properties in geographic areas where other Behringer Harvard sponsored programs own properties. Similar conflicts of interest may apply if our Advisor determines to make or purchase mortgage, bridge or mezzanine loans or participations in mortgage, bridge or mezzanine loans on our behalf, because other Behringer Harvard sponsored programs may be competing with us for such investments. You will not have the opportunity to evaluate the manner in which these conflicts of interest are resolved.

Behringer Harvard Multifamily Advisors I and its affiliates, including all of our executive officers and some of our directors will face conflicts of interest caused by their compensation arrangements with us, which could result in actions that are not in the long-term best interests of our stockholders.

Our Advisor, Behringer Harvard Multifamily Advisors I and its affiliates and our property manager, are entitled to substantial fees from us under the terms of the advisory management agreement and property management agreement. These fees could influence our Advisor's advice to us as well as the judgment of affiliates of our Advisor performing services for us. Among other matters, these compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with our Advisor and its affiliates, including the advisory management agreement and the property management agreement;
- public offerings of equity by us, which may entitle an affiliate of our Advisor to dealer-manager fees and will likely entitle our Advisor to increased acquisition and asset management fees;
- property sales, which may result in the issuance to our Advisor of shares of our common stock through the conversion of our convertible stock;
- property acquisitions from other Behringer Harvard sponsored programs, which might entitle affiliates of our Advisor to real estate commissions and possible success-based sale fees in connection with its services for the seller;
- property acquisitions from third parties, which entitle our Advisor to acquisition fees and asset management fees;
- borrowings to acquire properties, which borrowings will increase the acquisition and asset management fees payable to our Advisor;
- determining the compensation paid to employees for services provided to us, which could be influenced in part by whether the Advisor is reimbursed by us for the related salaries and benefits;
- whether we seek to internalize our management functions, which internalization could result in our retaining some of our Advisor's key officers and employees for compensation that is greater than that which they currently earn or which could require additional payments to affiliates of our Advisor to purchase the assets and operations of our Advisor;
- whether and when we seek to list our common stock on a national securities exchange, which listing could entitle our Advisor to the issuance of shares of our common stock through the conversion of our convertible stock;
- whether and when we seek to sell our assets, which sale may result in the issuance to our Advisor of shares of our common stock through the conversion of our convertible stock; and
- whether and when we have paid distributions to common stockholders such that aggregate distributions are equal to 100% of the price at which we sold our outstanding shares of common stock plus an amount sufficient to produce a 7% cumulative, non-compounded, annual return at that price, which distributions could entitle our Advisor to the issuance of shares of our common stock through the conversion of our convertible stock.

The fees our Advisor receives in connection with transactions involving the purchase and management of an asset are based on the cost of the investment, including the amount budgeted for the development, construction, and improvement of each asset, and not based on the quality of the investment or the quality of the services rendered to us. This may influence our Advisor to recommend riskier transactions to us. Furthermore, the Advisor will refund these fees to the extent they are based on budgeted amounts that prove too high once development, construction, or improvements are completed, but the fact that these fees are initially calculated in part based on budgeted amounts could influence our Advisor to overstate the estimated costs of development, construction, or improvements in order to accelerate the cash flow it receives.

In addition, even if we terminate our Advisor, the shares of convertible stock held by the advisor will remain eligible for conversion upon one of the events that trigger the conversion of our convertible stock, unless the termination was because of a material breach by our Advisor. In the event that our advisory management agreement with our advisor is not renewed or terminates (other than because of a material breach by our Advisor) prior to the occurrence of one of the events that trigger the conversion of our convertible stock, the number of shares of common stock that the advisor will receive upon the occurrence of that triggering event will be prorated to account for the actual portion of the time from the commencement of this offering to the triggering event that the advisory management agreement was effective. To avoid the additional costs of engaging a new advisor or internalizing advisory functions, our independent directors may decide against terminating the advisory management agreement prior to the listing of our shares or disposition of our investments even if termination of the advisory management agreement would be in our best interest. In addition, the conversion feature of our convertible stock could cause us to make different investment or disposition decisions than we would otherwise make, in order to avoid the stock conversion. Moreover, our Advisor can influence whether and when our common stock is listed for trading on a national securities exchange or our assets are liquidated, and its interest in our convertible stock could influence its judgment with respect to listing or liquidating.

Our Advisor will face conflicts of interest relating to joint ventures, tenant-in-common investments or other co-ownership arrangements that we enter with affiliates of our sponsor or our Advisor or with other Behringer Harvard sponsored programs, which could result in a disproportionate benefit to affiliates of our sponsor or Advisor or to another Behringer Harvard sponsored program.

We may enter into joint ventures, tenant-in-common investments or other co-ownership arrangements with other Behringer Harvard sponsored programs or with affiliates of our sponsor or Advisor for the acquisition, development or improvement of multifamily or other properties as well as the acquisition of real estate-related investments. These Behringer Harvard sponsored programs are likely to include single-client, institutional-investor accounts in which Behringer Harvard has been engaged by an institutional investor to locate and manage real estate investments on behalf of an institutional investor and with which such sponsor or advisor affiliate may invest. The executive officers of our Advisor are also the executive officers of other Behringer Harvard sponsored REITs and their advisors, the general partners of other Behringer Harvard sponsored partnerships and/or the advisors or fiduciaries of other Behringer Harvard sponsored programs. These executive officers will face conflicts of interest in determining which Behringer Harvard sponsored program should enter into any particular joint venture, tenant-in-common or co-ownership arrangement. These persons may also have a conflict in structuring the terms of the relationship between our interests and the interests of the Behringer Harvard sponsored co-venturer, co-tenant or partner as well as conflicts of interest in managing the joint venture. Further, the fiduciary obligation that our Advisor or our board of directors may owe to a co-venturer, co-tenant or partner affiliated with our sponsor or advisor may make it more difficult for us to enforce our rights.

In the event that we enter into a joint venture, tenant-in-common investment or other co-ownership arrangements with another Behringer Harvard sponsored program or joint venture, our Advisor and its affiliates may have a conflict of interest when determining when and whether to buy or sell a particular real estate property, exercising buy/sell rights or making other major decisions, and you may face certain additional risks. For example, it is anticipated that Behringer Harvard Short-Term Opportunity Fund I will never have an active trading market. Therefore, if we become listed for trading on a national securities exchange, we may develop more divergent goals and objectives from such joint venturer with respect to the sale of properties in the future. In addition, in the event we enter into a joint venture with a Behringer Harvard sponsored program that has a term shorter than ours, the joint venture may be required to sell its properties at the time of the other Behringer Harvard sponsored program's liquidation. We may not desire to sell the properties at such time. Even if the terms of any joint venture agreement between us and another Behringer Harvard sponsored program grant us a right of first refusal to buy such properties, we may not have sufficient funds to exercise our right of first refusal under these circumstances.

We will face similar risks with respect to joint ventures in which Behringer Harvard Holdings holds a direct or indirect ownership interest, such as co-investments under the Master Co-Investment Arrangement. A wholly owned subsidiary of our sponsor owns a 1% interest in the BHMP Co-Investment Partner, serves as general partner of the BHMP Co-Investment Partner and must consent to any major decision affecting the BHMP Co-Investment Partner, including but not limited to decisions regarding debt financing and property dispositions. The advice we receive from our Advisor, which is controlled by our sponsor, regarding our co-investments with the BHMP Co-Investment Partner may be influenced by our sponsor's interest in the BHMP Co-Investment Partner.

Because Mr. Behringer and his affiliates indirectly control our sponsor, Advisor and other Behringer Harvard sponsored programs, agreements and transactions among the parties with respect to any joint venture, tenant-in-common investment or other co-ownership arrangement between or among such parties will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers. Under these joint ventures, neither co-venturer may have the power to control the venture, and under certain circumstances, an impasse could be reached regarding matters pertaining to the co-ownership arrangement, which might have a negative influence on the joint venture and decrease potential returns to you. In the event that a co-venturer has a right of first refusal to buy out the other co-venturer, it may be unable to finance such buy-out at that time. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Furthermore, we may not be able to sell our interest in a joint venture if we desire to exit the venture for any reason or if our interest is likewise subject to a right of first refusal of our co-venturer or partner, our ability to sell such interest may be adversely impacted by such right.

Our Advisor's executive officers and key personnel and the executive officers and key personnel of Behringer Harvard-affiliated entities that conduct our day-to-day operations will face competing demands on their time, and this may cause our investment returns to suffer.

We rely upon the executive officers of our Advisor and the executive officers and employees of Behringer Harvard-affiliated entities to conduct our day-to-day operations. These persons also conduct the day-to-day operations of other Behringer Harvard sponsored programs, including (x) other public programs such as Behringer Harvard REIT I, Behringer Harvard Opportunity REIT I, Behringer Harvard Opportunity REIT II (which recently terminated a follow-on offering), Behringer Harvard Short-Term Opportunity Fund I, and Behringer Harvard Mid-Term Value Enhancement Fund I, (y) Behringer Harvard Multifamily REIT II (a recently organized program that has filed with the SEC a registration statement relating to a planned initial public offering, but which has not yet commenced its offering), and (z) numerous private programs. These persons may have other business interests as well. Because these persons have competing interests on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. Should our Advisor inappropriately devote insufficient time or resources to our business, the returns on our investments may suffer.

Our officers face conflicts of interest related to the positions they hold with entities affiliated with our Advisor, which could diminish the value of the services they provide to us.

All of our executive officers, including Mr. Aisner, who serves as our Chief Executive Officer and a director, are also officers of one or more other entities affiliated with our Advisor, including our property manager and the advisors and fiduciaries to other Behringer Harvard sponsored programs. As a result, these individuals owe fiduciary duties to these other entities and their investors, which may conflict with the fiduciary duties that they owe to us and our stockholders. Their loyalties to these other entities and investors could result in action or inaction that is detrimental to our business, which could harm the implementation of our business strategy and our investment and leasing opportunities. Conflicts with our business and interests are most likely to arise from involvement in activities related to: (1) allocation of new investments and management time and services between us and the other entities; (2) the timing and terms of the investment in or sale of an asset; (3) development of our properties by affiliates of our Advisor; (4) investments with affiliates of our Advisor; (5) compensation and incentives to our Advisor; and (6) our relationship with our property manager.

Our independent directors are involved in other businesses, investments and activities, therefore they may have conflicts of interest in allocating their time between our business and these other activities.

Our independent directors are involved in other businesses, investments and activities. Because these persons have competing interests on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. Should our independent directors inappropriately devote insufficient time or resources to our business, then our performance may suffer.

Your investment will be diluted upon conversion of the convertible stock.

Our advisor purchased 1,000 shares of our convertible stock for an aggregate purchase price of $1,000. Under limited circumstances, these shares may be converted into shares of our common stock, resulting in dilution of our stockholders' interest in us. Our convertible stock will convert into shares of common stock on one of two events. First, it will convert if we have paid distributions to common stockholders such that aggregate distributions are equal to 100% of the price at which we sold our outstanding shares of common stock plus an amount sufficient to produce a 7% cumulative, non-compounded, annual return at that price. Alternatively, the convertible stock will convert if we list our shares of common stock on a national securities exchange and, on the 31st trading day after listing, the value of our company based on the average trading price of our shares of common stock since the listing, plus prior distributions, combine to meet the same 7% return threshold for our common stockholders. Each of these two events is a "Triggering Event." Upon a Triggering Event, our convertible stock will, unless our Advisory management agreement with our Advisor has been terminated or not renewed on account of a material breach by our Advisor, generally convert into shares of common stock with a value equal to 15% of the excess of the value of the company plus the aggregate value of distributions paid to date on the then outstanding shares of our common stock over the aggregate issue price of those outstanding shares plus a 7% cumulative, non-compounded, annual return on the issue price of those outstanding shares. The performance threshold necessary for the convertible stock to have any value is based on the aggregate distributions paid on, and the aggregate issue price of, our outstanding shares of common stock. It is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of our stockholders to have received any minimum return in order for the convertible stock to have any value. In fact, if the convertible stock has value, the returns of our stockholders will differ, and some may be less than a 7% cumulative, non-compounded annual return.

If our advisory management agreement with our Advisor is still in effect at the time of an event triggering conversion of the convertible stock, then our Advisor will be entitled to receive 100% of the number of shares of common stock calculated per the preceding paragraph. However, if our advisory management agreement with our Advisor expires without renewal or is terminated (other than because of a material breach by our Advisor) prior to a Triggering Event, then upon a Triggering Event the holder of the convertible stock will be entitled to a prorated portion of the number of shares of common stock determined by the foregoing calculation, where such proration is based on the percentage of time that we were advised by our Advisor. As a result, following conversion, the holder of the convertible stock will be entitled to a portion of amounts distributable to our stockholders, which such amounts distributable to the holder could be significant. Our Advisor and Mr. Behringer can influence whether and when our common stock is listed for trading on a national securities exchange or our assets are liquidated, and their interest in our convertible stock could influence their judgment with respect to listing or liquidating.

Because we rely on affiliates of Behringer Harvard Holdings for the provision of advisory and property management, if Behringer Harvard Holdings is unable to meet its obligations we may be required to find alternative providers of these services, which could result in a significant and costly disruption of our business.

Behringer Harvard Holdings, through one or more of its subsidiaries, owns and controls our Advisor and our property manager. The operations of our Advisor and our property manager rely substantially on Behringer Harvard Holdings. Behringer Harvard Holdings is largely dependent on fee income from its sponsored real estate programs. The recent and ongoing global economic concerns could adversely affect the amount of such fee income. In the event that Behringer Harvard Holdings becomes unable to meet its obligations as they become due, we might be required to find alternative service providers, which could result in a significant disruption of our business and would likely adversely affect the value of your investment in us. Further, given the non-compete agreements in place with Behringer Harvard Holdings' employees and the non-solicitation agreements we have with our Advisor and property manager, it would be difficult for us to utilize any current employees that provide services to us.

Risks Related to Our Business in General

A limit on the number of shares a person may own may discourage a takeover.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% of our outstanding common or preferred stock, in value or number of shares, whichever is more restrictive. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might otherwise provide our stockholders with the opportunity to receive a control premium for their shares.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of the holders of our current common stock or discourage a third party from acquiring us.

Our charter permits our board of directors to issue up to 1,000,000,000 shares of capital stock. Our board of directors, without any action by our stockholders, may: (1) increase or decrease the aggregate number of shares; (2) increase or decrease the number of shares of any class or series we have authority to issue; or (3) classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications or terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of such stock with terms and conditions that could subordinate the rights of the holders of our current common stock or have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

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

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

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

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

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

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

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. Maryland law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Maryland law also limits the ability of a third party to buy a large stake in us and exercise voting power in electing directors.

Maryland law provides a second anti-takeover statute, the Control Share Acquisition Act, which provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by the corporation's disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter. Shares of stock owned by interested stockholders, that is, by the acquirer, by officers or by directors who are employees of the corporation, are excluded from the vote on whether to accord voting rights to the control shares. "Control shares" are voting shares of stock that would entitle the acquirer to exercise voting power in electing directors within specified ranges of voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares. The control share acquisition statute does not apply (1) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (2) to acquisitions approved or exempted by a corporation's charter or bylaws. Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. We can offer no assurance that this provision will not be amended or eliminated at any time in the future. This statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than our affiliates or any of their affiliates.

Our charter includes an anti-takeover provision that may discourage a stockholder from launching a tender offer for our shares.

Our charter provides that any tender offer made by a stockholder, including any "mini-tender" offer, must comply with most provisions of Regulation 14D of the Exchange Act. The offering stockholder must provide our company notice of such tender offer at least ten business days before initiating the tender offer. If the offering stockholder does not comply with these requirements, our company will have the right to redeem that stockholder's shares and any shares acquired in such tender offer. In addition, the non-complying stockholder shall be responsible for all of our company's expenses in connection with that stockholder's noncompliance. This provision of our charter may discourage a stockholder from initiating a tender offer for our shares and prevent you from receiving a premium price for your shares in such a transaction.

Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act; if we or our subsidiaries become an unregistered investment company, we could not continue our business.

Neither we nor any of our subsidiaries intend to register as investment companies under the Investment Company Act of 1940, as amended (the "Investment Company Act"). If we or any of our subsidiaries were obligated to register as investment companies, we would have to comply with a variety of substantive requirements under the Investment Company Act that impose, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

Under the relevant provisions of Section 3(a)(1) of the Investment Company Act, an "investment company" is any issuer that:

- is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities, which criteria we refer to as the primarily engaged test; and
- is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of such issuer's total assets on an unconsolidated basis, which criteria we refer to as the 40% test. "Investment securities" excludes U.S. government securities and securities of majority owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) (relating to private investment companies).

We believe that we and our operating partnership satisfy both tests above. With respect to the 40% test, most of the entities through which we and our operating partnership own our assets are majority owned subsidiaries that are not themselves investment companies and are not relying on the exceptions from the definition of investment company under Section 3(c)(1) or Section 3(c)(7).

With respect to the primarily engaged test, we and our operating partnership are holding companies. Through the majority owned subsidiaries of our operating partnership, we and our operating partnership are primarily engaged in the non-investment company businesses of these subsidiaries.

We believe that most of the subsidiaries of our operating partnership may rely on Section 3(c)(5)(C) of the Investment Company Act for an exception from the definition of an investment company. (Any other subsidiaries of our operating partnership should be able to rely on the exceptions for private investment companies pursuant to Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act.) As reflected in no-action letters, the SEC staff's position on Section 3(c)(5)(C) generally requires that an issuer maintain at least 55% of its assets in "mortgages and other liens on and interests in real estate," or qualifying assets; at least 80% of its assets in qualifying assets plus real estate-related assets; and no more than 20% of the value of its assets in other than qualifying assets and real estate-related assets, which we refer to as miscellaneous assets. To constitute a qualifying asset under this 55% requirement, a real estate interest must meet various criteria based on no-action letters.

If, however, the value of the subsidiaries of our operating partnership that must rely on Section 3(c)(1) or Section 3(c)(7) is greater than 40% of the value of the assets of our operating partnership, then we and operating partnership may seek to rely on the exception from registration under Section 3(c)(6) if we and our operating partnership are "primarily engaged," through majority owned subsidiaries, in the business of purchasing or otherwise acquiring mortgages and other interests in real estate. The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6); however, it is our view that we and our operating partnership may rely on Section 3(c)(6) if 55% of the assets of our operating partnership consist of, and at least 55% of the income of our operating partnership is derived from, majority owned subsidiaries that rely on Section 3(c)(5)(C).

To maintain compliance with the Investment Company Act, our subsidiaries may be unable to sell assets we would otherwise want them to sell and may need to sell assets we would otherwise wish them to retain. In addition, our subsidiaries may have to acquire additional assets that they might not otherwise have acquired or may have to forego opportunities to make investments that we would otherwise want them to make and would be important to our investment strategy. Moreover, the SEC may issue interpretations with respect to various types of assets that are contrary to our views and current SEC staff interpretations are subject to change, which increases the risk of non-compliance and the risk that we may be forced to make adverse changes to our portfolio.

If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement and a court could appoint a receiver to take control of us and liquidate our business.

Rapid changes in the values of potential investments in commercial mortgage-backed securities or other real estate-related investments may make it more difficult for us to maintain our qualification as a REIT or exception from the Investment Company Act.

If the market value or income potential of our real estate-related investments, including potential investments in commercial mortgage-backed securities, declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase our real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or our exception from registration under the Investment Company Act. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-real estate assets that we may own. We may have to make investment decisions that we otherwise would not make absent REIT and Investment Company Act considerations.

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

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Our charter sets forth the stockholder voting rights required to be set forth therein under the Statement of Policy Regarding Real Estate Investment Trusts adopted by the North American Securities Administrators Association on May 7, 2007 (the "NASAA REIT Guidelines"). Under our charter and the Maryland General Corporation Law, our stockholders currently have a right to vote only on the following matters:

- the election or removal of directors;
- any amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
  - change our name;
  - increase or decrease the aggregate number of our shares;
  - increase or decrease the number of our shares of any class or series that we have the authority to issue;
  - classify or reclassify any unissued shares by setting or changing the preferences, conversion or other rights, restrictions, limitations as to distributions, qualifications or terms and conditions of redemption of such shares;
  - effect reverse stock splits; and
  - after the listing of our shares of common stock on a national securities exchange, opt into any of the provisions of Subtitle 8 of Title 3 of the Maryland General Corporation Law;
- a reorganization as provided in our charter;
- our liquidation and dissolution; and
- our being a party to any merger, consolidation, sale or other disposition of substantially all of our assets (notwithstanding that Maryland law may not require stockholder approval).

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

Our board of directors may change our investment policies and objectives generally and at the individual investment level without stockholder approval, which could alter the nature of your investment.

Our charter requires that our independent directors review our investment policies with sufficient frequency and at least annually to determine that the policies we are following are in the best interest of the stockholders. In addition to our investment policies and objectives, we may also change our stated strategy for any investment in an individual property. These policies may change over time. The methods of implementing our investment policies may also vary, as new investment techniques are developed. Our investment policies, the methods for their implementation, and our other objectives, policies and procedures may be altered by our board of directors without the approval of our stockholders. As a result, the nature of your investment could change without your consent.

You may not be able to sell your shares under the share redemption program and, if you are able to sell your shares under the program, you may not be able to recover the amount of your investment in our shares.

Our board of directors may amend, suspend or terminate our share redemption program at any time. Our board of directors may reject any request for redemption of shares. Further, there are many limitations on your ability to sell your shares pursuant to the share redemption program. Any stockholder requesting repurchase of their shares pursuant to our share redemption program will be required to certify to us that such stockholder either (1) acquired the shares requested to be repurchased directly from us or (2) acquired the shares from the original investor by way of a bona fide gift not for value to, or for the benefit of, a member of the stockholder's immediate or extended family, or through a transfer to a custodian, trustee or other fiduciary for the account of the stockholder or his or her immediate or extended family in connection with an estate planning transaction, including by bequest or inheritance upon death or operation of law.

In addition, our share redemption program contains other restrictions and limitations. We cannot guarantee that we will accommodate all redemption requests made in any particular redemption period. If we do not redeem all shares presented for redemption during any period in which we are redeeming shares, then all shares will be redeemed on a pro rata basis during the relevant period. You must hold your shares for at least one year prior to seeking redemption under the share redemption program, except that our board of directors will waive this one-year holding requirement with respect to redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility. Our board of directors may also waive this one-year holding requirement for other exigent circumstances affecting a stockholder such as bankruptcy or a mandatory distribution requirement under a stockholder's IRA, or with respect to shares purchased through our distribution reinvestment plan. We will not redeem, during any twelve-month period, more than 5% of the weighted average number of shares outstanding during the twelve-month period immediately prior to the date of redemption. Generally, the cash available for redemption on any particular date will be limited to the proceeds from our distribution reinvestment plan during the period consisting of the preceding four fiscal quarters for which financial statements are available, less any cash already used for redemptions during the same period, plus, if we had positive operating cash flow during such preceding four fiscal quarters, 1% of all operating cash flow during such preceding four fiscal quarters.

In addition, while we have sufficient cash reserves as of December 31, 2011, in future periods we may not have sufficient funds to redeem shares. Historically, certain other Behringer Harvard sponsored real estate programs have limited redemptions in order to conserve capital.

Further, our board of directors reserves the right to reject any request for redemption or to terminate, suspend, or amend the share redemption program at any time. Therefore, in making a decision to purchase shares of our common stock, you should not assume that you will be able to sell any of your shares back to us pursuant to our share redemption program.

If you are able to resell your shares to us pursuant to our share redemption program, you will likely receive substantially less than the amount paid to acquire the shares from us or the fair market value of your shares, depending upon how long you owned the shares.

Except for redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility, the purchase price per share redeemed under our share redemption program will equal (1) prior to the first valuation conducted by the board of directors or a committee thereof (the "Initial Board Valuation") in accordance with our valuation policy, 90% of the difference of (a) the average price per share the original purchaser or purchasers of shares paid to us for all of his or her shares (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock) (the "Original Share Price") less (b) the aggregate of any special distributions so designated by the board of directors (the "Special Distributions"), distributed to stockholders prior to the redemption date and declared from the date of first issue of such redeemed shares; or (2) on or after the Initial Board Valuation, the lesser of (a) 90% of the current estimated value per share (the "Valuation") as determined in accordance with the valuation policy; and (b) the Original Share Price less any Special Distributions distributed to stockholders prior to the redemption date and declared from the date of first issue of such redeemed shares. Accordingly, you may receive less by selling your shares back to us than you would receive if our investments were sold for their estimated values and such proceeds were distributed in our liquidation.

We may not successfully implement our exit strategy, in which case you may have to hold your investment for an indefinite period.

Depending upon then-prevailing market conditions, we intend to begin to consider the process of liquidating and distributing cash or listing our shares on a national securities exchange within four to six years after the termination of our Initial Public Offering (which terminated on September 2, 2011). If we have not begun the process to list our shares for trading on a national securities exchange or to liquidate at any time after the sixth anniversary of the termination of our Initial Public Offering, unless such date is extended by our board of directors including a majority of our independent directors, we will furnish a proxy statement to stockholders to vote on a proposal for our orderly liquidation upon the written request of stockholders owning 10% or more of our outstanding common stock. The liquidation proposal would include information regarding appraisals of our portfolio. By proxy, stockholders holding a majority of our shares could vote to approve our liquidation. If our stockholders did not approve the liquidation proposal, we would obtain new appraisals and resubmit the proposal by proxy statement to our stockholders up to once every two years upon the written request of stockholders owning 10% or more of our outstanding common stock.

Market conditions and other factors could cause us to delay the listing of our shares on a national securities exchange or to delay the commencement of our liquidation beyond six years from the termination of our Initial Public Offering. If so, our board of directors and our independent directors may conclude that it is not in our best interest for us to furnish a proxy statement to stockholders for the purpose of voting on a proposal for our orderly liquidation. Our charter permits our board of directors, with the concurrence of a majority of our independent directors, to defer the furnishing of such a proxy indefinitely. Therefore, if we are not successful in implementing our exit strategy, your shares will continue to be illiquid and you may, for an indefinite period of time, be unable to convert your investment into cash easily and could suffer losses on your investment.

We may incur costs associated with changing our name if we are no longer permitted to use "Behringer Harvard" in our name.

We entered into a service mark license agreement with Behringer Harvard Holdings for use of the name "Behringer Harvard." Pursuant to the agreement, when an affiliate of Behringer Harvard Holdings no longer serves as one of our officers or directors, Behringer Harvard Holdings may terminate our service mark license agreement and may require us to change our name to eliminate the use of the words "Behringer Harvard." We will be required to pay any costs associated with changing our name.

The offering price of our shares in our Initial Public Offering and distribution reinvestment plan was not established in reliance on a valuation of our assets and liabilities; the actual value of your investment may be substantially less than what you pay. We may use the most recent price paid to acquire a share in our offering or a follow-on offering as the estimated value of our shares until we have completed our offering stage. Even when our board of directors uses other valuation methods to estimate the value of our shares, the value of our shares will be based upon a number of assumptions that may not be accurate or complete.

Our board of directors arbitrarily set the offering price of our shares of common stock for our Initial Public Offering (which terminated in 2011) at $10.00 per share, and this price bears no relationship to the book or net value of our assets or to our expected operating income. The current offering price of shares under our distribution reinvestment plan has been set at 95% of the Initial Public Offering price, or $9.50 per share.

We have adopted a valuation policy in respect of estimating the per share value of our common stock. For this purpose, the estimated value of our common stock is $10.00 per share as of December 31, 2011. This basis for this valuation is the gross offering price of a share of our common stock in the Initial Public Offering. Although this initial estimated value represents the most recent price at which most investors were willing to purchase shares in the Initial Public Offering, this reported value is likely to differ from the price that a stockholder would receive in the near term upon a resale of his or her shares or upon a liquidation of us because (i) there is no public trading market for the shares at this time; (ii) the $10.00 the Initial Public Offering price involved the payment of underwriting compensation and other directed selling efforts, which payments and efforts were likely to produce a higher sale price than could otherwise be obtained; (iii) estimated value does not reflect, and is not derived from, the fair market value of our assets because the amount of proceeds available for investment from our the Initial Public Offering is net of selling commissions, dealer manager fees, other organization and offering costs and acquisition and origination fees and expenses; (iv) the estimated value does not take into account how market fluctuations affect the value of our investments, including how the current real estate markets may affect the values of our investments; (v) the estimated value does not take into account how developments related to individual assets may have increased or decreased the value of our portfolio; and (vi) the estimated value does not take into account market fluctuations related to the fair value of our debt . For this reason, if you purchase shares of our common stock pursuant to the distribution reinvestment plan at $9.50 per share (which has been established as 95% of the Initial Public Offering price per share), the actual value of the shares may be substantially less.

No later than 18 months after the last sale in an offering of our common stock (or other securities from which the board of directors believes the value of a share of common stock can be estimated), not including any offering related to a distribution reinvestment plan, employee benefit plan or the redemption of interests in our operating partnership, we will disclose an estimated per share value that is not based solely on the offering price of securities in such offering. We expect this to occur on or before March 2, 2013. This estimate will be determined by our board of directors, or a committee thereof, after consultation with our Advisor, or if we are no longer advised by our Advisor, our officers and employees, subject to the restrictions and limitations set forth in the valuation policy. After first publishing an estimate by the board of directors within 18 months after an offering, we will repeat the process of estimating the per share value of the common stock periodically thereafter, generally annually. Our board of directors or a committee thereof will have the discretion to choose a methodology or combination of methodologies as it deems reasonable under then current circumstances for estimating the per share value of our common stock. When determining the estimated value of our shares by methods other than the last price paid to acquire a share in an offering, the estimate will be based upon a number of assumptions that may not be accurate or complete. Accordingly, these estimates may not reflect future actions or results and, therefore, the estimated value will not be likely to reflect the proceeds you would receive upon our liquidation or upon the sale of your shares. In addition, this per share valuation method will not be likely to be designed to arrive at a valuation that is related to any individual or aggregated value estimates or appraisals of the value of our assets.

The actual value of shares that we repurchase under our share redemption program may be substantially less than what we pay.

Under our share redemption program, shares may be repurchased at varying prices depending on (a) the purchase price paid for the shares and (b) whether the redemptions are sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility. The current maximum price that may be paid under the program is $10.00 per share, which was the offering price of our shares of common stock in our Initial Public Offering and, as described above, the initial estimated value of our common shares pursuant to our valuation policy. Although this initial estimated value represents the most recent price at which most investors were willing to purchase shares in our Initial Public Offering, this estimated value is likely to differ from the price at which a stockholder could resell his or her shares for the reasons discussed in the risk factor above. Thus, when we repurchase shares of our common stock at $10.00 per share, the actual value of the shares that we repurchase is likely to be less, and the repurchase is likely to be dilutive to our remaining stockholders. Even at lower repurchase prices, the actual value of the shares may be less than what we pay and the repurchase may be dilutive to our remaining stockholders.

Your interest in us will be diluted if we issue additional shares, which could reduce the overall value of your investment.

Our stockholders do not have preemptive rights to any shares issued by us in the future. Our charter currently has authorized 1,000,000,000 shares of capital stock, of which 875,000,000 shares are designated as common stock, 124,999,000 shares are designated as preferred stock and 1,000 shares are designated as convertible stock. Subject to any limitations set forth under Maryland law, our board of directors may amend our charter to increase the number of authorized shares of capital stock, or increase or decrease the number of shares of any class or series of stock designated, and may classify or reclassify any unissued shares without the necessity of obtaining stockholder approval. Shares will be issued in the discretion of our board of directors. Investors will likely experience dilution of their equity investment in us in the event that we: (1) sell shares pursuant to our distribution reinvestment plan or in future public or private offerings; (2) sell securities that are convertible into shares of our common stock; (3) issue shares of common stock upon the conversion of our convertible stock; (4) issue shares of common stock upon the exercise of any options granted to our independent directors or employees of our Advisor and BHM Management, our property manager and an affiliate of our Advisor, or their duly licensed affiliates; (5) issue restricted stock or other awards pursuant to our Incentive Award Plan; (6) issue shares to our Advisor, its successors or assigns, in payment of an outstanding fee obligation as set forth under our advisory management agreement; or (7) issue shares of our common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests of Behringer Harvard Multifamily OP I. In addition, the partnership agreement for Behringer Harvard Multifamily OP I contains provisions that allow, under certain circumstances, other entities, including other Behringer Harvard sponsored programs, to merge into or cause the exchange or conversion of their interest for interests of Behringer Harvard Multifamily OP I. Because the limited partnership interests of Behringer Harvard Multifamily OP I may be exchanged for shares of our common stock, any merger, exchange or conversion between Behringer Harvard Multifamily OP I and another entity ultimately could result in the issuance of a substantial number of shares of our common stock, thereby diluting the percentage ownership interest of other stockholders. Because of these and other reasons described in this "Risk Factors" section, you should not expect to be able to own a significant percentage of our shares.

Payment of fees to our Advisor and its affiliates will reduce cash available to us for investment and payment of distributions.

Our advisor and its affiliates perform services for us in connection with, among other things, the selection and acquisition of our properties and real estate-related assets, the management of our properties, the servicing of our mortgage, bridge, mezzanine or other loans, the administration of our other investments and the disposition of our assets. They are paid substantial fees for these services. These fees reduce the amount of cash available for investment or distributions to stockholders.

We may be restricted in our ability to replace our property manager under certain circumstances.

Under the terms of our property management agreement, we may terminate the agreement upon 30 days' notice in the event of, and only in the event of, a showing of willful misconduct, gross negligence or deliberate malfeasance by the property manager in performing its duties. Our board of directors may find the performance of our property manager to be unsatisfactory. However, unsatisfactory performance by the property manager may not constitute "willful misconduct, gross negligence or deliberate malfeasance." As a result, we may be unable to terminate the property management agreement at the desired time, which may have an adverse effect on the management and profitability of our properties and our ability to pay distributions to our stockholders.

Distributions may be paid from capital and there can be no assurance that we will be able to achieve expected cash flows necessary to continue to pay initially established distributions or maintain distributions at any particular level, or at all.

There are many factors that can affect the availability and timing of cash distributions to stockholders. Distributions generally will be based upon such factors as the amount of cash available or anticipated to be available from real estate investments, mortgage, bridge or mezzanine loans and other investments, current and projected cash requirements and tax considerations. Because we may receive income from interest or rents at various times during our fiscal year, distributions paid may not reflect our income earned in that particular distribution period. The amount of cash available for distributions will be affected by many factors, such as our ability to acquire properties and real estate-related assets as offering proceeds become available, the income from those investments and yields on securities of other real estate programs that we invest in, as well as our operating expense levels and many other variables. Actual cash available for distribution may vary substantially from estimates. We can give no assurance that we will be able to achieve our anticipated cash flow or that distributions will increase over time. Nor can we give any assurance that: (1) rents from the properties will increase; (2) the securities we buy will increase in value or provide constant or increased distributions over time; (3) the loans we make will be repaid or paid on time; (4) loans will generate the interest payments that we expect; or (5) future acquisitions of properties, mortgage, bridge or mezzanine loans, other investments or our investments in securities will increase our cash available for distributions to stockholders. Our actual results may differ significantly from the assumptions used by our board of directors in establishing the distribution rates to stockholders.

Many of the factors that can affect the availability and timing of cash distributions to stockholders are beyond our control, and a change in any one factor could adversely affect our ability to pay future distributions. For instance:

- If a significant number of multifamily residents default or terminate on their leases, there could be a decrease or cessation of rental payments, which would mean less cash available for distributions.

- Any failure by a borrower under our mortgage, bridge, mezzanine or other loans to repay the loans or interest on the loans will reduce our income and distributions to stockholders.

- Cash available for distributions may be reduced if we are required to spend money to correct defects or to make improvements to properties.

- Cash available to make distributions may decrease if the assets we acquire have lower yields than expected.

- There may be a delay between the sale of the common stock and our investment of the proceeds. During that time, we may invest in lower yielding short-term instruments, which could result in a lower yield on your investment.

- If we lend money to others, such funds may not be repaid in accordance with the loan terms or at all, which could reduce cash available for distributions.
- Federal income tax laws require REITs to distribute at least 90% of their REIT taxable income to stockholders each year to maintain REIT status, and 100% of taxable income and net capital gain to avoid federal income tax. This limits the earnings that we may retain for corporate growth, such as asset acquisition, development or expansion and makes us more dependent upon additional debt or equity financing than corporations that are not REITs. If we borrow more funds in the future, more of our operating cash will be needed to make debt payments and cash available for distributions may decrease.
- In connection with future acquisitions, we may issue additional shares of common stock, operating partnership units or interests in other entities that own our properties. We cannot predict the number of shares of common stock, units or interests that we may issue, or the effect that these additional shares might have on cash available for distribution to you. If we issue additional shares, they could reduce the cash available for distribution to you.
- We make distributions to our stockholders to comply with the distribution requirements of the Internal Revenue Code and to eliminate, or at least minimize, exposure to federal income taxes and the nondeductible REIT excise tax. Differences in timing between the receipt of income and the payment of expenses, and the effect of required debt payments, could require us to borrow funds on a short-term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

Further, our board of directors, in its discretion, may retain any portion of our cash on hand for capital needs and improvements. We cannot assure you that sufficient cash will be available to make distributions to you.

In addition, historically, the aggregate cash flows from the operations of certain other Behringer Harvard sponsored real estate programs have been insufficient to fund the aggregate distributions paid to their respective investors.

Until proceeds from the Initial Public Offering are invested and generating operating cash flow from operating activities sufficient to fully fund distributions to our stockholders, we have and may continue to make some or all of our distributions from sources other than cash flow from operating activities, including the proceeds of the Initial Public Offering, cash advanced to us by our Advisor, cash resulting from a deferral of asset management fees and/or from borrowings (including borrowings secured by our assets) in anticipation of future cash flow from operating activities, which may reduce the amount of capital we ultimately invest and negatively impact the return on your investment and the value of your investment.

We expect that cash distributions to our stockholders generally will be paid from cash available or anticipated from the cash flow from our investments in properties, real estate securities, mortgage, bridge or mezzanine loans and other real estate-related assets. However, until proceeds from the Initial Public Offering are invested and generating operating cash flow sufficient to fully fund distributions to our stockholders, we have and may continue to make some or all of our distributions from the proceeds of the Initial Public Offering, cash advanced to us by our Advisor, cash resulting from a waiver or deferral of asset management fees, cash from the sale of our assets or a portion thereof and borrowings (including borrowings secured by our assets) in anticipation of future cash flow. In addition, to the extent our investments are in development or redevelopment projects, in communities that are in lease up or have not yet reached stabilization, or in properties that have significant capital requirements, our ability to make distributions may be negatively impacted, especially during our early period of operation. As our investments that are currently in development, are in lease up or have not yet reached stabilization progress towards stabilization and generate more income, we intend to use such increased income to make distributions to our stockholders. Accordingly, the amount of distributions paid at any time may not reflect current cash flow from our operations. To the extent distributions are paid from the proceeds of the Initial Public Offering or our distribution reinvestment plan, cash advanced to us by our Advisor, cash resulting from a deferral of or waiver of fees and/or from borrowings (including borrowings secured by our assets) in anticipation of future cash flow, we will have less capital available to invest in properties and other real estate-related assets, which may negatively impact our ability to make investments and substantially reduce current returns and capital appreciation. In that event, we may not be able to use 91.1% of the gross proceeds raised in the Initial Public Offering (89.0% with respect to gross proceeds from our primary offering and 100% with respect to gross proceeds from our distribution reinvestment plan) for investment in real estate, loans and other investments, paying acquisition fees and expenses incurred in making such investments and for any capital reserves we may establish until such time as we have sufficient cash flows from operations to fully fund our distributions.

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

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

Development projects in which we invest may not be completed successfully or on time, and guarantors of the projects may not have the financial resources to perform their obligations under the guaranties they provide.

We may make equity investments in, acquire options to purchase interests in or make mezzanine loans to the owners of real estate development projects. Our return on these investments is dependent upon the projects being completed successfully, on budget and on time. To help ensure performance by the developers of properties that are under construction, completion of these properties is generally guaranteed either by a completion bond or performance bond. Our advisor may rely upon the substantial net worth of the contractor or developer or a personal guarantee accompanied by financial statements showing a substantial net worth provided by an affiliate of the entity entering into the construction or development contract as an alternative to a completion bond or performance bond. For a particular investment, we may obtain guaranties that the project will be completed on time, on budget and in accordance with the plans and specifications and that the mezzanine loan will be repaid. However, we may not obtain such guaranties and cannot ensure that the guarantors will have the financial resources to perform their obligations under the guaranties they provide. We intend to manage these risks by ensuring, to the best of our ability, that we invest in projects with reputable, experienced and resourceful developers. 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.

Recent credit market disruptions and economic trends have caused an increase in developer failures. The developers of the projects in which we have invested are exposed to risks not only with respect to our projects, but also with respect to other projects in which they are involved. A developer's obligations on another project could cause it financial hardship and even lead to bankruptcy, which could lead to a default on one of our projects. A default by a developer in respect of one of our multifamily development project investments, or the bankruptcy, insolvency or other failure of a developer for one of such projects, may require that we determine whether we want to assume the senior loan, take over development of the project, find another developer for the project, or sell our interest in the project. Such developer failures could delay efforts to complete or sell the development project and could ultimately preclude us from full realization of our anticipated returns. Such events could cause a decrease in the value of our assets and compel us to seek additional sources of liquidity, which may not be available, in order to hold and complete the development project through stabilization.

Generally, under bankruptcy law and our bankruptcy guarantees with our joint venture development partners, we may seek recourse from the developer-guarantor to complete our development project with a substitute developer partner. However, in the event of a bankruptcy by the developer-guarantor, we cannot assure you that the developer or its trustee will continue or otherwise satisfy its obligations. The bankruptcy of any developer and the rejection of its development obligations would likely cause us to have to complete the development on our own or find a replacement developer, which could result in delays and increased costs. We cannot assure you that we would be able to complete the development on terms as favorable as when we first entered into the project.

Under certain circumstances, assets owned by a subsidiary REIT may be required to be disposed of via a sale of capital stock rather than an asset sale.

Under certain circumstances, assets owned by a subsidiary REIT may be required to be disposed of via a sale of capital stock rather than as asset sale by that subsidiary REIT, which may limit the number of persons willing to acquire indirectly any assets held by that subsidiary REIT. As a result, we may not be able to realize a return on our investment in a joint venture, such as a BHMP CO-JV with our BHMP CO-Investment Partner, at the time or on the terms we desire.

The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments.

We invest our cash and cash equivalents between several banking institutions in an attempt to minimize exposure to any one of these entities. However, the FDIC generally only insures limited amounts per depositor per insured bank. As of December 31, 2011, we had cash and cash equivalents and restricted cash deposited in interest bearing transaction accounts at certain financial institutions exceeding these federally insured levels. If any of the banking institutions in which we have deposited funds ultimately fails, we may lose our deposits over the federally insured levels. The loss of our deposits could reduce the amount of cash we have available to distribute or invest.

Recent market disruptions may adversely impact aspects of our operating results and operating condition.

During 2011, the major credit agencies downgraded or placed under review the credit rating for debt issued by the U.S. government and U.S. agencies, due in part to the political uncertainties over U.S. debt limits. There continues to be a perceived risk of future sovereign credit ratings downgrade of the U.S. government, including the ratings of U.S. Treasury securities. A downgrade of U.S. sovereign credit ratings could correspondingly impact the credit ratings of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government, such as debt issued by Fannie Mae and Freddie Mac. In addition, certain European nations continue to experience varying degrees of financial stress, and yields on government-issued bonds in Greece, Ireland, Italy, Portugal and Spain have risen and remain volatile. Despite assistance packages to Greece, Ireland and Portugal, including a recently announced plan to expand financial assistance to Greece, uncertainty over the outcome of the European Union ("EU") governments' financial support programs and worries about sovereign finances persist. Market concerns over the direct and indirect exposure of U.S. and European banks and insurers to these EU peripheral nations has resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. These recent events may reduce investor confidence and lead to further weakening of the U.S. and global economies. In particular, this could cause disruption in the capital markets and impact the stability of future U.S. treasury auctions and the trading market for U.S. government securities, resulting in increased interest rates and borrowing costs and less availability of credit.

Our business may be affected by market and economic challenges experienced by the U.S. and global economies or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located. These conditions may materially affect the value of our investment properties, and may affect our ability to pay distributions, the availability or the terms of financing that we have or may anticipate utilizing, and our ability to make principal and interest payments on, or refinance, any outstanding debt when due. These challenging economic conditions may also impact the ability of certain of our tenants to enter into new leasing transactions or satisfy rental payments under existing leases. Specifically, recent global market disruptions may have many consequences including, but not limited to, these listed below:

- significant job losses have occurred and may continue to occur, which may decrease demand for our multifamily communities and result in lower occupancy levels, which will result in decreased revenues and which could diminish the value of our properties, which depend, in part, upon the cash flow generated by our properties;
- credit spreads for major sources of capital may continue to widen as investors demand higher risk premiums, resulting in lenders increasing the cost for debt financing;
- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could result in our investment operations generating lower overall economic returns and a reduced level of cash flow, which could potentially impact our ability to make distributions to our stockholders at current levels, reduce our ability to pursue acquisition opportunities if any, and increase our interest expense;
- a further reduction in the amount of capital that is available to finance real estate, which, in turn, could lead to a decline in real estate values generally, slow real estate transaction activity, reduce the loan to value ratio upon which lenders are willing to lend, and result in difficulty refinancing our debt; and
- the value and liquidity of our short-term investments could be reduced as a result of the dislocation of the markets for our short-term investments and increased volatility in market rates for such investments or other factors.

Recent and ongoing governmental intervention in the global financial markets may adversely affect our operating results and financial condition.

The pervasive and fundamental disruptions that the global financial markets have undergone has led to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty, which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies. There is likely to be increased regulation of the financial markets that could have a material impact on our operating results and financial condition.

We are uncertain of our sources for funding of future capital needs, which could adversely affect the value of our investments.

Substantially all of the proceeds of the Initial Public Offering have been and will be used to make investments in real estate and real estate-related assets and to pay various fees and expenses related to the offering. We establish capital reserves on a property-by-property basis, as we deem appropriate. In addition to any reserves we establish, a lender may require escrow of capital reserves in excess of our established reserves. If these reserves are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. Accordingly, in the event that we develop a need for additional capital in the future for the improvement of our properties or for any other reason, we have not identified any sources for such funding, and we cannot assure you that such sources of funding will be available to us for potential capital needs in the future.

Recent disruptions in the financial markets could adversely affect the multifamily property sector's ability to obtain financing and credit enhancement from Fannie Mae and Freddie Mac, which could adversely impact us.

Fannie Mae and Freddie Mac are major sources of financing for the multifamily sector. Since 2007, Fannie Mae and Freddie Mac have reported substantial losses and a need for significant amounts of additional capital. In response to the deteriorating financial condition of Fannie Mae and Freddie Mac and the recent credit market disruption, the U.S. Congress and Treasury undertook a series of actions to stabilize these government-sponsored enterprises and the financial markets. Pursuant to legislation enacted in 2008, the U.S. government placed both Fannie Mae and Freddie Mac under its conservatorship.

Currently, Fannie Mae and Freddie Mac remain active multifamily lenders. In fact, we and our Co-Investment Ventures secured approximately 55% of our financing through Fannie Mae and Freddie Mac. However, there is significant uncertainty surrounding the futures of Fannie Mae and Freddie Mac. Should Fannie Mae and Freddie Mac have their mandates changed or reduced, be disbanded or reorganized by the government or otherwise discontinue providing liquidity to our sector, it would significantly reduce our access to debt capital and/or increase borrowing costs. If new U.S. government regulations heighten Fannie Mae's and Freddie Mac's underwriting standards, adversely affect interest rates and reduce the amount of capital they can make available to the multifamily sector, it could have a material adverse effect on both the multifamily sector and us because many private alternative sources of funding have been reduced or are unavailable. Any potential reduction in loans, guarantees and credit-enhancement arrangements from Fannie Mae and Freddie Mac could jeopardize the effectiveness of the multifamily sector's derivative securities market, potentially causing breaches in loan covenants, and through reduced loan availability, impact the value of multifamily assets, which could impair the value of a significant portion of multifamily communities. Specifically, the potential for a decrease in liquidity made available to the multifamily sector by Fannie Mae and Freddie Mac could: (1) make it more difficult for us to secure new takeout financing for current multifamily development projects; (2) hinder our ability to refinance completed multifamily assets; (3) decrease the amount of available liquidity and credit that could be used to further diversify our portfolio of multifamily assets; and (4) require us to obtain other sources of debt capital with potentially different terms.

To hedge against exchange rate and interest rate fluctuations, we may use derivative financial instruments that may be costly and ineffective and may reduce the overall returns on your investment and affect cash available for distribution to our stockholders.

We may use derivative financial instruments to hedge exposures to changes in exchange rates and interest rates on loans secured by our assets and investments in commercial mortgage-backed securities. Derivative instruments may include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options or repurchase agreements. Our actual hedging decisions are determined in light of the facts and circumstances existing at the time of the hedge and may differ from time to time. Our hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability or asset;
- the amount of income that a REIT may earn from hedging transactions to offset interest rate losses is limited by federal tax provisions governing REITs;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the party owing money in the hedging transaction may default on its obligation to pay; and
- we may purchase a hedge that turns out not to be necessary, i.e., a hedge that is out of the money.

Any hedging activity we engage in may adversely affect our earnings, which could adversely affect cash available for distribution to our stockholders. Therefore, while we may enter into such transactions to seek to reduce interest rate risks, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended accounting treatment and may expose us to risk of loss.

To the extent that we use derivative financial instruments to hedge against exchange rate and interest rate fluctuations, we will be exposed to credit risk, basis risk and legal enforceability risks. 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. We intend to manage credit risk by dealing only with major financial institutions that have high credit ratings. 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. We intend to manage basis risk by matching, to a reasonable extent, the contract index to the index upon which the hedged asset or liability is based. 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. We intend to manage legal enforceability risks by ensuring, to the best of our ability, that we contract with reputable counterparties and that each counterparty complies with the terms and conditions of 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.

Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities and involve risks and costs.

The cost of using hedging instruments increases as the period covered by the instrument increases and during periods of rising and volatile interest rates. We may increase our hedging activity and thus increase our hedging costs during periods when interest rates are volatile or rising and hedging costs have increased. In addition, hedging instruments involve risk since they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our resale commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot be certain that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses.

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

The REIT provisions of the Internal Revenue Code may limit our ability to hedge the risks inherent to our operations. From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Income and gain from "hedging transactions" will be excluded from gross income for purposes of both the 75% and 95% gross income tests. A "hedging transaction" for these purposes means either (1) any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets and (2) any transaction entered into primarily to manage the risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income test (or any property which generates such income or gain). We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into and to satisfy other identification requirements. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT.

There can be no assurance that the direct or indirect effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010 for the purpose of stabilizing or reforming the financial markets, will not have an adverse effect on our interest rate hedging activities.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") became law in the United States. Title VII of the Dodd-Frank Act contains a sweeping overhaul of the regulation of privately negotiated derivatives. The provisions of Title VII became effective on July 16, 2011 or, with respect to particular provisions, on such other date specified in the Dodd-Frank Act or by subsequent rulemaking. While the full impact of the Dodd-Frank Act on our interest rate hedging activities cannot be assessed until implementing rules and regulations are promulgated, the requirements of Title VII may affect our ability to enter into hedging or other risk management transactions, may increase our costs in entering into such transactions, and may result in us entering into such transactions on more unfavorable terms than prior to effectiveness of the Dodd-Frank Act. The occurrence of any of the foregoing events may have an adverse effect on our business.

General Risks Related to Investments in Real Estate

In 2010, capitalization rates in major U.S. markets for multifamily communities began to decline, reversing a trend since the start of the recession. If capitalization rates remain compressed or decrease further, it may be more challenging for us to find attractive income-producing investment opportunities. On the other hand, economic, inflation or budget deficit issues could increase capital costs or prolong the U.S. economic slowdown which could lead to increases in capitalization rates and a potential decline in the value of our investments.

In connection with the recent credit market disruptions and economic slowdown, there is evidence that capitalization rates (the rate of return immediately expected upon investment in a real estate asset) in major U.S. markets for multifamily communities began decreasing in 2009 and have continued to decrease through 2011, particularly in the markets that we target. If capitalization rates stabilize or decrease further, we would expect the value of our current investments to hold steady or even increase. However, in such an environment it may be more difficult for us to find attractive income-producing investment opportunities. This challenge may be exacerbated if the cost of debt financing increases where our ability to leverage returns through the use of debt financing could be negatively affected.

Despite these current trends, there could be economic and real estate factors which could lead to a renewed increase in capitalization rates. If capitalization rates increase, we would expect declines in the pricing of those assets upon sale. If we were required to sell investments into such market, we could experience a substantial decrease in the value of our investments and those of our unconsolidated joint ventures. Apart from the potential for such results on any such sale, we may also be required to recognize an impairment charge in earnings in respect of assets we currently own.

Increases in unemployment caused by a recessionary economy could adversely affect multifamily property occupancy and rental rates with high quality multifamily communities suffering even more severely.

Although unemployment has improved during the second half of 2011, there are risks to the U.S. economy related to the European debt crisis and political debates over the U.S. debt limits which could reverse those trends. Rising levels of unemployment in our multifamily markets could significantly decrease occupancy and rental rates. In times of increasing unemployment, multifamily occupancy and rental rates have historically been adversely affected by:

- rental residents deciding to share rental units and therefore rent fewer units;
- potential residents moving back into family homes or delaying leaving family homes;
- a reduced demand for higher-rent units, such as those of high quality multifamily communities;
- a decline in household formation;
- persons enrolled in college delaying leaving college or choosing to proceed to or return to graduate school in the absence of available employment;
- the inability or unwillingness of residents to pay rent increases; and
- increased collection losses.

These factors have contributed to lower rental rates. If employment levels do not improve, our results of operations, financial condition and ability to make distributions to you may be adversely affected.

Our operating results will be affected by economic and regulatory changes that have an adverse impact on the real estate market in general, and we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

Our operating results will be subject to risks generally incident to the ownership of real estate, including:

- changes in general economic or local conditions;
- changes in supply of or demand for similar or competing properties in an area;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive;
- the illiquidity of real estate investments generally;
- changes in tax, real estate, environmental and zoning laws;
- periods of high interest rates and tight money supply;
- residents' perceptions of the safety, convenience, and attractiveness of our properties and the neighborhoods where they are located; and
- our ability to provide adequate management, maintenance, and insurance.

For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

Local conditions in the markets in which we own multifamily communities or in which the collateral securing our loans is located may significantly affect occupancy or rental rates at such properties. The risks that may adversely affect conditions in those markets include the following:

- layoffs, plant closings, relocations of significant local employers and other events negatively impacting local employment rates and the local economy;
- an oversupply of, or a lack of demand for, apartments;
- a decline in household formation;
- the inability or unwillingness of residents to pay rent increases; and
- rent control or rent stabilization laws or other housing laws, which could prevent us from raising rents.

For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

If we have limited diversification of the geographic locations of our properties, our operating results will be affected by economic changes that have an adverse impact on the real estate market in those areas.

In the event that most of our properties are located in a single geographic area, our operating results and ability to make distributions are likely to be impacted by economic changes affecting the real estate markets in that area. Your investment will be subject to greater risk to the extent that we lack a geographically diversified portfolio.

Our failure to integrate acquired communities and new personnel could create inefficiencies and reduce the return of your investment.

To grow successfully, we must be able to apply our experience in managing real estate to a larger number of properties. In addition, we must be able to integrate new management and operations personnel as our organization grows in size and complexity. Failures in either area will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

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

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

Any student-housing properties that we acquire will be subject to an annual leasing cycle, short lease up period, seasonal cash flows, changing university admission and housing policies, and other risks inherent in the student-housing industry, any of which could have a negative impact on your investment.

Student-housing properties generally have short-term leases of 12 months, ten months, nine months, or shorter. As a result, we may experience significantly reduced cash flows during the summer months from student-housing properties while most students are on vacation. Furthermore, student-housing properties must be almost entirely re-leased each year, exposing us to increased leasing risk. Student-housing properties are also typically leased during a limited leasing season that usually begins in January and ends in August of each year. We would, therefore, be highly dependent on the effectiveness of our marketing and leasing efforts and personnel during this season.

Changes in university admission policies could also adversely affect us. For example, if a university reduces the number of student admissions or requires that a certain class of students, such as freshmen, live in a university-owned facility, the demand for units at our student-housing properties may be reduced and our occupancy rates may decline. We rely on our relationships with colleges and universities for referrals of prospective student residents or for mailing lists of prospective student residents and their parents. Many of these colleges and universities own and operate their own competing on-campus facilities. Any failure to maintain good relationships with these colleges and universities could therefore have a material adverse effect on our ability to market our properties to students and their families.

Federal and state laws require colleges to publish and distribute reports of on-campus crime statistics, which may result in negative publicity and media coverage associated with crimes occurring on or in the vicinity of any student-housing properties. Reports of crime or other negative publicity regarding the safety of the students residing on, or near, our student-housing properties may have an adverse effect on our business.

We may face significant competition from university-owned student housing and from other residential properties that are in close proximity to any student-housing properties we may acquire, which could have a negative impact on our results of operations.

On-campus student housing has certain inherent advantages over off-campus student housing in terms of physical proximity to the university campus and integration of on-campus facilities into the academic community. Colleges and universities can generally avoid real estate taxes and borrow funds at lower interest rates than us.

Properties that have significant vacancies could be difficult to sell, which could diminish the return on your investment.

A property may incur vacancies either by the continued default of residents under their leases or the expiration of leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in decreased distributions to our stockholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

Many of our investments will be dependent on residents for revenue, and lease terminations could reduce our ability to make distributions to stockholders.

The success of our real property investments often will be materially dependent on the financial stability of our residents. Lease payment defaults by residents could cause us to reduce the amount of distributions to stockholders. A default by a significant number of residents on his or her lease payments to us would cause us to lose the revenue associated with such lease and cause us to have to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. In the event of a lease default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If a substantial number of leases are terminated, we cannot assure you that we will be able to lease the property for the rent previously received or sell the property without incurring a loss. Additionally, loans that we make generally will relate to real estate. As a result, the borrower's ability to repay the loan may be dependent on the financial stability of our residents leasing the related real estate.

We may be unable to renew leases or relet units as leases expire.

When our residents decide not to renew their leases upon expiration, we may not be able to relet their units. Even if the residents do renew or we can relet the units, the terms of renewal or reletting may be less favorable than current lease terms. If we are unable to promptly renew the leases or relet the units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then our results of operations and financial condition will be adversely affected. Occupancy levels and market rents may be adversely affected by national and local economic and market conditions including, without limitation, new construction and excess inventory of multifamily and single family housing, slow or negative employment growth, availability of low interest mortgages for single family home buyers and the potential for geopolitical instability, all of which are beyond our control. In addition, various state and local municipalities implement rent control legislation which could limit our ability to raise rents. Finally, the federal government's policies, many of which may encourage home ownership, can increase competition and possibly limit our ability to raise rents. Consequently, our cash flow and ability to service debt and make distributions to security holders could be reduced.

We may be unable to secure funds for future capital improvements, which could adversely impact our ability to make cash distributions to our stockholders.

When residents do not renew their leases or otherwise vacate their space, in order to attract replacement residents, we may be required to expend funds for capital improvements to the vacated apartment units. In addition, we may require substantial funds to renovate an apartment community in order to sell it, upgrade it or reposition it in the market. If we have insufficient capital reserves, we will have to obtain financing from other sources. We intend to establish capital reserves in an amount we, in our discretion, believe is necessary. A lender also may require escrow of capital reserves in excess of any established reserves. If these reserves or any reserves otherwise established are designated for other uses or are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Moreover, certain reserves required by lenders may be designated for specific uses and may not be available for capital purposes such as future capital improvements. Additional borrowing for capital needs and capital improvements will increase our interest expense, and therefore our financial condition and our ability to make cash distributions to our stockholders may be adversely affected.

We may be unable to sell a property or real estate-related asset if or when we decide to do so, which could adversely impact our ability to make cash distributions to our stockholders.

We intend to hold the various real properties and real estate-related assets in which we invest until such time as our Advisor determines that a sale or other disposition appears to be advantageous to achieve our investment objectives or until it appears that these objectives will not be met. Otherwise, our Advisor, subject to approval of our board of directors, may exercise its discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time, except upon our liquidation. If we have not begun the process to list our shares for trading on a national securities exchange or to liquidate at any time after the sixth anniversary of the termination of our Initial Public Offering (which terminated on September 2, 2011), unless such date is extended by our board of directors including a majority of our independent directors, we will furnish a proxy statement to stockholders to vote on a proposal for our orderly liquidation upon the written request of stockholders owning 10% or more of our outstanding common stock. The liquidation proposal would include information regarding appraisals of our portfolio. By proxy, stockholders holding a majority of our shares could vote to approve our liquidation. If our stockholders did not approve the liquidation proposal, we would obtain new appraisals and resubmit the proposal by proxy statement to our stockholders up to once every two years upon the written request of stockholders owning 10% or more of our outstanding common stock.

The real estate market is affected, as discussed above, by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any asset 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 cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or real estate-related asset. If we are unable to sell a property or real estate-related asset when we determine to do so, it could have a significant adverse effect on our cash flow and results of operations.

Our co-venture partners, co-tenants or other partners in co-ownership arrangements could take actions that decrease the value of an investment to us and lower your overall return.

As of December 31, 2011, 31 of our 42 multifamily investments have been made through co-investments with our Co-Investment Partners. In the future, we may enter into additional joint ventures, tenant-in-common investments or other co-ownership arrangements with other Behringer Harvard sponsored programs or third parties having investment objectives similar to ours for the acquisition, development or improvement of properties as well as the acquisition of real estate-related investments. We may also purchase and develop properties in joint ventures or in partnerships, co-tenancies or other co-ownership arrangements with the sellers of the properties, affiliates of the sellers, developers or other persons. Such investments may involve risks not otherwise present with other forms of real estate investment, including, for example:

- the possibility that our partner in an investment might become bankrupt;
- the possibility that the investment requires additional capital that we and/or our partner do not have, which lack of capital could affect the performance of the investment and/or dilute our interest if the partner were to contribute our share of the capital;
- the possibility that a partner in an investment might breach a loan agreement or other agreement or otherwise, by action or inaction, act in a way detrimental to us or the investment;

- that such partner may at any time have economic or business interests or goals that are or that become inconsistent with our business interests or goals;
- the possibility that we may incur liabilities as the result of the action taken by our partner;
- that such partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT; or
- that such partner may exercise buy/sell rights that force us to either acquire the entire investment, or dispose of our share, at a time and price that may not be consistent with our investment objectives.

Any of the above might reduce our returns on a joint venture investment. With respect to our 31 investments through joint ventures with Co-Investment Venture partners, each investment is subject to buy/sell rights in the event of a dispute over a major decision, such as whether to dispose of the underlying property.

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect your returns.

Our Advisor will attempt to ensure that all of our properties are adequately insured to cover casualty losses. The nature of the activities at certain properties we may acquire, such as age-restricted communities or student housing, may expose us and our operators to potential liability for personal injuries and property damage claims. In addition, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, pollution, environmental matters or extreme weather conditions such as hurricanes, floods and snowstorms that are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. Mortgage lenders generally insist that specific coverage against terrorism be purchased by property owners as a condition for providing mortgage, bridge or mezzanine loans. It is uncertain whether such insurance policies will continue to be available, or be available at reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for such losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured loss. In addition, other than any potential capital reserve or other reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property, and we cannot assure you that any such sources of funding will be available to us for such purposes in the future. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in decreased distributions to stockholders.

Our operating results may be negatively affected by potential development and construction delays and result in increased costs and risks, which could diminish the return on your investment.

We may use some or all of the offering proceeds available to us to acquire, develop and/or redevelop properties upon which we will develop multifamily communities and construct improvements. We will be subject to risks relating to uncertainties associated with rezoning for development and environmental concerns of governmental entities and/or community groups and our developer's ability to control construction costs or to build in conformity with plans, specifications and timetables. The developer's failure to perform may necessitate legal action by us to rescind the purchase or the construction contract or to compel performance. Performance may also be affected or delayed by conditions beyond the developer's control. Delays in completion of a multifamily community also could give residents the right to terminate preconstruction leases for apartment units at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to such developers prior to completion of construction. These and other such factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease up risks relating to newly constructed projects. Furthermore, we must rely upon projections of rental income and expenses and estimates of the fair market value of property upon completion of construction when agreeing upon a price to be paid for the property at the time of acquisition of the property. If our projections are inaccurate, we may pay too much for a property, and the return on our investment could suffer.

In addition, we may invest in unimproved real property (which we define as property not acquired for the purpose of producing rental or other operating income, has no development or construction in process at the time of acquisition and no development or construction is planned to commence within one year of the acquisition) or mortgage loans on unimproved property. Returns from development of unimproved properties are also subject to risks and uncertainties associated with rezoning the land for development and environmental concerns of governmental entities and/or community groups. Although our intention is to limit any investment in unimproved property to property we intend to develop, your investment nevertheless is subject to the risks associated with investments in unimproved real property.

Our plan to reposition certain commercial properties through demolition, conversion and redevelopment into new multifamily communities may never commence after we make an investment in the property, be delayed or never reach completion, which could diminish the return on your investment.

We may make investments in a wide variety of commercial properties, including, but not limited to, mixed use developments where multifamily is a portion of the mixed use developments. After we make an investment, we or the developer, as applicable, may be unable to commence conversion of these properties and therefore may be required to continue operating the properties under their current purpose, which would include other than multifamily community uses. In addition, we may also be unable to complete the demolition, conversion or redevelopment of these commercial properties and may be forced to hold or sell these properties at a loss. Although we intend to focus on multifamily communities and limit any investment in commercial properties for repositioning into multifamily communities, your investment is subject to the risks associated with these commercial properties and traditional construction risks associated with this repositioning plan.

If we contract with Behringer Development Company LP or its affiliates for newly developed property, we cannot guarantee that any earnest money deposit we make to Behringer Development Company LP or its affiliates will be fully refunded.

We may enter into one or more contracts, either directly or indirectly through joint ventures, tenant-in-common investments or other co-ownership arrangements, with affiliates of our Advisor or others, to acquire real property from Behringer Development Company LP ("Behringer Development"), an affiliate of our Advisor. Properties acquired from Behringer Development or its affiliates may be existing income-producing properties, properties to-be-developed or properties under development. We anticipate that we will be obligated to pay a substantial earnest money deposit at the time of contracting to acquire such properties. In the case of properties to be developed by Behringer Development or its affiliates, we anticipate that we will be required to close the purchase of the property upon completion of the development of the property by Behringer Development or its affiliates. At the time of contracting and the payment of the earnest money deposit by us, Behringer Development or its affiliates typically will not have acquired title to any real property. Typically, Behringer Development or its affiliates will only have a contract to acquire land and a development agreement to develop a building on the land. We may enter into such a contract with Behringer Development or its affiliates even if at the time of contracting we have not yet raised sufficient proceeds in an offering to enable us to close the purchase of such property. However, we will not be required to close a purchase from Behringer Development or its affiliates, and will be entitled to a refund of our earnest money, in the following circumstances:

- Behringer Development or its affiliates fail to develop the property;
- a significant portion of the pre-leased residents of a new or recently redeveloped apartment community fail to take possession under their leases for any reason; or
- we are unable to raise sufficient proceeds from an offering to pay the purchase price at closing.

The obligation of Behringer Development or its affiliates to refund our earnest money will be unsecured, and no assurance can be made that we would be able to obtain a refund of such earnest money deposit from it under these circumstances since Behringer Development is an entity without substantial assets or operations.

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

The residential multifamily community industry is highly competitive. This competition could reduce occupancy levels and revenues at our multifamily communities, which would adversely affect our operations. We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger real estate programs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Our competitors include other multifamily communities both in the immediate vicinity and the broader geographic market where our multifamily communities will be located. Overbuilding of multifamily communities may occur. If so, this will increase the number of multifamily community units available and may decrease occupancy and multifamily unit rental rates. In addition, increases in operating costs due to inflation may not be offset by increased rental rates. We may be required to expend substantial sums to attract new residents.

In connection with the recent credit market disruptions and economic slowdown, we may face increased competition from single-family homes and condominiums for rent, which could limit our ability to retain residents, lease apartment units or increase or maintain rents.

Any multifamily communities we invest in may compete with numerous housing alternatives in attracting residents, including single-family homes and condominiums available for rent. Such competitive housing alternatives may become more prevalent in a particular area because of the tightening of mortgage lending underwriting criteria, homeowner foreclosures, the decline in single-family home and condominium sales and the lack of available credit. The number of single-family homes and condominiums for rent in a particular area could limit our ability to retain residents, lease apartment units or increase or maintain rents.

A concentration of our investments in the multifamily sector may leave our profitability vulnerable to a downturn or slowdown in such sector.

At any one time, a significant portion of our investments are likely to be in the multifamily sector. As a result, we will be subject to risks inherent in investments in a single type of property. If our investments are substantially in the multifamily sector, then the potential effects on our revenues, and as a result, on cash available for distribution to our stockholders, resulting from a downturn or slowdown in the multifamily sector could be more pronounced than if we had more fully diversified our investments.

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

We may from time to time commence development activity or make acquisitions outside of our existing market areas or the property classes of our primary focus if appropriate opportunities arise. Our historical experience in our existing markets in developing, owning and operating certain classes of property does not ensure that we will be able to operate successfully in new markets, should we choose to enter them, or that we will be successful in new property classes. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to evaluate accurately local market conditions, to obtain land for development or to identify appropriate acquisition opportunities, to hire and retain key personnel, and a lack of familiarity with local governmental and permitting procedures. In addition, we may abandon opportunities to enter new markets or acquire new classes of property that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred.

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

From time to time, we may attempt to acquire multiple properties in a single transaction. 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 would expect the returns that we can earn on such cash to be less than the ultimate returns in 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 set aside insufficient capital reserves, we may be required to defer necessary capital improvements.

If we do not have enough reserves for capital to supply needed funds for capital improvements throughout the life of the investment in a property and there is insufficient cash available from our operations, we may be required to defer necessary improvements to the property, which may cause the property to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential residents being attracted to the property. If this happens, we may not be able to maintain projected rental rates for affected properties, and our results of operations may be negatively impacted.

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. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on residents, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent the property or to use the property as collateral for future borrowing.

Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. For example, various federal, regional and state laws and regulations have been implemented or are under consideration to mitigate the effects of climate change caused by greenhouse gas emissions. Among other things, "green" building codes may seek to reduce emissions through the imposition of standards for design, construction materials, water and energy usage and efficiency, and waste management. We are not aware of any such existing requirements that we believe will have a material impact on our current operations. However, future requirements could increase the costs of maintaining or improving our existing properties or developing new properties.

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

Under various federal, state and local environmental laws, ordinances and regulations (including those of foreign jurisdictions), 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 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. Such hazardous substances could be released into the air and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances.

In addition, when excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold at any of our projects could require us to undertake a costly remediation program to contain or remove the mold from the affected property or development project, which would reduce our operating results.

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

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

Our properties and the properties underlying our investments are generally expected to be subject to the Americans with Disabilities Act of 1990, as amended ("Disabilities Act"), or similar laws of foreign jurisdictions. Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for "public accommodations" and "commercial facilities" that generally require that buildings and services be made accessible and available to people with disabilities. The Disabilities Act's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages.

We will attempt to acquire properties that comply with the Disabilities Act or similar laws of foreign jurisdictions or place the burden on the seller or other third party to comply with such laws. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, our funds used for compliance with these laws may affect cash available for distributions and the amount of distributions to you.

The multifamily communities in which we invest must comply with Title III of the Disabilities Act, to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the Disabilities Act. Compliance with the Disabilities Act could require removal of structural barriers to handicapped access in certain public areas of our multifamily communities where such removal is readily achievable. The Disabilities Act does not, however, consider residential properties, such as multifamily communities to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as the leasing office, are open to the public.

We also must comply with the Fair Housing Amendment Act of 1988 ("FHAA"), which requires that multifamily communities first occupied after March 13, 1991 be accessible to handicapped residents and visitors. Compliance with the FHAA could require removal of structural barriers to handicapped access in a community, including the interiors of apartment units covered under the FHAA. Recently there has been heightened scrutiny of multifamily housing communities for compliance with the requirements of the FHAA and Disabilities Act and an increasing number of substantial enforcement actions and private lawsuits have been brought against multifamily communities to ensure compliance with these requirements. Noncompliance with the FHAA and Disabilities Act 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.

By owning age-restricted communities, we may incur liability by failing to comply with the FHAA, the Housing for Older Persons Act or certain state regulations, which may affect cash available for distributions.

Any age-restricted communities we acquire must comply with the FHAA and the Housing for Older Persons Act ("HOPA"). The FHAA prohibits housing discrimination based upon familial status, which is commonly referred to as age-based discrimination. However, there are exceptions for housing developments that qualify as housing for older persons. The HOPA provides the legal requirements for such housing developments. In order for housing to qualify as housing for older persons, the HOPA requires (1) all residents of such developments to be 62 years of age or older or (2) that at least 80% of the occupied units are occupied by at least one person who is 55 years of age or older and that the housing community publish and adhere to policies and procedures that demonstrate this required intent and comply with rules issued by the United States Department of Housing and Urban Development for verification of occupancy. In addition, certain states require that age-restricted housing communities register with the state. Noncompliance with the FHAA, HOPA and state registration requirements 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.

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 or in exchange for other property. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk of default by the purchaser and will be subject to remedies provided by law, which could negatively impact distributions to our stockholders. There are no limitations or restrictions on our ability to take purchase money obligations. We may, therefore, take a purchase money obligation secured by a mortgage as partial payment for the purchase price of a property. The terms of payment to us generally will be affected by custom in the area where the property being sold is located and the then-prevailing economic conditions. If we receive promissory notes or other property in lieu of cash from property sales, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property are actually paid, sold or refinanced or we have otherwise disposed of such promissory notes or other property. In some cases, we may receive initial down payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. If any purchaser defaults under a financing arrangement with us, it could negatively impact our ability to make distributions to our stockholders.

We may be contractually obligated to purchase property even if we are unable to secure financing for the acquisition.

We may finance a portion of the purchase price for any property that we acquire. However, to ensure that our offers are as competitive as possible, we generally will not enter into contracts to purchase property that include financing contingencies. Thus, we may be contractually obligated to purchase a property even if we are unable to secure financing for the acquisition. In this event, we may choose to close on the property by using cash on hand, which would result in less cash available for our operations and distributions to stockholders. Alternatively, we may choose not to close on the acquisition of the property and default on the purchase contract. If we default on any purchase contract, we could lose our earnest money and become subject to liquidated or other contractual damages and remedies. These consequences could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our stockholders.

Difficulty of selling multifamily communities could limit flexibility.

Federal tax laws may (subject to a statutory "safe harbor") limit our ability to earn a gain on the sale of a community (unless we own it through a subsidiary which will incur a taxable gain upon sale) if we are found to have held, acquired or developed the community primarily with the intent to resell the community or otherwise hold the asset as a "dealer," and this limitation may affect our ability to sell communities without adversely affecting returns to our stockholders. In addition, real estate in our markets can at times be difficult to sell quickly at prices we find acceptable. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the communities in our portfolio promptly in response to changes in economic or other conditions.

Risks Associated with Debt Financing

We will incur mortgage indebtedness and other borrowings, which will increase our business risks.

We and the entities in which we invest have utilized debt financing secured by real property investments to finance acquisitions. We anticipate that we will acquire additional properties and other real estate-related assets by using existing financing, if available, or borrowing new funds. In order to satisfy the requirement that we distribute to stockholders at least 90% of our annual REIT taxable income, or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes and/or avoid federal income tax, we may also borrow additional funds for payment of distribution to stockholders.

There is no limitation on the amount we may invest in any single property or other asset or on the amount we can borrow for the purchase of any individual property or other investment. Under our charter, the maximum amount of our indebtedness shall not exceed 300% of our "net assets" (as defined by our charter) as of the date of any borrowing; however, we may exceed that limit if approved by a majority of our independent directors.

In addition to our charter limitation, our board of directors has adopted a policy to generally limit our aggregate borrowings to approximately 75% of the aggregate value of our assets unless substantial justification exists that borrowing a greater amount is in our best interests (for purposes of this policy limitation and the target leverage ratio discussed below, the value of our assets is based on methodologies and policies determined by the board of directors that may include, but do not require, independent appraisals). Our policy limitation, however, does not apply to individual real estate assets and only will apply once we have invested substantially all of our capital raised in our Initial Public Offering. As a result, we expect to borrow more than 75% of the value of any particular asset to the extent our board of directors determines that borrowing such amount is prudent. Such debt may be at higher leverage than REITs with similar investment objectives or criteria. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. These factors could limit the amount of cash we have available to distribute and could result in a decline in the value of your investment. Following the investment of the remaining proceeds raised in our Initial Public Offering, we will seek a long term leverage ratio of approximately 50% to 60% upon stabilization of our portfolio.

We do not intend to incur mortgage debt on a particular real property unless we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow, then the amount available for distributions to stockholders may be affected. In addition, incurring mortgage debt increases the risk of loss because (1) loss in investment value is generally borne entirely by the borrower until such time as the investment value declines below the principal balance of the associated debt and (2) defaults on indebtedness secured by a property may result in foreclosure actions initiated by lenders and our loss of the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds from the foreclosure. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to our lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one real property may be affected by a default. If any of our properties are foreclosed upon due to a default, our ability to make distributions to our stockholders will be adversely affected. In addition, since we intend to begin to consider the process of liquidating and distributing cash or listing our shares on a national securities exchange within four to six years after the termination of our Initial Public Offering, our approach to investing in properties utilizing leverage in order to accomplish our investment objectives over this period of time may present more risks to our stockholders than comparable real estate programs that have a longer intended duration and that do not utilize borrowing to the same degree.

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

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

Our financial condition could be adversely affected by financial covenants under our credit facility.

Our $150.0 million credit facility agreement contains certain financial and operating covenants, including, among other things, leverage ratios, certain coverage ratios, as well as limitations on our ability to incur secured indebtedness. The credit facility agreement also contains customary default provisions including the failure to timely pay debt service issued thereunder and the failure to comply with our financial and operating covenants and cross-default provision with other debt. These covenants could limit our ability to obtain additional funds needed to address liquidity needs or pursue growth opportunities or transactions that would provide substantial return to our stockholders. In addition, a breach of these covenants could cause a default and accelerate payment of advances under the credit facility agreement, which could have a material adverse effect on our financial condition.

Violating the covenants contained in our credit facility agreement would likely result in us incurring higher finance costs and fees and/or an acceleration of the maturity date of advances under the credit facility agreement all of which could have a material adverse effect on our results of operations and financial condition.

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 connection with obtaining financing, a lender could impose restrictions on us that affect our ability to incur additional debt and our distribution and operating policies. In general, we expect our loan agreements to restrict our ability to encumber or otherwise transfer our interest in the respective property without the prior consent of the lender. Loan documents we enter into may contain other negative covenants that may limit our ability to further mortgage the property, discontinue insurance coverage, replace Behringer Harvard Multifamily Advisors I as our Advisor or impose other limitations. Any such restriction or limitation may have an adverse effect on our operations and our ability to make distributions to you.

Our ability to obtain financing on reasonable terms could be impacted by negative capital market conditions.

Since 2008, significant and widespread concerns about credit risk and access to capital have been present in the global financial markets. Commercial real estate debt markets have experienced volatility and uncertainty as a result of certain related factors, including the tightening of underwriting standards by lenders and credit rating agencies and the significant inventory of unsold commercial mortgage-backed securities in the market. Should these conditions increase our overall cost of borrowings, either by increases in the index rates or by increases in lender spreads, we will need to factor such increases into the economics of our acquisitions, developments and property contributions. Investment returns on our assets and our ability to make acquisitions could be adversely affected by our inability to secure financing on reasonable terms, if at all.

Interest-only indebtedness may increase our risk of default and ultimately may reduce our funds available for distribution to our stockholders.

We may 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.

Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

We may incur indebtedness that bears interest at a variable rate. In addition, from time to time we may pay mortgage loans or finance and refinance our properties in a rising interest rate environment. Accordingly, increases in interest rates could increase our interest costs, which could have an adverse effect on our cash flow from operating activities and our ability to make distributions to you. In addition, if rising interest rates cause us to need additional capital to repay indebtedness in accordance with its terms or otherwise, we may need to liquidate one or more of our investments at times that may not permit realization of the maximum return on these investments. Prolonged interest rate increases could also negatively impact our ability to make investments with positive economic returns.

If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to make distributions.

Some of our financing arrangements may require us to make a lump-sum or "balloon" payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT and/or avoid federal income tax. Any of these results would have a significant, negative impact on your investment.

Risks Related to Investments in Real Estate-Related Assets

We may invest in real estate-related assets or hold a non-controlling interest in an asset, which will be subject to the risks typically associated with real estate.

We have invested and may continue to invest in real estate-related loans and other real estate-related assets. In addition, we may hold a non-controlling interest in a real estate asset, such as a minority interest or preferred equity. Each of these investments will be subject to the risks typically associated with the ownership of real estate.

We have relatively less experience investing in mortgage, bridge, mezzanine or other loans as compared to investing directly in real property, which could adversely affect our return on loan investments.

The experience of our Advisor and its affiliates with respect to investing in mortgage, bridge, mezzanine or other loans relating to multifamily communities is not as extensive as it is with respect to investments directly in real properties. However, we have made and may continue to make such loan investments to the extent our Advisor determines that it is advantageous to us due to the state of the real estate market or in order to diversify our investment portfolio. Our less extensive experience with respect to mortgage, bridge, mezzanine or other loans could adversely affect our return on loan investments.

The bridge loans in which we may invest involve greater risks of loss than conventional mortgage loans.

We may provide or invest in bridge loans secured by first lien mortgages on a multifamily property to borrowers who are typically seeking short-term capital to be used in an acquisition or refinancing of real estate. We may also provide or invest in bridge loans secured by a pledge of the ownership interests of either the entity owning the real property or the entity that owns the interest in the entity owning the real property. The borrower has usually identified an undervalued multifamily asset that has been undermanaged or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan, and we may not recover some or all of our investment.

In addition, owners usually borrow funds under a conventional mortgage loan to repay a bridge loan. We may therefore be dependent on a borrower's ability to obtain permanent financing to repay our bridge loan, which could depend on market conditions and other factors. Bridge loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under bridge loans held by us, we bear the risk of loss of principal and nonpayment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the bridge loan. To the extent we suffer such losses with respect to our investments in bridge loans, the value of our company and the price of our common stock may be adversely affected.

The mezzanine loans in which we invest involve greater risks of loss than senior loans secured by income-producing real properties.

We have and may continue to invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying real property or loans secured by a pledge of the ownership interests of either the entity owning the real property or the entity that owns the interest in the entity owning the real property. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of the entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt is paid in full. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill periods"), and control decisions made in bankruptcy proceedings relating to borrowers. As a result, we may not recover some or all of our investment, which could have a negative impact on our ability to make distributions.

The construction loans in which we may invest involve greater risks of loss of investment and reduction of return than conventional mortgage loans.

If we decide to invest in construction loans secured by multifamily or other types of underlying properties, the nature of these loans pose a greater risk of loss than traditional mortgages. Since construction loans are made generally for the express purpose of either the original development or redevelopment of a property, the risk of loss is greater than a conventional mortgage because the underlying properties subject to construction loans are generally unable to generate income during the period of the loan. Construction loans may also be subordinate to the first lien mortgages. Any delays in completing the development or redevelopment multifamily project may increase the risk of default or credit risk of the borrower which may increase the risk of loss or risk of a lower than expected return to our portfolio.

Our mortgage, bridge, mezzanine or other loans may be impacted by unfavorable real estate market conditions, which could decrease the value of our loan investments.

If we make or invest in mortgage, bridge, mezzanine or other loans, we will be at risk of defaults on those loans caused by many conditions beyond our control, including local and other economic conditions affecting real estate values and interest rate levels. We do not know whether the values of the property securing the loans will remain at the levels existing on the dates of origination of the loans. If the values of the underlying properties drop, our risk will increase and the values of our interests may decrease.

Our mortgage, bridge, mezzanine or other loans will be subject to interest rate fluctuations, which could reduce our returns as compared to market interest rates.

If we invest in fixed-rate, long-term mortgage, bridge, mezzanine or other loans and interest rates rise, the loans could yield a return lower than then-current market rates. If interest rates decrease, we will be adversely affected to the extent that mortgage, bridge, mezzanine or other loans are prepaid, because we may not be able to make new loans at the previously higher interest rate.

Delays in liquidating defaulted mortgage, bridge, mezzanine or other loans could reduce our investment returns.

If there are defaults under our loans, we may not be able to repossess and quickly sell the properties securing such loans. The resulting time delay could reduce the value of our investment in the defaulted loans. An action to foreclose on a property securing a loan is regulated by state statutes and rules and is subject to the delays and expenses of any lawsuit brought in connection with the foreclosure if the defendant raises defenses or counterclaims. In the event of default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due to us on the loan.

Returns on our mortgage, bridge, mezzanine or other loans may be limited by regulations.

The mortgage, bridge or mezzanine loans in which we invest, or that we may make, may be subject to regulation by federal, state and local authorities (including those of foreign jurisdictions) and subject to various laws and judicial and administrative decisions. We may determine not to make mortgage, bridge, mezzanine or other loans in any jurisdiction in which we believe we have not complied in all material respects with applicable requirements. If we decide not to make mortgage, bridge, mezzanine or other loans in several jurisdictions, it could reduce the amount of income we would otherwise receive.

Foreclosures create additional ownership risks that could adversely impact our returns on loan investments.

If we acquire property by foreclosure following defaults under our mortgage, bridge, mezzanine or other loans, we will have the economic and liability risks as the owner of that property.

The liquidation of our assets may be delayed as a result of our investment in mortgage, bridge, mezzanine or other loans, which could delay distributions to our stockholders.

The mezzanine and bridge loans we may purchase will be particularly illiquid investments due to their short life, their unsuitability for securitization and the greater difficulty of recoupment in the event of a borrower's default. If our Advisor determines that it is in our best interest to make or invest in mortgage, bridge, mezzanine or other loans, any intended liquidation of us may be delayed beyond the time of the sale of all of our properties until all mortgage, bridge or mezzanine loans expire or are sold, because we may enter into mortgage, bridge, mezzanine or other loans with terms that expire after the date we intend to have sold all of our properties.

Investments in real estate-related securities will be subject to specific risks relating to the particular issuer of the securities and may be subject to the general risks of investing in subordinated real estate securities, which may result in losses to us.

We may invest in real estate-related securities of both publicly traded and private real estate companies. Our investments in real estate-related securities will involve special risks relating to the particular issuer of the real estate-related securities, including the financial condition and business outlook of the issuer. Issuers of real estate-related equity securities generally invest in real estate or real estate-related assets and are subject to the inherent risks associated with real estate-related investments, which are discussed in this "Risk Factors" section, including risks relating to rising interest rates.

Real estate-related securities are often unsecured and also may be subordinated to other obligations of the issuer. As a result, investments in real estate-related securities are subject to risks of: (1) limited liquidity in the secondary trading market in the case of unlisted or thinly traded securities; (2) substantial market price volatility resulting from changes in prevailing interest rates in the case of traded equity securities; (3) subordination to the prior claims of banks and other senior lenders to the issuer; (4) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the issuer to reinvest redemption proceeds in lower yielding assets; (5) the possibility that earnings of the issuer may be insufficient to meet its debt service and distribution obligations; and (6) the declining creditworthiness and potential for insolvency of the issuer during periods of rising interest rates and economic slowdown or downturn. These risks may adversely affect the value of outstanding real estate-related securities and the ability of the issuers thereof to repay principal and interest or make distribution payments.

Investments in real estate-related preferred equity securities involve a greater risk of loss than traditional debt financing.

We may invest in real estate-related preferred equity securities, which may involve a higher degree of risk than traditional debt financing due to a variety of factors, including that such investments are subordinate to traditional loans and are not secured by property underlying the investment. Furthermore, should the issuer default on our investment, we would be able to proceed only against the entity in which we have an interest, and not the property owned by such entity and underlying our investment. As a result, we may not recover some or all of our investment.

We may make investments in non-U.S. dollar denominated property and real estate-related securities, which will be subject to currency rates exposure and the uncertainty of foreign laws and markets.

We may purchase property or real estate-related securities denominated in foreign currencies. A change in foreign currency exchange rates may have an adverse impact on returns on our non-U.S. dollar denominated investments. Although we may hedge our foreign currency risk subject to the REIT income qualification tests, we may not be able to do so successfully and may incur losses on these investments as a result of exchange rate fluctuations.

We expect that a portion of any real estate-related securities investments we make will be illiquid and we may not be able to adjust our portfolio in response to changes in economic and other conditions.

Certain of the real estate-related securities that we may purchase in connection with privately negotiated transactions will not be registered under the applicable securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited. The mezzanine and bridge loans we may purchase will be particularly illiquid investments due to their short life, their unsuitability for securitization and the greater difficulty of recoupment in the event of a borrower's default.

Interest rate and related risks may cause the value of our real estate-related securities to be reduced.

Interest rate risk is the risk that prevailing market interest rates change relative to the current yield on fixed income securities such as preferred and debt securities, and to a lesser extent dividend paying common stock. Generally, when market interest rates rise, the market value of these securities declines, and vice versa. In addition, when interest rates fall, issuers are more likely to repurchase their existing preferred and debt securities to take advantage of the lower cost of financing. As repurchases occur, principal is returned to the holders of the securities sooner than expected, thereby lowering the effective yield on the investment. On the other hand, when interest rates rise, issuers are more likely to maintain their existing preferred and debt securities. As a result, repurchases decrease, thereby extending the average maturity of the securities. We intend to manage interest rate risk by purchasing preferred and debt securities with maturities and repurchase provisions that are designed to match our investment objectives. If we are unable to manage these risks effectively, our results of operations, financial condition and ability to pay distributions to you will be adversely affected.

We may acquire real estate-related securities through tender offers, which may require us to spend significant amounts of time and money that otherwise could be allocated to our operations.

We may acquire real estate-related securities through tender offers, negotiated or otherwise, in which we solicit a target company's stockholders to purchase their securities. The acquisition of these securities could require us to spend significant amounts of money that otherwise could be allocated to our operations. Additionally, in order to acquire the securities, the employees of our Advisor likely will need to devote a substantial portion of their time to pursuing the tender offer—time that otherwise could be allocated to managing our business. These consequences could adversely affect our operations and reduce the cash available for distribution to our stockholders.

The CMBS in which we may invest are subject to all of the risks of the underlying mortgage loans and the risks of the securitization process.

Commercial mortgage-backed securities ("CMBS") are securities that evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, these securities are subject to all of the risks of the underlying mortgage loans.

In a rising interest rate environment, the value of CMBS may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of CMBS may also change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities market as a whole. In addition, CMBS are subject to the credit risk associated with the performance of the underlying mortgage properties. In certain instances, third- party guarantees or other forms of credit support can reduce the credit risk.

CMBS are also subject to several risks created through the securitization process. Subordinate CMBS are paid interest only to the extent that there are funds available to make payments. To the extent the collateral pool includes delinquent loans, there is a risk that interest payment on subordinate CMBS will not be fully paid. Subordinate CMBS are also subject to greater credit risk than those CMBS that are more highly rated.

If we use leverage in connection with any potential investments in CMBS, the risk of loss associated with this type of investment will increase.

We may use leverage in connection with our investment in CMBS. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss. There can be no assurance that leveraged financing will be available to us on favorable terms or that, among other factors, the terms of such financing will parallel the maturities of the underlying securities acquired. Therefore, such financing may mature prior to the maturity of the CMBS acquired by us. If alternative financing is not available, we may have to liquidate assets at unfavorable prices to pay off such financing. We may utilize repurchase agreements as a component of our financing strategy. Repurchase agreements economically resemble short-term, variable-rate financing and usually require the maintenance of specific loan-to-collateral value ratios. If the market value of the CMBS subject to a repurchase agreement declines, we may be required to provide additional collateral or make cash payments to maintain the loan to collateral value ratio. If we are unable to provide such collateral or cash repayments, we may lose our economic interest in the underlying CMBS.

We may have increased exposure to liabilities from litigation as a result of any participation by us in Section 1031 Tenant-in-Common transactions.

Behringer Development, an affiliate of our Advisor, or its affiliates ("Behringer Harvard Exchange Entities") regularly enter into transactions that qualify for like-kind exchange treatment under Section 1031 of the Internal Revenue Code. Section 1031 tenant-in-common transactions ("Section 1031 TIC Transactions") are structured as the acquisition of real estate owned in co-tenancy arrangements with parties seeking to defer taxes under Section 1031 of the Internal Revenue Code ("1031 Participants"). We may provide accommodation in support of or otherwise be involved in such Section 1031 TIC Transactions. Specifically, at the closing of certain properties acquired by a Behringer Harvard Exchange Entity, we may enter into a contractual arrangement with such entity providing: (1) in the event that the Behringer Harvard Exchange Entity is unable to sell all of the co-tenancy interests in that property to 1031 Participants, we will purchase, at the Behringer Harvard Exchange Entity's cost, any co-tenancy interests remaining unsold; (2) we will guarantee certain bridge loans associated with the purchase of the property in which tenant-in-common interests are to be sold; and/or (3) we will provide security for the guarantee of such bridge loans. Although our participation in Section 1031 TIC Transactions may have certain benefits to our business, including enabling us to invest capital more readily and over a more diversified portfolio and allowing us to acquire interests in properties that we would be unable to acquire using our own capital resources, there are significant tax and securities disclosure risks associated with the related offerings of co-tenancy interests to 1031 Participants. Changes in tax laws may negatively impact the tax benefits of like-kind exchanges or cause such transactions not to achieve their intended value. In certain Section 1031 TIC Transactions it is anticipated that we would receive fees in connection with our provision of accommodation in support of the transaction and, as such, even though we do not sponsor these Section 1031 TIC Transactions, we may be named in or otherwise required to defend against any lawsuits brought by 1031 Participants because of our affiliation with sponsors of such transactions. Furthermore, in the event that the Internal Revenue Service conducts an audit of the purchasers of co-tenancy interests and successfully challenges the qualification of the transaction as a like-kind exchange, purchasers of co-tenancy interests may file a lawsuit against the entity offering the co-tenancy interests, its sponsors, and/or us. We may be involved in one or more such offerings and could therefore be named in or otherwise required to defend against lawsuits brought by 1031 Participants. Any amounts we are required to expend defending any such claims will reduce the amount of funds available to us for investment by us in properties or other investments and may reduce the amount of funds available for distribution to our stockholders. In addition, disclosure of any such litigation may adversely affect our ability to raise additional capital in the future through the sale of stock.

We may have increased business and litigation risks as a result of any direct sales by us of tenant-in-common interests in Section 1031 Tenant-in-Common transactions.

We may directly sell tenant-in-common interests in our properties to 1031 Participants, which may expose us to significant tax and securities disclosure risks. Changes in tax laws may negatively impact the tax benefits of like-kind exchanges or cause such transactions not to achieve their intended value. Furthermore, the Internal Revenue Service may determine that the sale of tenant-in-common interests is a "prohibited transaction" under the Internal Revenue Code, which would cause all of the gain we realize from any such sale to be payable as a tax to the Internal Revenue Service, with none of such gain available for distribution to our stockholders. The Internal Revenue Service may conduct an audit of the purchasers of tenant-in-common interests and successfully challenge the qualification of the transaction as a like-kind exchange. We may be named in or otherwise required to defend against any lawsuits brought by stockholders or 1031 Participants in connection with Section 1031 TIC Transactions in which we directly sell tenant-in-common interests. In addition, as a seller of tenant-in-common interests, we will be required to comply with applicable federal and state securities laws and to provide fair and adequate disclosure to 1031 Participants relating to the respective Section 1031 TIC Transaction. Any alleged failure by us to comply with these requirements could expose us to risks of litigation. Any amounts we are required to expend in defending claims brought against us will reduce the amount of funds available for us to invest in properties or other investments and may reduce the amount of funds available for distribution to our stockholders. In addition, disclosure of any such litigation may adversely affect our ability to raise additional capital in the future through the sale of stock.

A portion of the properties we acquire may be in the form of tenant-in-common or other co-tenancy arrangements. We will be subject to risks associated with such co-tenancy arrangements that otherwise may not be present in non-co-tenancy real estate investments.

We may enter in tenant-in-common or other co-tenancy arrangements with respect to a portion of the properties we acquire. Whether acquired as a planned co-tenancy or as the result of an accommodation or other arrangement disclosed above, ownership of co-tenancy interests involves risks generally not otherwise present with an investment in real estate, including the following:

- the risk that a co-tenant may at any time have economic or business interests or goals that are or become inconsistent with our business interests or goals;
- the risk that a co-tenant may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives;
- the possibility that an individual co-tenant might become insolvent or bankrupt, or otherwise default under the applicable mortgage loan financing documents, which may constitute an event of default under all of the applicable mortgage loan financing documents that could result in a foreclosure and the loss of all or a substantial portion of the investment made by the co-tenants or allow the bankruptcy court to reject the tenants-in-common agreement or management agreement entered into by the co-tenants owning interests in the property;
- the possibility that a co-tenant might not have adequate liquid assets to make cash advances that may be required in order to fund operations, maintenance and other expenses related to the property, which could result in the loss of current or prospective tenants and may otherwise adversely affect the operation and maintenance of the property, and could cause a default under the mortgage loan financing documents applicable to the property and may result in late charges, penalties and interest, and may lead to the exercise of foreclosure and other remedies by the lender;
- the risk that a co-tenant could breach agreements related to the property, which may cause a default under, or result in personal liability for, the applicable mortgage loan financing

documents, violate applicable securities law and otherwise adversely affect the property and the co-tenancy arrangement; or

- the risk that a default by any co-tenant would constitute a default under the applicable mortgage loan financing documents that could result in a foreclosure and the loss of all or a substantial portion of the investment made by the co-tenants.

Actions by a co-tenant might have the result of subjecting the property to liabilities in excess of those contemplated and may have the effect of reducing your returns.

In the event that our interests become adverse to those of the other co-tenants in a Section 1031 TIC Transaction, we may not have the contractual right to purchase the co-tenancy interests from the other co-tenants. Even if we are given the opportunity to purchase such co-tenancy interests in the future, we cannot guarantee that we will have sufficient funds available at the time to purchase such co-tenancy interests. In addition, we may desire to sell our co-tenancy interests in a given property at a time when the other co-tenants in such property do not desire to sell their interests. Therefore, we may not be able to sell our interest in a property at the time we would like to sell. Finally, it is anticipated that it will be much more difficult to find a willing buyer for our co-tenancy interests in a property than it would be to find a buyer for a property we owned outright.

Our participation in Section 1031 TIC Transactions may limit our ability to borrow funds in the future, which could adversely affect the value of our investments.

Section 1031 TIC Transaction agreements we may enter that contain obligations to acquire unsold co-tenancy interests in properties may be viewed by institutional lenders as a contingent liability against our cash or other assets, which may limit our ability to borrow funds in the future. Furthermore, such obligations may be viewed by our lenders in such a manner as to limit our ability to borrow funds based on regulatory restrictions on lenders limiting the amount of loans they can make to any one borrower.

Our operating results will be negatively affected if our investments, including investments in tenant-in-common interests promoted by affiliates of our Advisor, do not meet projected distribution levels.

Behringer Harvard Holdings and its affiliates have promoted a number of tenant-in-common real estate projects. Some of these projects have not met the distribution levels anticipated in the projections produced by Behringer Harvard Holdings and its affiliates. In addition, certain other projects have not achieved the leasing and operational thresholds projected by Behringer Harvard Holdings and its affiliates. If projections related to our investments, including any tenant-in-common interests in which we invest, are inaccurate, we may pay too much for an investment and our return on our investment could suffer.

Specifically, several tenant-in-common investment programs have not benefited from expected leasing improvements. Behringer Harvard Holdings has provided support for some of these programs in the form of leases for vacant space and other payments. In addition, the Beau Terre Office Park tenant-in-common program is currently underperforming relative to projections that were based on seller representations that Behringer Harvard Holdings now believes to be false. With respect to this program, Behringer Harvard Holdings reached settlement in December 2010 in a lawsuit with the former on-site property manager. The tenant-in-common investors received substantial settlement consideration and were no longer party to the suit at its ultimate conclusion.

Federal Income Tax Risks

Failure to qualify as a REIT would adversely affect our operations and our ability to make distributions.

In order for us to qualify as a REIT, we must satisfy certain requirements set forth in the Internal Revenue Code and Treasury Regulations and various factual matters and circumstances that are not entirely within our control. We intend to structure our activities in a manner designed to satisfy all of these requirements. However, if certain of our operations were to be recharacterized by the Internal Revenue Service, such recharacterization could jeopardize our ability to satisfy all of the requirements for qualification as a REIT and may affect our ability to continue to qualify as a REIT. In addition, new legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualifying as a REIT or the federal income tax consequences of qualifying.

Our qualification as a REIT depends upon our ability to meet, through investments, actual operating results, distributions and satisfaction of specific stockholder rules, the various tests imposed by the Internal Revenue Code. We cannot assure you that we will satisfy the REIT requirements in the future.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income for that year at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the distributions-paid deduction, and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax. Our failure to qualify as a REIT would adversely affect the return on your investment.

Qualification as a REIT is subject to the satisfaction of tax requirements and various factual matters and circumstances that are not entirely within our control. New legislation, regulations, administrative interpretations or court decisions could change the tax laws with respect to qualification as a REIT or the federal income tax consequences of being a REIT. Our failure to qualify as a REIT would adversely affect your return on your investment.

Our investment strategy may cause us to incur penalty taxes, lose our REIT status, or own and sell properties through taxable REIT subsidiaries, each of which would diminish the return to our stockholders.

It is possible that one or more sales of our properties may be "prohibited transactions" under provisions of the Internal Revenue Code. If we are deemed to have engaged in a "prohibited transaction" (i.e., we sell a property held by us primarily for sale in the ordinary course of our trade or business) all income that we derive from such sale would be subject to a 100% penalty tax. The Internal Revenue Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% penalty tax. A principal requirement of the safe harbor is that the REIT must hold the applicable property for not less than two years prior to its sale.

If we desire to sell a property pursuant to a transaction that does not fall within the safe harbor, we may be able to avoid the 100% penalty tax if we acquired the property through a taxable REIT subsidiary ("TRS"), or acquired the property and transferred it to a TRS for a non-tax business purpose prior to the sale (i.e., for a reason other than the avoidance of taxes). However, there may be circumstances that prevent us from using a TRS in a transaction that does not qualify for the safe harbor. Additionally, even if it is possible to effect a property disposition through a TRS, we may decide to forego the use of a TRS in a transaction that does not meet the safe harbor requirements based on our own internal analysis, the opinion of counsel or the opinion of other tax advisers that the disposition should not be subject to the 100% penalty tax. In cases where a property disposition is not effected through a TRS, the Internal Revenue Service could successfully assert that the disposition constitutes a prohibited transaction, in which event all of the net income from the sale of such property will be payable as a tax and none of the proceeds from such sale will be distributable by us to our stockholders or available for investment by us.

If we acquire a property that we anticipate will not fall within the safe harbor from the 100% penalty tax upon disposition, then we may acquire such property through a TRS in order to avoid the possibility that the sale of such property will be a prohibited transaction and subject to the 100% penalty tax. If we already own such a property directly or indirectly through an entity other than a TRS, we may contribute the property to a TRS if there is another, non-tax related business purpose for the contribution of such property to the TRS. Following the transfer of the property to a TRS, the TRS will operate the property and may sell such property and distribute the net proceeds from such sale to us, and we may distribute the net proceeds distributed to us by the TRS to our stockholders. Though a sale of the property by a TRS likely would eliminate the danger of the application of the 100% penalty tax, the TRS itself would be subject to a tax at the federal level, and potentially at the state and local levels, on the gain realized by it from the sale of the property as well as on the income earned while the property is operated by the TRS. This tax obligation would diminish the amount of the proceeds from the sale of such property that would be distributable to our stockholders. As a result, the amount available for distribution to our stockholders would be substantially less than if the REIT had not operated and sold such property through the TRS and such transaction was not successfully characterized as a prohibited transaction. The maximum federal corporate income tax rate currently is 35%. Federal, state and local corporate income tax rates may be increased in the future, and any such increase would reduce the amount of the net proceeds available for distribution by us to our stockholders from the sale of property through a TRS after the effective date of any increase in such tax rates.

As a REIT, the value of the non-mortgage securities we hold in TRSs may not exceed 25% of the total value of our assets at the end of any calendar quarter. If the Internal Revenue Service were to determine that the value of our interests in all of our TRSs exceeded this limit at the end of any calendar quarter, then we would fail to qualify as a REIT. If we determine it to be in our best interests to own a substantial number of our properties through one or more TRSs, then it is possible that the Internal Revenue Service may conclude that the value of our interests in our TRSs exceeds 25% of the value of our total assets at the end of any calendar quarter and therefore cause us to fail to qualify as a REIT. Additionally, as a REIT, no more than 25% of our gross income with respect to any year may, in general, be from sources other than real estate-related assets. Distributions paid to us from a TRS are typically considered to be non-real estate income. Therefore, we may fail to qualify as a REIT if distributions from all of our TRSs, when aggregated with all other non-real estate income with respect to any one year, are more than 25% of our gross income with respect to such year. We will use all reasonable efforts to structure our activities in a manner intended to satisfy the requirements for our continued qualification as a REIT. Our failure to qualify as a REIT would adversely affect the return on your investment.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

Certain fees paid to us may affect our REIT status.

Income received in the nature of rental subsidies or rent guarantees, in some cases, may not qualify as rental income and could be characterized by the Internal Revenue Service as non-qualifying income for purposes of satisfying the "income tests" required for REIT qualification. In addition, in connection with our Section 1031 TIC Transactions, we or one of our affiliates may enter into a number of contractual arrangements with Behringer Harvard Exchange Entities whereby we will guarantee or effectively guarantee the sale of the co-tenancy interests being offered by any Behringer Harvard Exchange Entity. In consideration for entering into these agreements, we will be paid fees that could be characterized by the Internal Revenue Service as non-qualifying income for purposes of satisfying the "income tests" required for REIT qualification. If this fee income were, in fact, treated as non-qualifying, and if the aggregate of such fee income and any other non-qualifying income in any taxable year ever exceeded 5% of our gross revenues for such year, we could lose our REIT status for that taxable year and the four taxable years following the year of losing our REIT status. We will use commercially reasonable efforts to structure our activities in a manner intended to satisfy the requirements for our continued qualification as a REIT. Our failure to qualify as a REIT would adversely affect the return on your investment.

Equity participation in mortgage, bridge and mezzanine loans may result in taxable income and gains from these properties, which could adversely impact our REIT status.

If we participate under a loan in any appreciation of the properties securing the loan or its cash flow and the Internal Revenue Service characterizes this participation as "equity," we might have to recognize income, gains and other items from the property for federal income tax purposes. This could affect our ability to qualify as a REIT.

Recharacterization of the Section 1031 TIC Transactions may result in taxation of income from a prohibited transaction, which would diminish distributions to our stockholders.

In the event that the Internal Revenue Service were to recharacterize the Section 1031 TIC Transactions such that we, rather than the Behringer Harvard Exchange Entity, are treated as the bona fide owner, for tax purposes, of properties acquired and resold by the Behringer Harvard Exchange Entity in connection with the Section 1031 TIC Transactions, such characterization could result in the fees paid to us by the Behringer Harvard Exchange Entity as being deemed income from a prohibited transaction, in which event the fee income paid to us in connection with the Section 1031 TIC Transactions would be subject to the 100% penalty tax. If this occurs, our ability to make cash distributions to our stockholders will be adversely affected.

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

If you participate in our distribution reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. In addition, you will be treated for tax purposes as having received an additional distribution to the extent the shares are purchased at a discount to fair market value. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the shares of common stock received.

If our operating partnership fails to maintain its status as a partnership or other flow-through entity for tax purposes, its income may be subject to taxation, which would reduce the cash available to us for distribution to our stockholders.

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

In certain circumstances, we may be subject to federal and state taxes, which would reduce our cash available for distribution to our stockholders.

Even if we qualify and maintain our status as a REIT, we may become subject to federal and state taxes. For example, if we have net income from a "prohibited transaction," such income will be subject to the 100% penalty tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our assets and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. We may also be subject to state and local taxes, including potentially the "margin tax" in the State of Texas, on our income or property, either directly or at the level of the operating partnership or at the level of the other companies through which we indirectly own our assets. Any federal or state taxes paid by us will reduce the cash available to us for distribution to our stockholders.

We may be disqualified from treatment as a REIT if a joint venture entity elects to qualify as a REIT and is later disqualified from treatment as a REIT.

As part of our joint ventures, such as our joint ventures with our BHMP Co-Investment Partner, MW Co-Investment Partner or future joint ventures with any other Behringer Harvard sponsored investment program, we have and we may in the future form subsidiary REITs that will acquire and hold assets, such as a co-investment project owned through a joint venture with our BHMP Co-Investment Partner. In order to qualify as a REIT, among numerous other requirements, each subsidiary REIT must have at least 100 persons as beneficial owners after the first taxable year for which it makes an election to be taxed as a REIT and satisfy all of the other requirements for REITs under the Internal Revenue Code. We may be unable to satisfy these requirements for the subsidiary REITs created in our joint ventures with the BHMP Co-Investment Partner or other joint ventures. In the event that a subsidiary REIT is disqualified from treatment as a REIT for whatever reason, we will be disqualified from treatment as a REIT as well absent our ability to comply with certain relief provisions, which are unlikely to be available. If we were disqualified from treatment as a REIT we would lose the ability to deduct from our income distributions that we make to our stockholders, and there would be a negative impact on our operations and our stockholders' investment in us.

A subsidiary REIT may become subject to state taxation, negatively affecting its operating results.

Certain states are currently considering whether to tax captive REITs, such as the subsidiary REITs. If any subsidiary REIT becomes subject to state taxation, that subsidiary REIT's results of operations could be negatively affected.

Non-U.S. income or other taxes, and a requirement to withhold any non-U.S. taxes, may apply, and, if so, the amount of net cash from operations payable to you will be reduced.

We may acquire real property located outside the United States and may invest in stock or other securities of entities owning real property located outside the United States. As a result, we may be subject to foreign (i.e., non-U.S.) income taxes, stamp taxes, real property conveyance taxes, withholding taxes, and other foreign taxes or similar impositions in connection with our ownership of foreign real property or foreign securities. The country in which the real property is located may impose such taxes regardless of whether we are profitable and in addition to any U.S. income tax or other U.S. taxes imposed on profits from our investments in such real property or securities. If a foreign country imposes income taxes on profits from our investment in foreign real property or foreign securities, you will not be eligible to claim a tax credit on your U.S. federal income tax returns to offset the income taxes paid to the foreign country, and the imposition of any foreign taxes in connection with our ownership and operation of foreign real property or our investment in securities of foreign entities will reduce the amounts distributable to you. Similarly, the imposition of withholding taxes by a foreign country will reduce the amounts distributable to you. We expect the organizational costs associated with non-U.S. investments, including costs to structure the investments so as to minimize the impact of foreign taxes, will be higher than those associated with U.S. investments. Moreover, we may be required to file income tax or other information returns in foreign jurisdictions as a result of our investments made outside of the United States. Any organizational costs and reporting requirements will increase our administrative expenses and reduce the amount of cash available for distribution to you. You are urged to consult with your own tax advisers with respect to the impact of applicable non-U.S. taxes and tax withholding requirements on an investment in our common stock.

Our foreign investments will be subject to changes in foreign tax or other laws, as well as to changes in U.S. tax laws, and such changes could negatively impact our returns from any particular investment.

We may make investments in real estate located outside of the United States. Such investments will typically be structured to minimize non-U.S. taxes, and generally include the use of holding companies. Our ownership, operation and disposition strategy with respect to non-U.S. investments will take into account foreign tax considerations. For example, it is typically advantageous from a tax perspective in non-U.S. jurisdictions to sell interests in a holding company that owns real estate rather than the real estate itself. Buyers of such entities, however, will often discount their purchase price by any inherent or expected tax in such entity. Additionally, the pool of buyers for interests in such holding companies is typically more limited than buyers of direct interests in real estate, and we may be forced to dispose of real estate directly, thus potentially incurring higher foreign taxes and negatively affecting the return on the investment.

We will also capitalize our holding companies with debt and equity to reduce foreign income and withholding taxes as appropriate and with consultation with local counsel in each jurisdiction. Such capitalization structures are complex and potentially subject to challenge by foreign and domestic taxing authorities.

We may use certain holding structures for our non-U.S. investments to accommodate the needs of one class of investors which reduce the after-tax returns to other classes of investors. For example, if we interpose an entity treated as a corporation for United States tax purposes in our chain of ownership with respect to any particular investment, U.S. tax-exempt investors will generally benefit as such investment will no longer generate unrelated business taxable income. However, if a corporate entity is interposed in a non-U.S. investment holding structure, this would prevent individual investors from claiming a foreign tax credit for any non-U.S. income taxes incurred by the corporate entity or its subsidiaries.

Foreign investments are subject to changes in foreign tax or other laws. Any such law changes may require us to modify or abandon a particular holding structure. Such changes may also lead to higher tax rates on our foreign investments than we anticipated, regardless of structuring modifications. Additionally, U.S. tax laws with respect to foreign investments are subject to change, and such changes could negatively impact our returns from any particular investment.

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 the federal income tax laws applicable to investments similar to an investment in shares of our common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your own tax adviser with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. You also should note that our counsel's tax opinion was based upon existing law and Treasury Regulations, applicable as of the date of its opinion, all of which are subject to change, either prospectively or retroactively.

Congress passed major federal tax legislation in 2003, with modifications to that legislation in 2005 and 2010. One of the changes effected by that legislation generally reduced the tax rate on dividends paid by corporations to individuals to a maximum of 15% prior to 2013. REIT distributions generally do not qualify for this reduced rate. The tax changes did not, however, reduce the corporate tax rates. Therefore, the maximum corporate tax rate of 35% has not been affected. However, as a REIT, we generally would not be subject to federal or state corporate income taxes on that portion of our ordinary income or capital gain that we distribute currently to our stockholders, and we thus expect to avoid the "double taxation" to which other corporations are typically subject.

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

Risks Related to Investments by Benefit Plans Subject to ERISA and Certain Tax-Exempt Entities (including IRAs)

If you fail to meet the fiduciary and other standards under ERISA or the Internal Revenue Code as a result of an investment in our stock, you could be subject to criminal and civil penalties.

There are special considerations that apply to employee benefit plans subject to ERISA (such as profit sharing, section 401(k) or pension plans) and other retirement plans or accounts subject to Section 4975 of the Internal Revenue Code (such as an IRA) that are investing in our shares. If you are investing the assets of such a plan or account in our common stock, you should satisfy yourself that:

- your investment is consistent with your fiduciary obligations and other duties under ERISA and the Internal Revenue Code;
- your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan's or account's investment policy;

- your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;
- your investment in our shares, for which no public trading market exists, is consistent with the liquidity needs of the plan or IRA;
- your investment will not produce an unacceptable amount of "unrelated business taxable income" for the plan or IRA;
- you will be able to comply with the requirements under ERISA and the Internal Revenue Code to value the assets of the plan or IRA annually; and
- your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

We have adopted a valuation policy in respect of estimating the per share value of our common stock and expect to disclose such estimated value annually, but this estimated value is subject to significant limitations. Until 18 months have passed without a sale in an offering of our common stock (or other securities from which the board of directors believes the value of a share of common stock can be estimated), not including any offering related to a distribution reinvestment plan, employee benefit plan or the redemption of interests in our operating partnership, we generally will use the gross offering price of a share of the common stock in our most recent offering as the per share estimated value thereof or, with respect to an offering of other securities from which the value of a share of common stock can be estimated, the value derived from the gross offering price of the other security as the per share estimated value of the common stock. This estimated value is not likely to reflect the proceeds you would receive upon our liquidation or upon the sale of your shares. Accordingly, we can make no assurances that such estimated value will satisfy the applicable annual valuation requirements under ERISA and the Internal Revenue Code. The Department of Labor or the Internal Revenue Service may determine that a plan fiduciary or an IRA custodian is required to take further steps to determine the value of our common shares. In the absence of an appropriate determination of value, a plan fiduciary or an IRA custodian may be subject to damages, penalties or other sanctions.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties and could subject the fiduciary to claims for damages or for equitable remedies. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary or IRA owner who authorized or directed the investment or a related party may be subject to the imposition of excise taxes with respect to the amount invested. In the case of a prohibited transaction involving an IRA owner, the IRA may be disqualified and all of the assets of the IRA may be deemed distributed and subjected to tax. ERISA plan fiduciaries and IRA owners and custodians should consult with counsel before making an investment in our common shares.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Description of Properties and Real Estate-Related Assets

We make real estate investments through wholly owned entities or through Co-Investment Ventures, which may in turn invest through Property Entities. Our investment criteria, analysis and strategies are substantially the same under each of these ownership structures. As of December 31, 2011, we had 37 consolidated multifamily communities, one unconsolidated joint venture equity investment in another multifamily community, where the joint venture has made a loan investment to the Property Entity, and four separate debt investments in four other multifamily communities. As of December 31, 2010, we had 10 consolidated multifamily communities and equity and/or debt investments in 23 multifamily communities made through unconsolidated Co-Investment Ventures.

All but one of our Co-Investment Ventures are BHMP CO-JVs or MW CO-JVs. Our ownership interest in these Co-Investment Ventures is generally 55%; however, with respect to certain BHMP CO-JVs, the BHMP Co-Investment Partner may own an interest smaller than 45%. Our ownership interest in our 7 Rio Co-Investment Venture, based on capital contributed, is currently 90%. Regardless of our ownership interest, we, through an indirect wholly owned subsidiary, are the manager of each of our Co-Investment Ventures. Effective with the modifications to the operating agreements in December 2011, we now have the controlling financial interests in all of the BHMP CO-JVs and MW CO-JVs, and accordingly have consolidated each of these Co-Investment Ventures effective December 1, 2011. We also consolidate the 7 Rio Co-Investment Venture.

The following tables present our consolidated real estate investments and our investment in an unconsolidated real estate joint venture (which investment is made through a consolidated BHMP CO-JV but an unconsolidated Property Entity) as of December 31, 2011. The investments are categorized as of December 31, 2011 based on the type of investment, on the stages in the development and operation of the investment and for investments in unconsolidated real estate joint ventures based on its type of underlying investment. The definitions of each stage are as follows:

- Stabilized / Comparable are communities that are stabilized (the earlier of 90% occupancy or one year after completion) for both the current and prior reporting year.
- Stabilized / Non-comparable are communities that have been stabilized or acquired after January 1, 2010. Additionally, as of December 31, 2011 includes communities consolidated during 2011 which were unconsolidated at December 31, 2010.
- Lease ups are communities that have commenced leasing but have not yet reached stabilization.

• Developments are communities currently under construction for which leasing activity has not commenced.

	Location	Units	Ownership %(a)	Year of Initial Investment(b)	Year of Completion(c)	As of December 31, 2011 Physical Occupancy Rate(d)	Monthly Rental Revenue per Unit(e)	Total Net Real Estate (in millions)
Consolidated Equity Investments:								
Operating Properties								
Stabilized/Comparable:								
The Gallery at NoHo Commons	Los Angeles, CA	438	55%	2009	2006	92%	$1,866	$ 99.5
Grand Reserve Orange	Orange, CT	168	100%	2009	2005	93%	1,546	23.4
Mariposa Loft Apartments	Atlanta, GA	253	100%	2009	2004	98%	1,266	26.1
Stabilized/Non-Comparable:								
4550 Cherry Creek	Denver, CO	288	55%	2010	2004	90%	1,655	77.8
55 Hundred(f)	Arlington, VA	234	55%	2007	2010	94%	1,775	80.5
7166 at Belmar	Lakewood, CO	308	55%	2010	2008	98%	1,156	55.5
Acacia on Santa Rosa Creek	Santa Rosa, CA	277	55%	2010	2003	96%	1,364	35.5
Acappella	San Bruno, CA	163	100%	2010	2010	94%	2,208	52.3
Allegro	Addison, TX	272	100%	2010	2010	98%	1,403	42.5
Argenta	San Francisco, CA	179	55%	2011	2008	96%	2,781	90.9
Bailey's Crossing(f)	Alexandria, VA	414	43%	2007	2010	94%	1,766	129.9
Briar Forest Lofts	Houston, TX	352	55%	2010	2008	96%	1,077	44.6
Burnham Pointe	Chicago, IL	298	100%	2010	2008	95%	2,009	83.4
Burrough's Mill	Cherry Hill, NJ	308	55%	2009	2003	88%	1,480	61.7
Calypso Apartments and Lofts	Irvine, CA	177	55%	2009	2008	93%	1,786	56.5
The Cameron(f)	Silver Spring, MD	325	35%	2007	2010	93%	1,875	102.6
Cyan/PDX	Portland, OR	352	55%	2009	2009	89%	1,320	80.8
The District Universal Boulevard	Orlando, FL	425	55%	2010	2009	91%	1,091	62.6
Eclipse	Houston, TX	330	55%	2007	2009	96%	1,145	50.8
Fitzhugh Urban Flats	Dallas, TX	452	55%	2010	2009	95%	1,115	58.1
Forty55 Lofts	Marina del Rey, CA	140	55%	2009	2010	91%	3,081	80.1
Halstead	Houston, TX	301	55%	2009	2004	95%	1,134	33.0
The Lofts at Park Crest	McLean, VA	131	55%	2010	2008	92%	3,064	46.1
Renaissance	Concord, CA	132	55%	2011	2008	90%	1,956	39.5
The Reserve at John's Creek Walk(f)	Johns Creek, GA	210	51%	2007	2006	98%	1,159	29.3
The Reserve at LaVista Walk	Atlanta, GA	283	100%	2010	2008	94%	1,114	37.3
San Sebastian	Laguna Woods, CA	134	55%	2009	2010	67%	2,032	36.7
Satori(f)	Fort Lauderdale, FL	279	51%	2007	2010	92%	1,947	83.1
Skye 2905	Denver, CO	400	55%	2008	2010	93%	1,434	100.6
Stone Gate	Marlborough, MA	332	55%	2011	2007	91%	1,461	62.1
Tupelo Alley	Portland, OR	188	55%	2010	2009	90%	1,295	39.5
Uptown Post Oak	Houston, TX	392	100%	2010	2008	97%	1,497	61.2
The Venue	Clark County, NV	168	55%	2008	2009	91%	899	25.7
West Village	Mansfield, MA	200	55%	2011	2008	93%	1,549	34.8
Total Operating Properties(h)		9,303				93%	1,542	2,024.0
Developments								
Allegro Phase II	Addison, TX	121	100%	2010	3rd Quarter 2013	N/A	N/A	$ 1.7
Renaissance Phase II	Concord, CA	163	55%	2011	3rd Quarter 2014	N/A	N/A	7.9
7 Rio(f)	Austin, TX	221	90%	2011	3rd Quarter 2014	N/A	N/A	6.1
Total Developments		505				N/A	N/A	15.7
Total Consolidated Real Estate		9,808				93%	$1,542	$2,039.7

(Table continued on next page)

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	Location	Units	Ownership %[a]	Year of Initial Investment[b]	Year of Completion[c]	As of December 31, 2011 Physical Occupancy Rate[d]	Monthly Rental Revenue per Unit[e]	Loan Balance/ Investment in Real Estate (in millions)
Consolidated Loan Investments:								
Stabilized/Non-Comparable:								
Grand Reserve	Dallas, TX	149	55%	2007	2010	95%	$1,706	$ 5.9[g]
Total Operating Properties		149				95%	1,706	5.9
Developments								
Brookhaven	Atlanta, GA	295	100%	2011	N/A	N/A	N/A	4.2
The Domain	Houston, TX	320	100%	2011	N/A	N/A	N/A	9.2
Pacifica	Costa Mesa, CA	113	100%	2011	N/A	N/A	N/A	5.0
Total Developments		728				N/A	N/A	18.4
Total Consolidated Loan Investments		877				95%	$1,706	$ 24.3
Unconsolidated Equity and Loan Investment:								
Stabilized/Non-Comparable:								
Veritas[f]	Henderson, NV	430	41%	2007	2011	92%	$1,039	$ 23.4
Total Unconsolidated Investment		430				92%	$1,039	$ 23.4
Total—Consolidated and Unconsolidated		11,115				93%	$1,520	

(a) Ownership percentage is as of December 31, 2011 and represents our share of contributed capital. Actual cash distributions may be at different percentages or may vary over time. Each of our investments with our Co-Investment Venture partners may become subject to buy/ sell rights with the Co-Investment Partners.

(b) Year of initial investment represents the year of our initial loan or equity investment in the multifamily community.

(c) We consider a multifamily community complete when the community is substantially constructed or renovated and capable of generating all significant revenue sources. Accordingly, the date provided may be different from the completion dates defined in the various contractual agreements or the final issuance of any official regulatory recognition of completion related to each multifamily community. For multifamily communities not completed as of December 31, 2011, the table presents the projected completion date.

(d) Physical occupancy is defined as the residential units occupied for stabilized properties as of December 31, 2011 divided by the total number of residential units. Not considered in the physical occupancy rate is rental space designed for other than residential use, which is primarily retail space. The total gross leasable area of retail space for all of these communities is approximately 173,000 square feet, which is approximately 2% of total rentable area. As of December 31, 2011, all of the communities with retail space are stabilized, and approximately 71% of the 173,000 square feet of retail space was occupied. The calculation of total average physical occupancy rates are based upon weighted average number of residential units.

(e) Monthly rental revenue per unit has been calculated based on the leases in effect as of December 31, 2011 for stabilized properties. Monthly rental revenue per unit only includes base rents for the occupied units, including affordable housing payments and subsidies, and does not include other charges for storage, parking, pets, cleaning, clubhouse or other miscellaneous amounts. For the year ended December 31, 2011, these other charges were approximately $12.8 million, approximately 8% of total combined revenues for the period. The monthly rental revenue per unit also does not include unleased units or non-residential rental areas, which are primarily related to retail space. Because rental revenue per unit during lease up is not a meaningful measurement, monthly rental revenue per unit is only presented for communities classified as stabilized as of December 31, 2011.

(f) These multifamily communities are owned by Property Entities in which a BHMP CO-JV has invested equity with other third party owners. The ownership interests in the Property Entities are subject to call rights, put rights and/or buy/sell rights.

(g) Includes a loan investment by a BHMP CO-JV with a carrying value of $3.0 million and a separate loan investment wholly owned with a carrying value of $2.9 million.

(h) Includes Mariposa Loft Apartments which is classified as held for sale as of December 31, 2011.

Item 3. Legal Proceedings

We are not party to, and none of our communities are subject to, any material pending legal proceeding.

Item 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

There is no established public trading market for our common stock. Therefore, there is a risk that a stockholder may not be able to sell our stock at a time or price acceptable to the stockholder. Unless and until our shares are listed on a national securities exchange, it is not expected that a public market for the shares will develop.

We have adopted a valuation policy in respect of estimating the per share value of our common stock. For this purpose, the estimated value of our common stock is $10.00 per share as of December 31, 2011. This basis for this valuation is the gross offering price of a share of our common stock in the Initial Public Offering. Until 18 months have passed without a sale in an offering of our common stock (or other securities from which the board of directors believes the value of a share of common stock can be estimated), not including any offering related to a distribution reinvestment plan, employee benefit plan or the redemption of interests in our operating partnership, we generally will use the gross offering price of a share of the common stock in our most recent offering as the per share estimated value thereof or, with respect to an offering of other securities from which the value of a share of common stock can be estimated, the value derived from the gross offering price of the other security as the per share estimated value of the common stock. This estimated value is not likely to reflect the proceeds you would receive upon our liquidation or upon the sale of your shares. In addition, this per share valuation method is not designed to arrive at a valuation that is related to any individual or aggregated value estimates or appraisals of the value of our assets. We expect that after 18 months have passed without a sale in an offering of our common stock (or other securities from which our board of directors believes the value of a share of common stock can be estimated), not including any offering related to a distribution reinvestment plan, employee benefit plan or the redemption of interests in our operating partnership, the estimated value we provide for our common stock will be based on valuations of our properties and other assets.

Holders

As of February 29, 2012, we had approximately 166.1 million shares of common stock outstanding held by a total of approximately 47,000 stockholders.

Distributions

Distributions are authorized at the discretion of our board of directors based on its analysis of our prior performance, expectations of performance for future periods, including actual and anticipated operating cash flow, changes in market capitalization rates for investments suitable for our portfolio, capital expenditure needs, dispositions, general financial condition and other factors that our board deems relevant. The board's decision will be influenced, in substantial part, by its obligation to ensure that we maintain our status as a REIT. Distributions may also be paid in anticipation of cash flow that we expect to receive during a later period as we invest the remaining proceeds from our Initial Public Offering.

Given the degree of our remaining proceeds from our Initial Public Offering and the competition for acquisition of multifamily communities, there may be an extended period to deploy these proceeds into investments and to receive the income from such investments. During this period, we may use portions of the remaining proceeds from our Initial Public Offering to fund a portion of the distributions paid to our common stockholders, which could reduce the amount available for new investments. There is no assurance that these future investments will achieve our targeted returns necessary to maintain our level of distributions in 2011, particularly due to the compression in capitalization rates continuing to be experienced in the multifamily communities that we target. In addition, to the extent our investments are in properties in lease up, development or redevelopment projects or properties that have significant capital requirements, our ability to make distributions may be negatively impacted, especially during our early periods of operation of these types of investments. As development, lease-up or redevelopment projects are completed and begin to generate income, we would expect to have additional funds available to distribute to our stockholders.

Accordingly, we cannot assure as to when we will begin to generate sufficient cash flow solely from operating activities to fully fund distributions. Many of the factors that can affect the availability and timing of cash distributions to stockholders are beyond our control, and a change in any one factor could adversely affect our ability to pay future distributions. There can be no assurance that future cash flow will support paying our currently established distributions or maintaining distributions at any particular level or at all.

During periods when our operating cash flow has not generated sufficient operating cash flow to fully fund the payment of distributions on our common stock, we have paid and may in the future pay some or all of our distributions from sources other than operating cash flow. As noted above, we may use portions of the remaining proceeds from our Initial Public Offering to fund a portion of the distributions paid to our common stockholders, which could reduce the amount available for new investments. We may also refinance or dispose of our investments and use the proceeds to fund distributions on our common stock or reinvest the proceeds in new investments to generate additional operating cash flow. In addition, from time to time, our Advisor may agree to waive or defer all or a portion of the acquisition, asset management or other fees or incentives due to it, pay general administrative expenses or otherwise supplement investor returns in order to increase the amount of cash that we have available to pay distributions to our stockholders. There is no assurance that these sources will be available in future periods, which could result in temporary or permanent adjustments to our distributions.

The following tables show the distributions paid and declared for the years ended December 31, 2011 and 2010 and cash flow from operating activities over the same periods (in millions, except per share amounts):

	Distributions Paid in Cash	Distributions Reinvested (DRIP)	Total	Cash Flow from Operating Activities	Total Distributions Declared	Declared Distributions Per Share
2011						
Fourth Quarter	$10.6	$14.0	$24.6	$10.5	$24.9	$0.151
Third Quarter	9.8	12.2	22.0	8.6	23.7	0.151
Second Quarter	8.1	9.6	17.7	5.9	18.5	0.150
First Quarter	7.1	8.3	15.4	6.7	15.9	0.148
Total	$35.6	$44.1	$79.7	$31.7	$83.0	$0.600
2010						
Fourth Quarter	$ 6.6	$ 7.8	$14.4	$ 1.4	$15.0	$0.151
Third Quarter	7.3	8.3	15.6	1.3	15.3	0.168
Second Quarter	6.2	6.9	13.1	0.4	13.9	0.175
First Quarter	5.0	5.2	10.2	(0.5)	11.1	0.173
Total	$25.1	$28.2	$53.3	$ 2.6	$55.3	$0.667

For the year ended December 31, 2011, the amount by which our distributions paid exceeded cash flow from operating activities has decreased as compared to 2010 primarily as a result of increased cash flow from our 2011 and 2010 acquisitions, the transition of lease up communities to stabilized operations, decreased acquisition expenses and the conversion from equity accounting to consolidation accounting. While we do expect our cash flow from operating activities to continue to increase due to operations from acquisitions, we do not anticipate this trend to continue proportionately in future quarters while we still have significant proceeds from our Initial Public Offering that have not been invested in stabilized, income-producing investments. In addition, in future quarters, we may incur greater acquisition expenses. Acquisition expenses included in cash flow from operating activities for the years ended December 31, 2011 and 2010 were $6.2 million and $10.8 million, respectively. Because we evaluate acquisitions on a loaded basis for all transactions and acquisition costs, including acquisition fees paid to our Advisor, we believe acquisition expenses are funded from the proceeds from the primary portion of our Initial Public Offering.

In addition to the cash flow improvements from our recent investments, our board of directors reduced our distribution rate from an annual rate of 7.0% to 6.0% (based on a $10 share price) beginning in September 2010 and amended our advisory management agreement effective July 1, 2010, reducing the current asset management fee rate (with the potential for future increases in the fee depending on achieving certain MFFO per share thresholds). These changes have increased the proportion of our distributions to be paid from cash flows from operating activities; however, due to the increased sales of common stock in 2011, our total nominal distributions were increased.

During 2011, our cash distributions in excess of our cash flow from operations were funded from our available cash. The primary sources of our available cash were the remaining proceeds from our Initial Public Offering and dispositions. We terminated our Initial Public Offering in September 2011 raising net proceeds in 2011 of $539.6 million. In May 2011, we sold our investment in the Waterford BHMP CO-JV, realizing cash proceeds of $27.6 million and a GAAP gain of $18.1 million. In December 2011, we sold partial interests in multifamily communities to the MW CO-JV, realizing cash proceeds of $100.6 million, a GAAP gain of $5.7 million and an increase in additional paid-in capital of $39.6 million. During 2010, the primary source for our distributions in excess of our cash flow from operations was the proceeds from our Initial Public Offering.

On March 19, 2012, our board of directors, considering the current and expected operations of the Company and the market conditions described above, authorized distributions payable to the stockholders of record each day during the months of April, May and June 2012 equal to an annual rate of 3.5% based on a purchase price of $10.00 per share, a reduction from the previous annual rate of 6.0%. The reduction in the distribution rate was based on the factors discussed above, primarily with the intent of resetting the distribution rate to be more in line with our estimated earnings and cash flow from operations after all of the proceeds from the Initial Public Offering are invested. Further, the adjustment in the distribution rate is expected to allow the Company to be more competitive in acquiring multifamily communities with less of a dilutive effect of paying distributions in excess of current earnings and cash flow from operations.

During 2011 and 2010, our distributions were classified as follows for federal income tax purposes:

	2011	2010
Ordinary income	5.9%	5.0%
Capital gains	48.2%	—
Section 1250 recapture capital gains	6.4%	—
Return of capital	39.5%	95.0%
Total	100%	100%

The classification changes in 2011 were primarily due to our share of sales of a multifamily community and interests in BHMP CO-JVs as described above. These sales resulted in the recognition of capital gains and IRS Section 1250 recapture.

Over the long term, as we continue to invest the remaining proceeds from our Initial Public Offering in income producing multifamily communities and real estate related investments, we expect that more of our distributions (except with respect to distributions related to sales of our assets) will be paid from cash flow from operating activities, including distributions from Co-Investment Ventures in excess of their reported earnings and our operations from consolidated multifamily communities prior to deductions for acquisition expenses. However, operating performance cannot be accurately predicted due to numerous factors, including our ability to invest capital at favorable accretive yields, the financial performance of our investments, spreads between capitalization and financing rates, and the types and mix of assets available for investment. As a result, future distribution rates may change over time and future distributions declared and paid may continue to exceed cash flow from operating activities.

Recent Sales of Unregistered Securities

During the period covered by this Annual Report on Form 10-K, we did not sell any equity securities that were not registered under the Securities Act.

Use of Proceeds from Registered Securities

On September 2, 2008, our Registration Statement on Form S-11 (File No. 333-148414), covering our Initial Public Offering of up to 200 million shares of common stock, was declared effective under the Securities Act. Our Initial Public Offering commenced on September 5, 2008 and was terminated on September 2, 2011. We offered a maximum of 200 million shares in our Initial Public Offering at an aggregate offering price of up to $2 billion, or $10.00 per share, with discounts available to certain categories of purchasers. Behringer Securities LP, an affiliate of our Advisor, was the dealer manager of the Initial Public Offering. We sold approximately 146.4 million shares of our common stock in our Initial Public Offering on a best efforts basis pursuant to the offering for gross offering proceeds of approximately $1.46 billion.

We incurred expenses of approximately $157.1 million in connection with the issuance and distribution of the registered securities pursuant to the Initial Public Offering, all of which was paid to our Advisor and its affiliates, and includes commissions and dealer manager fees paid to Behringer Securities which reallowed all of the commissions and a portion of the dealer manager fees to soliciting dealers.

The net offering proceeds to us from the Initial Public Offering, after deducting the total expenses incurred described above, were $1.30 billion. From the commencement of the Initial Public Offering through December 31, 2011, we had used approximately $686.2 million of such net proceeds to purchase interests in real estate, net of notes payable. Of the amount used for the purchase of these investments, approximately $24.3 million was paid to our Advisor as acquisition and advisory fees and acquisition expense reimbursements.

Share Redemption Program

Our board of directors has adopted a share redemption program that permits our stockholders to sell their shares back to us after they have held them for at least one year, subject to the significant conditions and limitations of the program. On March 19, 2012 our board of directors adopted the Second Amended and Restated Share Redemption Program, to be effective immediately. At the same time, our board of directors approved certain amendments to our valuation policy (see Item 9B, "Other Information" of this Annual Report on Form 10-K for a summary of the changes to our valuation policy). These amendments are intended to simplify and clarify the manner in which our estimated value per share, and the related pricing under our share redemption program, may be adjusted in the event that our board of directors makes special distributions that it designates to cause such adjustments.

The March 19, 2012 amendments to the share redemption program revised the provisions that determine the purchase prices for redemptions, which provisions are described below as amended. These amendments will not affect prices at which we may redeem shares unless and until our board of directors makes special distributions that it designates to adjust such prices. In all other material respects, the terms of our share redemption program remain unchanged. The information set forth herein with respect to the amendments does not purport to be complete in scope and is qualified in its entirety by the full text of the Second Amended and Restated Share Redemption Program, which is being filed as Exhibit 4.5 and is incorporated into this report by reference.

The terms of the share redemption program, as amended through March 19, 2012, are summarized below.

Our board of directors can amend the provisions of our share redemption program without the approval of our stockholders. The terms on which we redeem shares may differ between redemptions upon the death or "qualifying disability" (as defined in the share redemption program) of the stockholder or requests for redemption sought upon a stockholder's confinement to a long-term care facility (collectively referred to herein as "Exceptional Redemptions") and all other redemptions (referred to herein as "Ordinary Redemptions"). The purchase price for shares redeemed under the redemption program is set forth below.

In the case of Ordinary Redemptions, prior to the first valuation conducted by the board of directors or a committee thereof (the "Initial Board Valuation") in accordance with our valuation policy, the purchase price per share for the redeemed shares will equal 90% of the difference of (a) the Original Share Price (as defined herein) less (b) the aggregate of any special distributions so designated by the board of directors (the "Special Distributions"), distributed to stockholders prior to the redemption date and declared from the date of first issue of such redeemed shares. On or after the Initial Board Valuation, the purchase price per share for the redeemed shares will equal the lesser of:

- 90% of the current estimated value per share (the "Valuation") as determined in accordance with the valuation policy; and
- the Original Share Price less any Special Distributions distributed to stockholders prior to the redemption date and declared from the date of first issue of such redeemed shares.

As used herein "Original Share Price" means the average price per share the original purchaser or purchasers of shares paid to us for all of his or her shares (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to our common stock).

In the case of Exceptional Redemptions, the purchase price per share for the redeemed shares will be equal to the lesser of:

- the current Valuation; and
- the Original Share Price less any Special Distributions distributed to stockholders prior to the redemption date and declared from the date of first issue of such redeemed shares.

For more information about the current estimated value per share as determined in accordance with our valuation policy, see Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities—Market Information" of this Annual Report on Form 10-K.

Notwithstanding the redemption prices set forth above, our board of directors may determine, whether pursuant to formulae or processes approved or set by our board of directors, the redemption price of the shares, which may differ between Ordinary Redemptions and Exceptional Redemptions; provided, however, that we must provide at least 30 days' notice to stockholders before applying this new price determined by our board of directors.

Any shares approved for redemption will be redeemed on a periodic basis as determined from time to time by our board of directors, and no less frequently than annually. We will not redeem, during any twelve-month period, more than 5% of the weighted average number of shares outstanding during the twelve-month period immediately prior to the date of redemption. Generally, the cash available for redemption on any particular date will be limited to the proceeds from our DRIP during the period consisting of the preceding four fiscal quarters for which financial statements are available, less any cash already used for redemptions during the same period, plus, if we had positive operating cash flow during such preceding four fiscal quarters, 1% of all operating cash flow during such preceding four fiscal quarters. The redemption limitations apply to all redemptions, whether Ordinary or Exceptional Redemptions.

Our board of directors reserves the right in its sole discretion at any time and from time to time to (1) waive the one-year holding requirement applicable to exigent circumstances such as bankruptcy, a mandatory distribution requirement under a stockholder's IRA or with respect to shares purchased under or through our DRIP, (2) reject any request for redemption, (3) change the purchase price for redemptions, (4) limit the funds to be used for redemptions hereunder or otherwise change the redemption limitations or (5) amend, suspend (in whole or in part) or terminate the share redemption program. If we suspend our share redemption program (in whole or in part), except as otherwise provided by the board of directors, until the suspension is lifted, we will not accept any requests for redemption in respect of shares to which such suspension applies in subsequent periods and any such requests and all pending requests that are subject to the suspension will not be honored or retained, but will be returned to the requestor. Our Advisor and its affiliates will defer their own redemption requests, if any, until all other requests for redemption have been satisfied in any particular period. Provided that a request for an Exceptional Redemption is made within one year of the event giving rise to eligibility for an Exceptional Redemption, we will waive the one-year holding requirement (1) upon the request of the estate, heir or beneficiary of a deceased stockholder or (2) upon the qualifying disability of a stockholder or upon a stockholder's confinement to a long-term care facility, provided that the condition causing such disability or need for long-term care was not preexisting on the date that such person became a stockholder.

During the fourth quarter ended December 31, 2011, we redeemed and purchased shares as follows:

2011	Total Number of Shares Redeemed	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Be Purchased Under the Plans or Programs
October	—	$ —	—	—
November	—	—	—	—
December	358,769	9.15	358,769	(a)
	358,769	$9.15	358,769	(a)

(a) A description of the maximum number of shares that may be purchased under our share redemption program is included in the narrative preceding this table.

Stock-Based Compensation

We have adopted a stock-based incentive award plan for our directors and consultants and for employees, directors and consultants of our affiliates, and our Advisor and its affiliates. We account for this plan under the modified prospective method of Accounting Standards Codification ("ASC") 718-10 "Compensation—Stock Compensation." In the modified prospective method, compensation cost is recognized for all share-based payments granted after the effective date and for all unvested awards granted prior to the effective date. Prior period amounts were not restated. The tax benefits associated with these share-based payments are to be classified as financing activities in the Consolidated Statements of Cash Flows, rather than operating cash flows as required under previous regulations. We have issued a total of 6,000 shares of restricted stock to our independent directors, all of which have fully vested as of December 31, 2011. For additional information regarding securities authorized for issuance under our equity compensation plan, see Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Equity Compensation Plan Information" of this Annual Report on Form 10-K.

Convertible Stock

Our authorized capital stock includes 1,000 shares of convertible stock, par value $0.0001 per share. We have issued all of such shares to our Advisor. No additional consideration is due upon the conversion of the convertible stock. There will be no distributions paid on shares of convertible stock. The conversion of the convertible stock into common shares will result in dilution of the stockholders' interests.

With certain limited exceptions, shares of convertible stock shall not be entitled to vote on any matter, or to receive notice of, or to participate in, any meeting of stockholders of the company at which they are not entitled to vote. However, the affirmative vote of the holders of more than two-thirds of the outstanding shares of convertible stock is required for the adoption of any amendment, alteration or repeal of a provision of the charter that adversely changes the preferences, limitations or relative rights of the shares of convertible stock.

Upon the occurrence of (1) our making total distributions (including distributions that may constitute a return of capital for federal income tax purposes but excluding distributions that constitute the redemption of any shares of common stock and excluding distributions on any shares of common stock before their redemption) on the then outstanding shares of our common stock equal to the issue price of those shares (that is, the price paid for those shares) plus a 7% cumulative, non-compounded, annual return on the issue price of those outstanding shares; or (2) the listing of the shares of common stock for trading on a national securities exchange, each outstanding share of our convertible stock will convert into the number of shares of our common stock described below; provided, that the shares of our convertible stock will not convert into shares of our common stock in the event that the advisory management agreement terminates or expires without renewal due to a material breach by our Advisor. Before we will be able to pay distributions to our stockholders equal to the aggregate issue price of our then outstanding shares plus a 7% cumulative, non-compounded, annual return on the issue price of those outstanding shares, we expect we will need to sell a portion or possibly all of our investments. Thus, the sale of one or more investments will be a practical prerequisite for conversion under clause (1) above.

Upon the occurrence of either such triggering event, each share of convertible stock shall, unless our advisory management agreement with our Advisor has been terminated or not renewed on account of a material breach by our Advisor, generally be converted into a number of shares of common stock equal to 1/1000 of the quotient of (1) 15% of the amount, if any, by which (a) the value of the company (determined in accordance with the provisions of the charter and summarized in the following paragraph) as of the date of the event triggering the conversion plus the total distributions paid to our stockholders through such date on the then outstanding shares of our common stock exceeds (b) the sum of the aggregate issue price of those outstanding shares plus a 7% cumulative, non-compounded, annual return on the issue price of those outstanding shares as of the date of the event triggering the conversion, divided by (2) the value of the company divided by the number of outstanding shares of common stock, in each case, as of the date of the event triggering the conversion. In the case of conversion upon the listing of our shares, the conversion of the convertible stock will not occur until the 31st trading day after the date of such listing. The performance threshold necessary for the convertible stock to have any value is based on the aggregate distributions paid on, and the aggregate issue price of, our outstanding shares of common stock. It is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of our stockholders to have received any minimum return in order for the convertible stock to have any value. In fact, if the convertible stock has value, the returns of our stockholders will differ, and some may be less than a 7% cumulative, non-compounded annual return.

If our advisory management agreement with our Advisor is still in effect at the time of an event triggering conversion of the convertible stock, then the holder of the convertible stock will be entitled to receive 100% of the number of shares of common stock calculated per the preceding paragraph. However, if our advisory management agreement with our Advisor expires without renewal or is terminated (other than because of a material breach by our advisor) prior to either such triggering event described in the foregoing paragraph, then upon either such triggering event the holder of the convertible stock will be entitled to a prorated portion of the number of shares of common stock determined by the foregoing calculation, where such proration is based on the percentage of the time that we were advised by our Advisor. If, prior to a triggering event, our advisory management agreement is terminated or not renewed on account of a material breach by our advisor, our convertible stock will not be eligible for conversion at any time.

Our board of directors will oversee the conversion of the convertible stock to ensure that any shares of common stock issuable in connection with the conversion is calculated in accordance with the terms of our charter and to evaluate the impact of the conversion on our REIT status. If, in the good faith judgment of our board, full conversion of the convertible stock would jeopardize our status as a REIT, then only such number of shares of convertible stock (or fraction of a share thereof) shall be converted into a number of shares of common stock such that our REIT status would not be jeopardized. The conversion of the remaining shares of convertible stock will be deferred until the earliest date after our board of directors determines that such conversion will not jeopardize our qualification as a real estate investment trust. Any such deferral will not otherwise alter the terms of the convertible stock.

Item 6. Selected Financial Data

We made our first investment in an unconsolidated real estate joint venture in April 2007 and our first investment in a wholly owned multifamily community in September 2009. Through 2008, a large proportion of our investments were in multifamily developments. Beginning in 2009, we began increasing our investment in operating multifamily communities and in investments reported on the consolidated method of accounting . The following table lists the number of investments consolidated by us or made through unconsolidated Co-Investment Ventures and each investment's classification as operating, lease up or development for the last five years:

	As of December 31,				
	2011	2010	2009	2008	2007
Consolidated communities	41	10	3	—	—
Investments in unconsolidated real estate joint ventures	1	23	17	10	6
Total	42	33	20	10	6
Stabilized communities	36	26	8	1	—
Lease up communities	—	7	10	—	—
Development	6	—	2	9	6
Total	42	33	20	10	6

As shown in the table above, we have increased the total number of investments and the number of our investments classified as operating multifamily communities, while decreasing the number of multifamily communities in lease up and development since 2009. Operating properties will generally report higher amounts of revenues, depreciation, amortization and cash flow activities. We have also increased our consolidated communities which resulted in gross reporting of assets, liabilities, revenues and expenses. Accordingly, the following selected financial data presented below reflects significant increases in many categories. The following data should be read in conjunction with our consolidated financial statements and the notes thereto and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K. The selected financial data presented below has been derived from our audited consolidated financial statements (in millions, except per share amounts):

	As of December 31,				
	2011	2010	2009	2008	2007
Balance Sheet Data:					
Cash and cash equivalents	$ 655.5	$ 52.6	$ 77.5	$ 23.8	$ 53.4
Real estate, net	$2,013.6	$524.0	$159.0	$ —	$ —
Investments in unconsolidated real estate joint ventures	$ 23.4	$349.4	$279.9	$ 96.5	$ 60.1
Total assets	$2,805.7	$958.8	$525.7	$120.9	$115.4
Debt	$ 924.5	$157.4	$ 51.3	$ —	$ —
Total liabilities	$ 992.2	$188.0	$ 74.7	$ 8.5	$ 2.0
Redeemable, noncontrolling interests	$ 8.5	$ —	$ —	$ —	$ —
Non-redeemable, noncontrolling interests	$ 413.1	$ —	$ —	$ —	$ —
Total equity attributable to common stockholders	$1,391.9	$770.8	$451.0	$112.4	$113.4
Total equity	$1,805.0	$770.8	$451.0	$112.4	$113.4

	For the Year Ended December 31,				
	2011	2010	2009	2008	2007
Operating Data:					
Rental revenues	$ 67.4	$ 28.9	$ 3.0	$ —	$ —
Equity in earnings (loss) of investments in unconsolidated real estate joint ventures	$ (7.9)	$ (6.9)	$ (0.2)	$ 4.3	$ 0.8
Interest income	$ 3.5	$ 1.4	$ 1.1	$ 0.9	$ 0.3
Depreciation and amortization expenses	$(38.8)	$ (20.2)	$ (2.1)	$ (0.1)	$ —
Acquisition expenses[(a)]	$ (6.2)	$ (10.8)	$ (3.4)	$ —	$ —
Net income (loss)	$ 94.5	$ (34.6)	$ (8.3)	$ 2.6	$ (0.2)
Net income (loss) attributable to common stockholders	$ 98.6	$ (34.6)	$ (8.3)	$ 2.6	$ (0.2)
Basic and diluted income (loss) per share	$ 0.71	$ (0.41)	$ (0.26)	$ 0.18	$(0.08)
Distributions declared per share	$ 0.60	$ 0.67	$ 0.69	$ 0.44	$ 0.34
Cash Flow Data:					
Cash provided by operating activities[(b)]	$ 31.7	$ 2.6	$ 0.2	$ 2.4	$ 0.2
Cash used in investing activities	$ (9.7)	$(461.2)	$(341.0)	$(35.4)	$(60.8)
Cash provided by financing activities	$580.9	$ 433.7	$ 394.5	$ 3.4	$113.9
Other Information:					
FFO[(c)]	$149.0	$ 8.5	$ (0.7)	$ 3.7	$ 0.3
MFFO[(c)]	$ 34.2	$ 18.7	$ 4.6	$ 3.7	$ 0.3

(a) Prior to 2009, under U.S. generally accepted accounting principles ("GAAP"), acquisition costs were capitalized and generally not expensed.

(b) Included as a deduction to cash flow provided by operating activities in 2011, 2010 and 2009 is $6.3 million, $12.1 million and $5.0 million, respectively, of acquisition expenses, including our share for equity in earnings of investments in unconsolidated real estate joint ventures. Prior to 2009, acquisition expenses were classified within investing activities.

(c) We believe that funds from operations, or FFO, and modified funds from operations, or MFFO, are helpful as measures of operating performance. FFO and MFFO are non-GAAP performance financial measures. FFO or MFFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO or MFFO do not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness. For a description of how we calculate FFO and MFFO including a discussion of year over year changes and a reconciliation to GAAP net income, see Item 7, "Management Discussion of and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the notes thereto:

Overview

General

We were incorporated on August 4, 2006 as a Maryland corporation and operate as a REIT for federal income tax purposes. We make investments in and operate high quality multifamily communities that we believe have desirable locations, personalized amenities, and high quality construction. We began making investments in multifamily communities in April 2007. As of December 31, 2011, all of our investments have been in high quality multifamily communities located in the top 50 MSAs in the United States. We have made and intend to continue making investments both on our own and through Co-Investment Ventures, which may include investments through Property Entities.

As of December 31, 2011, we had 37 consolidated multifamily communities, one with an unconsolidated joint venture equity investment in another multifamily community, where the joint venture also has made a loan investment to the Property Entity, and four separate debt investments in four other multifamily communities. We have funded these investments and intend to fund future investments with a combination of sources, including the remaining proceeds from the primary portion of our initial public offering (the "Initial Public Offering"), mortgage debt and unsecured or secured debt facilities. As discussed below, we have and will continue to utilize available Co-Investment Ventures when it is favorable for us.

Our investment strategy is designed to provide our stockholders with a diversified portfolio, and our management and board of directors have extensive experience in investing in numerous types of real estate, loans and other investments to execute this strategy. We intend to focus on acquiring high quality multifamily communities that will produce rental income and will appreciate in value within our program's targeted life. Our targeted communities include existing "core" properties that are already stabilized and producing rental income as well as more opportunistic properties in various phases of development, redevelopment, lease up or repositioning. Further, we may invest in other types of commercial real estate, real estate-related securities, mortgage, bridge, mezzanine or other loans and Section 1031 tenant-in-common interests, or in entities that make investments similar to the foregoing. Although we intend to primarily invest in real estate assets located in the United States, in the future, we may make investments in real estate assets located outside the United States.

Our multifamily community acquisition strategy concentrates on multifamily communities located in the top 50 MSAs across the United States. We believe these types of investments, particularly those in submarkets with significant barriers of entry, are in demand by institutional investors which can result in better exit pricing. We also believe that economic conditions in the major U.S. metropolitan markets will continue to provide adequate demand for properly positioned multifamily communities; such conditions include job and salary growth, lifestyle trends, as well as single-family home pricing and availability of credit. The U.S. Census population estimates are used to determine the largest MSAs.

Our top 50 MSA strategy will focus on acquiring communities and other real estate assets that provide us with broad geographic diversity.

Investments in multifamily communities have benefited from changing demographic and finance trends. These trends include continued growth in non-traditional households, the echo-boomer generation coming of age and entering the rental market, increased immigration and recently higher credit standards for home buyers. Changes in domestic financial markets can affect the stability and direction of these historical trends and can significantly affect our strategy, both favorably and unfavorably. Due to higher capital and return requirements, the supply of new multifamily communities coming into the market has significantly slowed. Even if these trends change, which we do expect, the period required to develop new multifamily communities would work in our favor (for the next two to four years). Demand for multifamily communities is also affected by changes in financial markets where changes in underwriting have affected the cost, availability and affordability of financing for purchase of single family homes. In the near term, we believe these trends will be favorable for multifamily demand as the key demographic population increases and single family housing options become more restrictive.

While these trends have positively benefited our multifamily valuations and operations, these factors have also led to increased competition for multifamily investments, particularly in the markets and with the quality characteristics that we target. This competition has led to increased pricing for acquisitions, which has and may continue to make acquisitions more difficult to complete and reduce the returns on acquisitions we do complete. This may alter our acquisition strategy to include more on off-market transactions, which may take longer to identify and close, or expand our strategy to include other markets or multifamily characteristics. In this acquisition environment, multifamily developments may be more attractive as compared to acquisitions of stabilized multifamily communities. As of December 31, 2011, we have six equity and debt investments in development related multifamily communities. Further, the demand for multifamily acquisitions, may provide opportunities to selectively monetize our existing portfolio and make new investments in multifamily communities with greater total return prospects. During 2011, we sold interests in seven multifamily communities, generating cash proceeds of $128.3 million, recognizing gains of $121.9 million and increases to additional paid-in capital of $39.6 million.

Offerings of Our Common Stock

We terminated offering shares of common stock in our Initial Public Offering on September 2, 2011, having aggregate gross primary offering proceeds of approximately $1.46 billion. Upon termination of our Initial Public Offering, we reallocated 50 million unsold shares remaining from our Initial Public Offering to our DRIP. As a result, we are offering a maximum of 100 million total shares pursuant to our DRIP at a price of $9.50 per share. As of December 31, 2011, we have sold approximately 8.6 million shares under our DRIP for gross proceeds of approximately $81.3 million. There are approximately 91.4 million shares remaining to be sold under the DRIP.

We currently expect to offer shares under the DRIP until the sixth anniversary of the termination of our Initial Public Offering. We may suspend or terminate the DRIP at any time by providing ten days' prior written notice to participants, and we may amend or supplement the DRIP at any time by delivering notice to participants at least 30 days' prior to the effective date of the amendment or supplement. Notice may be delivered by use of U.S. mail, electronic means or by including such information in a Current Report on Form 8-K or in our annual or quarterly reports, all of which are filed with the Securities and Exchange Commission.

In making the decision to end our primary Initial Public Offering and not commence a follow-on offering, our board considered a number of factors related to the capital needs and sources necessary to position us for the next phase in our life cycle. These factors include the strength and size of our existing real estate portfolio, current conditions in the multifamily real estate market, the strength of our balance sheet, the amount of cash we have available for additional investments, as well as our access to favorable debt capital, including our existing credit facility and access to favorable financing options through Fannie Mae and Freddie Mac (each a government-sponsored enterprise, or "GSE") and other financing providers, such as banks and insurance companies. Accordingly, with these capital sources currently available, we believe that at the completion of our acquisition phase we will own sufficient assets that meet our investment objectives.

Shares of our common stock are not currently listed on a national securities exchange. Depending upon then-prevailing market conditions, we intend to begin to consider the process of listing or liquidation within four to six years after the date of the termination of our Initial Public Offering.

Co-Investment Ventures

As of December 31, 2011, we have 28 individual Co-Investment Ventures, of which 13 are BHMP CO-JVs, 14 are MW CO-JVs, and one is with a third party regional developer. These Co-Investment Ventures have equity and debt investments in 31 multifamily communities.

Structure of Co-Investment Ventures

Generally, each of our individual joint ventures with the BHMP Co-Investment Partner and the MW Co-Investment Partner is made through a separate entity that owns 100% of the voting equity interests and approximately 99% of the economic interests in one subsidiary REIT, through which substantially all of the joint venture's business is conducted. Each BHMP CO-JV and MW CO-JV is a separate legal entity formed for the sole purpose of holding its respective investment(s) and obtaining legally separated debt and equity financing. In certain circumstances the governing documents of the BHMP CO-JV and MW CO-JV may require the subsidiary REIT to be disposed of via a sale of its capital stock rather than as an asset sale by that subsidiary REIT. We have no ownership or other direct financial interests in either the BHMP Co-Investment Partner or the MW Co-Investment Partner.

Each BHMP CO-JV and MW CO-JV is managed by a subsidiary of ours. As the manager, we have control rights over operating plans. In addition, without the consent of all members of the BHMP CO-JV and MW CO-JV, we as the manager may not generally approve or disapprove on behalf of the BHMP CO-JV and MW CO-JV certain major decisions affecting the BHMP CO-JV and MW CO-JV, such as (1) selling or otherwise disposing of the BHMP CO-JV's or MW CO-JV's investment or any other property having a value in excess of $100,000, (2) selling any additional interests in the BHMP CO-JV or MW CO-JV, or (3) incurring or materially modifying any indebtedness of the BHMP CO-JV or MW CO-JV in excess of $100,000 or causing the BHMP CO-JV and MW CO-JV to become liable for any debt, obligation or undertaking of any other individual or entity in excess of $100,000 other than in accordance with the operating plans. Generally, if there are disagreements regarding these major decisions, then either member may exercise buy/sell rights. The BHMP Co-Investment Partner and the MW Co-Investment Partner, as applicable, may remove the manager for cause and appoint a successor. As of December 31, 2011, we consolidated all of the BHMP CO-JVs and MW CO-JVs in our financial statements.

We generally own 55% of each BHMP CO-JV and MW CO-JV with the other Co-Investment Partner owning the remaining 45%. Distributions of net cash flow from the BHMP CO-JVs and MW CO-JVs are distributed to the members no less than quarterly in accordance with the members' ownership interests. BHMP CO-JV and MW CO-JV capital contributions and distributions are made pro rata in accordance with ownership interests.

Certain BHMP CO-JVs have made and may make equity and/or debt investments in Property Entities with third-party equity owners. These Property Entities own multifamily operating communities or development communities. Each Property Entity is a separate legal entity for the sole purpose of holding its respective operating property or development project and obtaining legally separated debt and equity financing. These Property Entities are specifically structured but generally have structures in which the BHMP CO-JV is the managing member or general partner and the other owners have certain approval rights over major decisions, which effectively require all owners to agree before these actions can be taken. These major decisions usually include actions pertaining to admittance or transfer of owners, sale of the property, and financing. The BHMP CO-JV generally provides the greater proportion of the equity capital, which generally ranges from 60% to 90%, but in some instances can be 100% of the equity capital. The third party equity owners in Property Entities have buy/sell rights with respect to the ownership interest in the Property Entities. The BHMP CO-JVs consolidate all but one of these Property Entities.

Apart from investments through BHMP CO-JVs and MW CO-JVs, we have one other Co-Investment Venture directly with a third party regional developer (the "7 Rio Co-Investment Venture"), but we expect that we may enter into similar arrangements with other developers. These other Co-Investment Ventures are or are expected to be specifically structured but generally will have structures in which we are the managing member or general partner with sole control over setting operating budgets, selecting property management, financing and disposition of the multifamily community. The other owners are expected to generally have very limited approval rights, usually related to issues related to admittance or transfer of owners, changes in the business purpose of the Co-Investment Venture and bankruptcy. We expect to generally provide the greater proportion of the equity capital, and for the 7 Rio Co-Investment Venture we ultimately expect that 100% of the equity capital will be provided by us. As of December 31, 2011, we consolidate the 7 Rio Co-Investment Venture.

Co-Investment Venture Partners

The 99% limited partner of our BHMP Co-Investment Partner is PGGM. PGGM is an investment vehicle for Dutch pension funds. We understand PGGM has assets that exceed over 4 billion euro. We formed our first BHMP Co-Investment Venture with PGGM in 2007, and prior to December 1, 2011, PGGM was our only Co-Investment Partner. PGGM has committed to invest up to $300 million in co-investments with affiliates of investment programs of our sponsor. As of December 31, 2011, approximately $6.9 million of the $300 million commitment remains unfunded; however, in the event that certain investments are refinanced or new property debt is placed within two years from the date of acquisition, the amount of the unfunded commitment may be increased. The 1% general partner of our BHMP Co-Investment Partner is Behringer Harvard Institutional GP, LP, an affiliate of Behringer Harvard Holdings.

The 99.9% limited partner of our MW Co-Investment Partner is NPS. NPS is one of the largest pension funds in the world, which generally covers all citizens of South Korea ages 18 to 59. NPS was established to provide pension benefits in contingency of old-age, disability or death of the primary income provider for a household with a view to contributing to the livelihood stabilization for the promotion of the welfare of South Korea. According to the NPS website, the NPS fund estimated its total value at 333 trillion won (approximately $300 billion, based on exchange rates as of April 30, 2011), and counted over 3.15 million people in its beneficiary base. The 0.1% general partner of our MW Co-Investment Partner is Heitman, an international investment advisory firm. The MW Co-Investment Venture does not have a commitment for additional investments with us or our sponsor. As discussed further below, we entered into Co-Investment Ventures with the MW Co-Investment Partner in December 2011. As of December 31, 2011, the MW Co-Investment Partner has invested $263.7 million in joint ventures with us.

For our 7 Rio Co-Investment Venture and the six Property Entities, the other equity owners are national or regional developers or real estate investors.

As of December 31, 2011, we believe all of our Co-Investment Venture partners and Property Entity partners are in compliance with their contractual obligations, and we are not aware of factors that would indicate their inability to meet their obligations.

Sale of Joint Venture Interests During 2011

In May 2011, a BHMP CO-JV sold Waterford Place for an aggregate purchase price of $110.0 million, a 38% increase from the purchase price in September 2009. Our share of the proceeds was $27.6 million and we recognized a gain on revaluation of equity on a business combination of $18.1 million when we consolidated Waterford Place effective April 1, 2011.

In December 2011, we sold partial joint venture interests in three wholly owned multifamily communities and three BHMP CO-JVs to the MW Co-Investment Partner for an aggregate purchase price of $180.3 million, excluding closing costs. These joint venture interests ranged from 15% to 45% interests in the following multifamily communities: 7166 at Belmar, Acacia on Santa Rosa Creek, Argenta, Cyan/PDX, The Gallery at NoHo Commons and The Lofts at Park Crest (the "BH Sale Properties"). We have retained a 55% joint venture interest in each of these communities. Our share of the proceeds was $101.1 million, which represented a 24% weighted average increase from our initial investments made in 2009 through 2011.

In accordance with GAAP, our sales of joint venture interests in 7166 at Belmar and Cyan/PDX, which were reported on the equity method of accounting, resulted in a gain of $5.7 million. However, as the other partial sales were of interests in consolidated investments, where as discussed below, we maintained control after the sale of our partial interest, GAAP does not allow recognition of a gain. Instead the difference between the net proceeds of the partial sale and the recognition of the noncontrolling interest based on the book values at the time of sale is recognized as a direct charge to additional paid-in capital. Accordingly, we recognized an increase to additional paid-in capital of $39.6 million.

As discussed below in "Long-Term Liquidity, Acquisitions, Dispositions and Property Financing", dispositions are a part of our overall business strategy. For these dispositions, we believe the multifamily communities had achieved attractive values. In the case of Waterford Place, which was one of our older multifamily communities, we believed the sales price was at ultimate pricing for its sub-market. For the other interests, while we believed the sales price was attractive, realizing only a portion of the gain was appropriate given the age and sub-market fundamentals for the multifamily community. This allowed us to retain a smaller controlling interest with less downside risk. We also believe the transaction allowed us to initiate a relationship with Heitman and NPS, which coupled with PGGM, broadens our exposure to foreign institutional capital sources.

Simultaneously with the closing on the sale of the above joint venture interests, the BHMP Co-Investment Partner also closed on a sale of all of its joint venture interests in 12 BHMP CO-JVs to the MW Co-Investment Partner. These joint venture interests ranged from 5% to 45% in the following multifamily communities: 4550 Cherry Creek, 7166 at Belmar, Argenta, Briar Forest Lofts, Burrough's Mill, Calypso Apartment and Lofts, Cyan/PDX, Eclipse, Fitzhugh Urban Flats, Forty55 Lofts, The Venue and West Village (the "Master Sale Properties"). The BHMP Co-Investment Partner remains a Co-Investment Partner in 13 BHMP CO-JVs.

As a result of the transactions described above, the MW Co-Investment Partner became our co-investment partner in each of the communities noted above and has replaced the BHMP Co-Investment Partner in the applicable Co-Investment Ventures, which are now MW CO-JVs. Our interest in each of these MW CO-JVs is now 55%, with the MW Co-Investment Partner owning the other 45% interest.

In connection with these sales of the joint venture interests, the governance rights with respect to all of the new MW CO-JVs and the BHMP CO-JVs were modified. These included modifications to the control rights over operating plans, which, along with other factors, have resulted in our having sufficient control over the BHMP CO-JVs and MW CO-JVs, such that we have consolidated all of them effective December 1, 2011.

Market Outlook

During 2011, the U.S. economy faced one of its most volatile periods as the economy was whipsawed by domestic and international economic events. The year began with a view toward global and domestic recoveries, particularly in the U.S. in advance of quantitative easing from the U.S. Federal Reserve. This optimism was soon overcome as the Japanese earthquake disrupted world-wide industrial supply chains, the political unrest in the Middle East led to higher energy and commodity prices and finally the European debt crisis appeared to threaten international debt markets in a Lehman-like collapse. Growth in the economy was further shaken during the prolonged U.S. debt ceiling debate and the downgrade of the U.S. government's credit rating in late summer. However, global and domestic markets were surprisingly resilient and by the fourth quarter a number of signs pointed once again to a modest recovery in the U.S. economy. Leading the improvements were fourth quarter results for GDP, job creation, unemployment claims, consumer spending and manufacturing indicators. The economy has now added more than 100,000 jobs per month for the last six months through December 31, 2011, a streak which has continued in the first quarter of 2012. Unemployment is now down 1.5% from its peak in 2009. While these figures are still modest and the European debt crisis still remains not fully resolved, the end result is the economy appears to be similarly positioned for slow to moderate growth at the beginning of 2012 as it was at the beginning of 2011.

Although a slower U.S. economy may provide some resistance, primarily with respect to overall job growth, the favorable demand/supply fundamentals present in the multifamily sector should still support reasonable growth. On the demand side, the demographics for the targeted multifamily renter, the age group from 20 to 34 years old, are still positive in the sector. This group is growing in size and while the other age segments have experienced employment declines, the 20 to 34 year old segment's aggregate employment has increased. Further, while this age group in previous economic cycles experienced increasing single family home ownership, higher credit standards for single family mortgages and more reluctance to commit to home ownership are currently leading to more rental demand. Single family home ownership, which had peaked at 69.2% in late 2004, is now down to 66% as of December 31, 2011. Historical home ownership figures from pre 1995 were around 64%. At the same time on the supply side, developments of new multifamily communities decreased substantially since 2008, such that supply has not been keeping up with demand. Historically, multifamily housing starts have been equal to 2% of existing supply. Currently, starts are are about a quarter of that average. We believe that these fundamentals will lead to increased development activity; however, since high quality multifamily developments can take 18 to 36 months to entitle, permit and construct, we believe there is, even in the most aggressive outlook, a continued window of limited supply. Accordingly, many analysts are still projecting continued multifamily rental growth, albeit at a slower pace. However, multifamily performance is highly correlated with job and income growth. While the factors noted above should position the multifamily sector to perform better in a slow growth environment, eventually the multifamily sector will need stronger employment to maintain rental growth.

Current interest rates and the availability of multifamily financing are also favorable factors in the multifamily sector. Five and ten year treasury rates have declined approximately 1.2% and 1.4%, from their respective rates at December 31, 2010 to December 31, 2011. Lender competition for multifamily financing, particularly high quality, stabilized communities such as ours, has also added to the favorable financing environment. In addition to GSEs, insurance companies and commercial banks have been aggressive lenders in our sector. While there is a risk that the European debt crisis and future legislative restrictions on GSE multifamily lending could eventually reverse these trends resulting in increased lending costs for multifamily, thus far this has not occurred.

In addition to these macro-multifamily fundamentals, we believe the Company is financially well positioned going into 2012. Should there be an increase in interest rates, approximately 76% of our share of debt is at long term, fixed rates. Further, as of December 31, 2011, we held cash and cash equivalents of approximately $655.5 million and had borrowing capacity from our line of credit of $118.0 million. Our cash position is over 70% of our total debt balance and greater than all of our variable rate debt. We believe this will give us flexibility to manage our interest rate exposure should interest rates in general increase. However, with the eventual outcome of the European debt situation uncertain, and the consequences that these issues may have on the financial markets, there is no assurance that our liquidity position would maintain our competitive position in all circumstances.

Based on the demand, supply and financing fundamentals outlined above, high quality multifamily communities are currently considered a favored class for real estate investors. Accordingly, competition for new multifamily acquisitions is intense, where we compete with companies that have significant capital positions and access to capital. This has led to increased pricing for multifamily communities, particularly institutional quality communities but to some degree in all multifamily sectors. Similarly, more multifamily owners are deciding to hold properties rather than monetize their appreciation, with those electing to sell asking for higher pricing. Consequently, multifamily values are increasing and capitalization rates are compressing. As capitalization rates on new acquisitions compress our initial income returns could decrease. Our approach in this investing environment is to continue to focus on high quality, core assets in institutional markets where there are barriers to entry for new multifamily communities; however, we may expand to other sub-markets or multifamily with different characteristics for age and type. We generally will not participate in heavily bid acquisitions but will seek out properties and situations where our liquidity, financial strength and experience allows us to differentiate our offers from other buyers. Previous situations where these strengths have provided us with acquisition opportunities include lender short sales, failed condominiums and debt restructurings. We will also seek portfolio or merger opportunities which could allow us to make larger investments in a more cost effective structure. However, such acquisitions may require longer periods to identify and close the transaction, which could result is us remaining in cash for a longer period than we had previously anticipated.

Conversely, the favorable multifamily fundamentals have and may continue to provide opportunities to strategically monetize certain of our investments. In May 2011, we sold our 55% interest in the Waterford Place multifamily community for a gross sales price of $110 million ($108.6 million net of closing costs). This compared to its gross acquisition cost of $79.7 million in September 2009. Our portion of the GAAP gain resulting from the sale was $18.1 million. For this sale, we were able to selectively dispose of one of our older multifamily communities located in a suburban area and recycle the proceeds into a recently completed, highly amenitized, high-rise multifamily community in downtown San Francisco. In December 2011, we sold partial interests in six multifamily communities, realizing cash proceeds of $100.6 million, a GAAP gain of $5.7 million, and an increase to additional paid-in capital of $39.6 million. For these sales, we were able to lock in a portion of the gain while holding partial interests for potential future returns with an institutional partner. While there is no assurance that these trends will continue, we believe we may have other opportunities to sell appreciated investments and recycle the capital into multifamily communities with more favorable total return prospects or return to our shareholders through common stock distributions.

We believe that the projected demand for new developments coupled with the tight capital markets for new developments may also provide opportunities for mortgage, bridge or mezzanine investments, as well as development opportunities for our own account. GSEs typically do not lend on development properties during construction until after 90 days or more of stabilized operations. Banks and other debt providers tend to limit financing to approximately 60% of total costs. These limitations, which may only increase if the U.S. experiences an overall economic slowdown, may provide us with lending opportunities with creditworthy borrowers that would provide higher short-term returns (three to five years). During 2011, we have closed a multifamily development related mezzanine loan investment for $10.5 million and two mortgage land loans to developers for planned multifamily redevelopments totaling $8.1 million. These land loans have options allowing us to elect to participate in the development through an equity investment. We will also evaluate developments for our own account or with development partners that meet our investment criteria. During 2011, we commenced development of a 121 unit multifamily community adjacent to Allegro in Addison, Texas. In connection with our investment in the Renaissance BHMP CO-JV, we acquired 2.7 acres for a planned 163 unit multifamily development in Concord, California.

Property Portfolio

The table below presents physical occupancy and monthly rental rate per unit by geographic region for all of our consolidated and unconsolidated stabilized multifamily communities (including one with only a consolidated debt investment) as of December 31, 2011 and 2010:

Geographic Region[a]	Number of Communities	Number of Units	Physical Occupancy Rates[b] as of December 31,		Monthly Rental Rate per Unit[c] as of December 31,	
			2011	2010	2011	2010
Florida	2	704	92%	92%	$1,430	$1,348
Georgia	3	746	96%	94%	1,178	1,123
Mid-Atlantic	5	1,412	92%	95%	1,850	1,846
Mid-West	1	298	95%	90%	2,009	2,016
Mountain	5	1,594	93%	90%	1,257	1,218
New England	3	700	92%	93%	1,506	1,511
Northern California	4	751	95%	91%	1,989	1,309
Northwest	2	540	90%	88%	1,312	1,235
Southern California	4	889	88%	88%	2,066	2,025
Texas	7	2,248	96%	93%	1,257	1,156
Totals	36	9,882	93%	92%	$1,520	$1,421

(a) Geographic regions not identified to a state are defined as follows:

- Mid-Atlantic includes the states of Virginia, Maryland and New Jersey. Our portfolio includes communities in Alexandria, Arlington and McLean, Virginia; Silver Spring, Maryland; and Cherry Hill, New Jersey.
- Mid-West includes the state of Illinois. Our portfolio includes a community in Chicago, Illinois.
- Mountain includes the states of Colorado and Nevada. Our portfolio includes communities in Denver and Lakewood, Colorado and Clark County and Henderson, Nevada.
- New England includes the states of Connecticut and Massachusetts. Our portfolio includes communities in Orange, Connecticut and Mansfield and Marlborough, Massachusetts.
- Our portfolio includes communities in Concord, Santa Rosa, San Bruno and San Francisco in Northern California.
- Northwest includes the state of Oregon. Our portfolio includes communities in Portland, Oregon.

- Our portfolio includes communities in Irvine, Marina del Rey, Costa Mesa, Los Angeles, and Laguna Woods in Southern California.

(b) Physical occupancy is defined as the residential units occupied for stabilized properties as of December 31, 2011or 2010 divided by the total number of residential units. Not considered in the physical occupancy rate is rental space designed for other than residential use, which is primarily retail space. As of December 31, 2011, the total gross leasable area of retail space for all of these communities is approximately 173,000 square feet, which is approximately 2% of total rentable area. As of December 31, 2011, all of the communities with retail space are stabilized, and approximately 71% of the 173,000 square feet of retail space was occupied. The calculation of physical occupancy rates by geographic region and total average physical occupancy rates are based upon weighted average number of residential units.

(c) Monthly rental revenue per unit has been calculated based on the leases in effect as of December 31, 2011 and 2010 for stabilized properties. Monthly rental revenue per unit only includes base rents for the occupied units, including affordable housing payments and subsidies, and does not include other charges for storage, parking, pets, cleaning, clubhouse or other miscellaneous amounts. For the years ended December 31, 2011 and 2010, these other charges were approximately $12.8 million and $6.5 million, respectively, approximately 8% and 7% of total combined revenues for the period. The monthly rental revenue per unit also does not include unleased units or non-residential rental areas, which are primarily related to retail space.

The table below presents number of communities and units by geographic region that are currently in development as of December 31, 2011 and 2010:

	As of December 31, 2011		As of December 31, 2010	
Geographic Region	Number of Communities	Number of Units	Number of Communities	Number of Units
Georgia	1	295	—	—
Northern California	1	163	—	—
Southern California	1	113	—	—
Texas	3	662	1	121
Totals	6	1,233	1	121

For more information regarding investments in our portfolio, see Item 2. "Properties" of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

The following critical accounting policies and estimates apply to both us and our Co-Investment Ventures, respectively.

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our management to make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these judgments, assumptions and estimates for changes which would affect the reported amounts. These estimates are based on management's historical industry experience and on various other judgments and assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these judgments, assumptions and estimates. Our significant judgments, assumptions and estimates include the consolidation of variable interest entities ("VIEs"), accounting for notes receivable, the allocation of the purchase price of acquired properties, evaluating our real estate-related investments for impairment and estimates of amounts due for offering costs.

Principles of Consolidation and Basis of Presentation

Our consolidated financial statements include our consolidated accounts and the accounts of our wholly owned subsidiaries. We also consolidate other entities in which we have a controlling financial interest or entities where we are determined to be the primary beneficiary. Variable interest entities ("VIEs") are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. The primary beneficiary is required to consolidate a VIE for financial reporting purposes. The determination of the primary beneficiary requires management to make significant estimates and judgments about our rights, obligations, and economic interests in such entities as well as the same of the other owners. For entities in which we have less than a controlling financial interest or entities with respect to which we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in consolidated net income. All significant inter-company accounts and transactions have been eliminated in consolidation.

Real Estate and Other Related Intangibles

For real estate properties acquired by us or our Co-Investment Ventures classified as business combinations, we determine the purchase price, after adjusting for contingent consideration and settlement of any pre-existing relationships. We record the tangible assets acquired, consisting of land, inclusive of associated rights, and buildings, any assumed debt, identified intangible assets and liabilities, asset retirement obligations and noncontrolling interests based on their fair values. Identified intangible assets and liabilities primarily consist of the fair value of in-place leases and contractual rights. Goodwill is recognized as of the acquisition date and measured as the aggregate fair value of the consideration transferred and any noncontrolling interests in the acquiree over the fair value of identifiable net assets acquired. Likewise, a bargain purchase gain is recognized in current earnings when the aggregate fair value of the consideration transferred and any noncontrolling interests in the acquiree are less than the fair value of the identifiable net assets acquired.

The fair value of any tangible assets acquired, expected to consist of land and buildings, is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, buildings and improvements. Land values are derived from appraisals, and building values are calculated as replacement cost less depreciation or estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. When we acquire rights to use land or improvements through contractual rights rather than fee simple interests, we determine the value of the use of these assets based on the relative fair value of the assets after considering the contractual rights and the fair value of similar assets. Assets acquired under these contractual rights are classified as intangibles and amortized on a straight-line basis over the shorter of the contractual term or the estimated useful life of the asset. Contractual rights related to land or air rights that are substantively separated from depreciating assets are amortized over the life of the contractual term or, if no term is provided, are classified as indefinite-lived intangibles. Intangible assets are evaluated at each reporting period to determine whether the indefinite and finite useful lives are appropriate.

We determine the value of in-place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. The aggregate value of in-place leases and tenant relationships are determined by applying a fair value model. The estimates of fair value of in-place leases include an estimate of carrying costs during the expected lease up periods for the respective units considering current market conditions. In estimating fair value of in-place leases, we consider items such as real estate taxes, insurance, leasing commissions, legal expenses, tenant improvements and other operating expenses to execute similar deals as well as projected rental revenue and carrying costs during the expected lease up period. The estimate of the fair value of tenant relationships also includes our estimate of the likelihood of renewal.

We determine the value of above-market and below-market in-place leases for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) estimates of current market lease rates for the corresponding in-place leases, measured over a period equal to (i) the remaining non-cancelable lease term for above-market leases, or (ii) the remaining non-cancelable lease term plus any fixed rate renewal options for below-market leases. We record the fair value of above-market and below-market leases as intangible assets or intangible liabilities, respectively, and amortize them as an adjustment to rental income over the above determined lease term.

We amortize the value of in-place leases acquired to expense over the remaining term of the leases. The value of tenant relationship intangibles will be amortized to expense over the initial term and any anticipated renewal periods, but in no event will the amortization period for intangible assets exceed the remaining depreciable life of the building. Intangible lease assets are classified as intangibles and intangible lease liabilities are recorded within deferred lease revenues and other related liabilities.

We determine the fair value of assumed debt by calculating the net present value of the scheduled debt service payments using interest rates for debt with similar terms and remaining maturities that management believes we could obtain. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan.

Investments in Unconsolidated Real Estate Joint Ventures

We or our Co-Investment Ventures account for certain investments in unconsolidated real estate joint ventures using the equity method of accounting because we exercise significant influence over, but do not control, these entities. These investments are initially recorded at cost, including any acquisition costs, and are adjusted for our share of equity in earnings and distributions. We report our share of income and losses based on our economic interests in the entities.

When we or our Co-Investment Ventures acquire a controlling interest in a previously noncontrolled investment, a gain or loss is recognized for the differences between the investment's carrying value and fair value.

Investment Impairments

If events or circumstances indicate that the carrying amount of the property may not be recoverable, we make an assessment of the property's recoverability by comparing the carrying amount of the asset to our estimate of the undiscounted future operating cash flows, expected to be generated over the life of the asset including its eventual disposition. If the carrying amount exceeds the aggregate undiscounted future operating cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property. In addition, we evaluate indefinite-lived intangible assets for possible impairment at least annually by comparing the fair values with the carrying values. Fair value is generally estimated by valuation of similar assets.

For real estate we own through an investment in an unconsolidated real estate joint venture or other similar real estate investment structure, at each reporting date we compare the estimated fair value of our real estate investment to the carrying value. An impairment charge is recorded to the extent the fair value of our real estate investment is less than the carrying amount and the decline in value is determined to be other than a temporary decline. We did not record any impairment losses for the years ended December 31, 2011 or 2010.

In evaluating impairments of notes receivables, there are judgments involved in determining the probability of collecting contractual amounts. As the types of notes receivable in which we invest are generally investment specific based on the particular loan terms and the underlying project characteristics, there is usually no secondary market to evaluate impairments. Accordingly, we must rely on our subjective judgments and individual weightings of the specific factors. If notes receivable are considered impaired, then judgments and estimates are required to determine the projected cash flows for the notes receivable, considering the borrower's or, if applicable, the guarantor's financial condition and the consideration and valuation of the secured property and any other collateral. Changes in these facts or in our judgments and assessments of these facts could result in impairment losses which could be material to our consolidated financial statements.

Fair Value

In connection with our assessments and determinations of fair value for many real estate assets and liabilities, noncontrolling interests and financial instruments, there are generally not available observable market price inputs for substantially the same items. Accordingly, we make assumptions and use various estimates and pricing models, including, but not limited to, estimated cash flows, costs to lease properties, useful lives of the assets, costs of replacing certain assets, discount and interest rates used to determine present values, market capitalization rates, rental rates, and equity valuations. Many of these estimates are from the perspective of market participants and will also be obtained from independent third-party appraisals. However, we are responsible for the source and use of these estimates. A change in these estimates and assumptions could be material to our results of operations and financial condition.

Offering Costs

In determining the amount of offering costs to charge against additional paid-in capital, we make estimates of the amount of the expected offering costs to be paid to our Advisor. This estimate was based on our assessment for the time period of the offering, and the amount of shares sold during those periods. During our Initial Public Offering, our assumptions were based on current share sales trends and comparisons to other similar initial public offerings, including those sponsored by Behringer Harvard Holdings.

Results of Operations

Since 2009, the volume of our acquisitions, the increased proportion of our stabilized multifamily communities and the increased number of consolidated communities have contributed to significant increases in all of our financial results. A summary of our multifamily communities as of December 31, 2011, 2010 and 2009 is as follows:

	As of December 31,		
	2011	2010	2009
Consolidated communities	41	10	3
Investments in unconsolidated real estate joint ventures	1	23	17
Total	42	33	20
Stabilized communities	36	26	8
Lease up communities	—	7	10
Development	6	—	2
Total	42	33	20

Effective December 1, 2011, we consolidated 23 BHMP CO-JVs and MW CO-JVs as a result of our sale of joint venture interests to the MW Co-Investment Partner and related entry into MW CO-JVs, and simultaneous amendment of all of our BHMP CO-JV operating agreements with the BHMP Co-Investment Partner whereby we obtained the controlling financial interest of each of these Co-Investment Ventures. These transactions have affected the comparability of our financial statements as of and for the year ended December 31, 2011 as compared to 2010 and 2009.

Additionally, during 2011 we acquired controlling interests in three multifamily communities through a consolidated BHMP CO-JV and one acquisition through a previously unconsolidated BHMP CO-JV. These 2011 acquisitions are contributing to increased results for the year ended December 31, 2011. In addition, during 2010, we purchased seven wholly owned multifamily communities. These 2010 acquisitions are producing a full year of results in 2011.

Further, many of our lease up multifamily communities have transitioned to stabilized operations. As of December 31, 2010, we had interests in seven communities that were in lease up. As of December 31, 2011, all seven of these communities were stabilized, producing increased net operating income.

Fiscal year ended December 31, 2011 as compared to fiscal year ended December 31, 2010

As discussed above under "Co-Investment Ventures—Sale of Joint Venture Interests During 2011", the consolidation of the 23 BHMP CO-JVs and MW CO-JVs in December 2011 has significantly affected the comparability of our 2011 results with 2010. These consolidations along with the consolidation of Waterford Place and the three acquisitions from the second quarter of 2011, have increased our 2011 total real estate, net by approximately $1.5 billion an increase of approximately 300% over our 2010 total real estate, net balance. In addition, our 2011 mortgage loans payable were increased by $725.0 million an increase of approximately $821.1 million over our 2010 mortgage loan payable balance. Related to operations, our 2011 rental revenues were $18.4 million higher due to the 2011 business combinations resulting in an increase of approximately 130% over 2010 rental revenues. Depreciation and amortization expense related to the 2011 business combinations was $16.7 million resulting in an approximate increase of 92% over 2010 depreciation and amortization expense. Additionally, we recorded a gain on revaluation of equity on business combinations of $121.9 million related to the 2011 consolidations.

As an aid to analyzing our 2011 results compared to 2010, the following tables reflect the 2011 results as reported in the consolidated balance sheets and the consolidated statements of operations less the effect of all of the 2011 business combinations to provide a comparable comparison of 2011 to 2010 excluding business combinations (in millions):

	December 31, 2011	Less: 2011 Balances from Business Combinations	Balances, net of Business Combinations December 31, 2011	December 31, 2010	Current Year Change Net of Business Combinations
Assets					
Real estate					
Land	$ 308.5	$ (217.8)	$ 90.7	$ 96.5	$ (5.8)
Buildings and improvements	1,728.9	(1,307.4)	421.5	440.5	(19.0)
	2,037.4	(1,525.2)	512.2	537.0	(24.8)
Less accumulated depreciation	(39.5)	—	(39.5)	(13.9)	(25.6)
Net operating real estate	1,997.9	(1,525.2)	472.7	523.1	(50.4)
Construction in progress, including land	15.7	(7.9)	7.8	0.9	6.9
Total real estate, net	2,013.6	(1,533.1)	480.5	524.0	(43.5)
Assets held for sale	26.5	—	26.5	—	26.5
Investments in and advances to unconsolidated real estate joint ventures	23.4	261.7	285.1	349.4	(64.3)
Cash and cash equivalents	655.5	121.7	777.2	52.6	724.6
Intangibles, net	39.8	(29.2)	10.6	20.0	(9.4)
Other assets, net	46.9	(12.5)	34.4	12.8	21.6
Total assets	$2,805.7	$(1,191.4)	$1,614.3	$ 958.8	$655.5
Liabilities and equity					
Liabilities					
Mortgage loans payable	$ 914.5	$ (725.0)	$ 189.5	$ 93.4	$ 96.1
Credit facility payable	10.0	—	10.0	64.0	(54.0)
Liabilities related to assets held for sale	16.1	—	16.1	—	16.1
Accounts payable and other liabilities	22.7	(13.9)	8.8	8.6	0.2
Deferred lease revenues and other related liabilities, net	16.7	(0.1)	16.6	15.9	0.7
Distributions payable	8.4	—	8.4	5.2	3.2
Tenant security deposits	3.8	(2.3)	1.5	0.9	0.6
Total liabilities	992.2	(741.3)	250.9	188.0	62.9
Commitments and contingencies					
Redeemable, noncontrolling interests	8.5	(8.5)	—	—	—
Equity					
Preferred stock	—	—	—	—	—
Non-participating, non-voting convertible stock	—	—	—	—	—
Common stock	—	—	—	—	—
Additional paid-in capital	1,502.0	—	1,502.0	896.5	605.5
Cumulative distributions and net loss	(110.1)	(103.8)	(213.9)	(125.7)	(88.2)
Total equity attriibutable to common stockholders	1,391.9	(103.8)	1,288.1	770.8	517.3
Non-redeemable, noncontrolling interests	413.1	(337.8)	75.3	—	75.3
Total equity	1,805.0	(441.6)	1,363.4	770.8	592.6
Total liabilities and equity	$2,805.7	$(1,191.4)	$1,614.3	$ 958.8	$655.5

The following describes significant fluctuations for the 2011 activity compared to 2010. As the business combinations explain many of the fluctuations, unless noted otherwise, the discussion below focuses on the amounts net of the business combinations.

Total Real Estate, net. The decrease in total real estate, net is primarily attributable to the reclassification of Mariposa Loft Apartments ("Mariposa") from real estate, net to assets held for sale as of December 31, 2011 as well as increased accumulated depreciation due to another year of depreciation expense.

Assets Held for Sale. As of December 31, 2011, we have entered into a purchase and sale agreement with an unaffiliated third party buyer to sell Mariposa for $40.0 million, including the assumption of the mortgage loan payable and standard operating working capital accounts. Accordingly, we have classified Mariposa as held for sale on the consolidated balance sheet as of that date. The sale of Mariposa closed on March 28, 2012. We had no multifamily communities held for sale as of December 31, 2010.

Investments in and Advances to Unconsolidated Real Estate Joint Ventures. The decrease in investments in and advances to unconsolidated real estate joint ventures is primarily attributable to $49.5 million of distributions received from 2011 financings with the remainder of the decrease due to our share of equity losses attributable to depreciation and amortization expense recorded during 2011.

Cash and Cash Equivalents. Cash and cash equivalents includes the increase in net offering proceeds received during 2011 from our Initial Public Offering of $539.6 million as well as net cash proceeds from the sale of our partial interests in unconsolidated joint ventures to the MW CO-JV of $100.6 million.

Intangibles, net. The decrease in intangibles, net is a result of amortization expense recorded during 2011.

Other Assets. The increase in other assets is primarily due to issuance of two land loans and one mezzanine loan during 2011. The balance of these loan investments as of December 31, 2011 is $18.2 million.

Mortgage Loans Payable. During 2011, we obtained new mortgage financing on Allegro, Acappella, Argenta, the Lofts at Park Crest and Venue totaling $150.2 million. These increases were partially offset by the classification of the $15.8 million Mariposa mortgage loan payable to liabilities related to assets held for sale and principal reductions primarily related to the Satori, 55 Hundred, and Baileys Property Entities of $26.4 million.

Credit Facility Payable. Due to increased proceeds from our Initial Public Offering during 2011, we did not need to utilize the credit facility during 2011 and paid the credit facility down to its minimum balance.

Liabilities Related to Assets Held for Sale. As noted above, we classified Mariposa as held for sale during 2011. The balance at December 31, 2011 is a mortgage loan payable of $15.8 million.

Distributions Payable. The increase in distributions payable at December 31, 2011 is primarily attributable to the increase in the number of shares of common stock outstanding between December 31, 2010 and December 31, 2011.

Additional Paid-in Capital. The increase in additional paid-in capital at December 31, 2011 is principally attributable to net sales proceeds (including DRIP) of our common stock of $583.7 million, and the partial sale of our controlling interest to the MW CO-JV resulting in an increase of $39.6 million. These increases were partially offset by redemptions of our common stock of $17.8 million.

Cumulative Distributions and Net Losses. The increase in cumulative distributions and net losses is primarily attributable to distributions of $83.0 million declared in 2011, partially offset by an $18.1 million gain on revaluation of equity on a business combination related to the sale of Waterford Place.

Non-redeemable, Noncontrolling Interests. The increase to non-redeemable, noncontrolling interests is principally due to the partial sale of interests in the Gallery at NoHo Commons, the Lofts at Park Crest, Acacia on Santa Rosa Creek, Argenta, Stone Gate and West Village of $68.2 million and contributions from noncontrolling interests of $10.2 million. These increases are partially offset by distributions paid and allocations of net income of $4.1 million.

For the Year Ended December 31,	2011	Less: 2011 Amounts from Business Combinations	2011 Results net of Business Combinations	2010	Current Year Change Net of Business Combinations
Rental revenues	$ 67.4	$ (18.4)	$ 49.0	$ 28.9	$ 20.1
Expenses					
Property operating expenses	20.3	(5.5)	14.8	8.7	6.1
Real estate taxes	9.3	(2.1)	7.2	4.0	3.2
Asset management fees	6.3	—	6.3	5.2	1.1
General and administrative expenses	4.6	(0.2)	4.4	4.2	0.2
Acquisition expenses	6.2	(6.2)	—	10.8	(10.8)
Interest expense	11.2	(3.9)	7.3	4.9	2.4
Depreciation and amortization	38.8	(16.7)	22.1	20.2	1.9
Total expenses	96.7	(34.6)	62.1	58.0	4.1
Interest income	3.5	(0.3)	3.2	1.4	1.8
Gain on revaluation of equity on business combinations	121.9	(121.9)	—	—	—
Gain on sale of joint venture interests	5.7	—	5.7	—	5.7
Equity in loss of investments in unconsolidated real estate joint ventures	(7.9)	0.2	(7.7)	(6.9)	(0.8)
Income (loss) from continuing operations	93.9	(105.8)	(11.9)	(34.6)	22.7
Income (loss) from discontinued operations	0.6	(0.3)	0.3	—	0.3
Net income (loss)	94.5	(106.1)	(11.6)	(34.6)	23.0
Net (income) loss attributable to noncontrolling interests	4.1	(4.3)	(0.2)	—	(0.2)
Net income (loss) attributable to common stockholders	$ 98.6	$(110.4)	$(11.8)	$(34.6)	$ 22.8

Similar to the review of the balance sheet activity, many of the fluctuations in 2011 compared to 2010 are due to the 2011 business combinations. See previous discussion above for the effect of the business combinations on the 2011 operating results. Where the headings below refer to adjusted amounts, we are describing the activity net of the business combinations. For the other headings, where the business combinations do not have a direct effect on our results, we are describing the full activity between reported 2011 results to 2010 results.

Rental Revenues Adjusted. Rental revenues for the years ended December 31, 2011 and 2010 were approximately $49.0 million and $28.9 million, respectively. The increase was due primarily to reporting a full year of operations for our 2010 acquisitions. Additionally, physical occupancy of our portfolio as of December 31, 2011 was 93% as compared to 88% as of December 31, 2010 as all of our properties were stabilized as of December 31, 2011. We expect continued increases in these revenues as a result of owning our newly acquired multifamily communities for a full reporting period and our expected acquisitions of additional real estate investments.

Property Operating and Real Estate Tax Expenses Adjusted. Property operating and real estate tax expenses for the years ended December 31, 2011 and 2010 were approximately $22.0 million and $12.7 million, respectively. The increase was due primarily to reporting a full year of operations for our 2010 acquisitions. We expect continued increases in these expenses as a result of owning our newly acquired multifamily communities for a full reporting period and our expected acquisitions of additional real estate investments.

Asset Management Fees. Asset management fees for the years ended December 31, 2011 and 2010 were approximately $6.3 million and $5.2 million, respectively. These fees for each period are based on the amount of our gross real estate investments, the time period in place and the asset management fee rate. As our asset management fees are calculated based on our share of investments, the business combinations did not affect our assets management fee expense. Accordingly, the increase is due to the timing and funded amounts of our investments during the past twelve months. We expect continued increases in the amount of the rest of our gross real estate investments as a result of owning and acquiring additional real estate investments.

Acquisition Expenses. Acquisition expenses for the year ended December 31, 2011 were approximately $6.2 million and related to the acquisitions discussed above. Acquisition expenses for the year ended December 31, 2010 were approximately $10.8 million and related to our acquisitions of the Lofts at Park Crest, Acacia on Santa Rosa Creek, Burnham Pointe, The Reserve at La Vista Walk and Allegro. The majority of the acquisition and expenses were fees and expenses due to our Advisor. As we make additional consolidated investments, we expect acquisition expenses to increase and to have a significant effect on our operating results. See the section below entitled "Funds from Operations and Modified Funds from Operations" for additional discussion.

Interest Expense Adjusted. Interest expense for the years ended December 31, 2011 and 2010 was approximately $7.3 million and $4.9 million, respectively. The increase was principally due to increased borrowings related to our mortgage notes payable which increased during 2011 as we obtained new mortgage financing in 2011 related to Argenta, Acappella, Allegro, the Lofts at Park Crest, and the Satori, District and Cyan Property Entities. The increased borrowings in 2011 were partially offset by a decline in credit facility borrowings and a decline in the LIBOR base rate. Also included in interest expense are credit facility fees related to minimum usage and unused commitments. These fees were $1.4 million and $1.2 million during the years ended December 31, 2011 and 2010, respectively.

Depreciation and Amortization Adjusted. Depreciation and amortization expense for the years ended December 31 2011 and 2010 was approximately $22.1 million and $20.2 million, respectively. Depreciation and amortization primarily includes depreciation of our consolidated multifamily communities and amortization of acquired in-place leases. As noted above, the increase is due to our consolidated multifamily communities acquired during 2010. As we make additional consolidated investments, we expect depreciation and amortization expense to increase and to be a significant factor in our GAAP reported results. See the section below entitled "Funds from Operations and Modified Funds from Operations" for additional discussion.

Interest Income Adjusted. Interest income, which primarily included interest earned on our cash equivalents, for the years ended December 31, 2011 and 2010 was approximately $3.2 million and $1.4 million, respectively. Our cash equivalent balance is primarily a function of the timing and magnitude of the proceeds raised from our Initial Public Offering and our expenditures for investment activities. Accordingly, our cash equivalent balances are subject to significant changes. Due to our primary emphasis on providing liquidity for future real estate investments, our cash equivalents are substantially held in daily liquidity bank deposits. In the current environment, these cash equivalents continue to have low earnings rates. Additionally, during 2011, we provided financing for one mezzanine loan and three land loans and earned interest income of $1.2 million on these loans.

Gain on Revaluation of Equity on Business Combinations. In April 2011, the business combination of our investment in the Waterford Place BHMP CO-JV resulted in a gain of $18.1 million. The gain was primarily a function of the recognition of assets held for sale which were recorded at fair value based on the sale contract for the Waterford Place community. Additionally, in December 2011, the business combinations of our investments in the BHMP CO-JVs and MW CO-JVs resulted in an aggregate gain of approximately $103.8 million. The gain was primarily a function of the recognition of recording the assets of the multifamily communities at their fair value on December 1, 2011, and we do not expect to have similar gains in the near term. There was no similar gain in 2010.

Equity in Loss of Investments in Unconsolidated Real Estate Joint Ventures. Equity in loss of joint venture investments for the year ended December 31, 2011 was approximately $7.9 million compared to equity in loss of approximately $6.9 million for the year ended December 31, 2010. As only $0.2 million related to business combinations, the analysis is based on the unadjusted amount. A breakdown of our approximate equity in earnings (loss) by type of underlying investments is as follows (amounts in millions):

Effective December 1, 2011, all but one of our unconsolidated real estate joint ventures was consolidated. The following discussion relates to activity prior to December 1, 2011.

	For the Year Ended			
	December 31, 2011		December 31, 2010	
	Equity in Earnings (Loss)	Distributions from Operating Activities	Equity in Earnings (Loss)	Distributions from Operating Activities
Loan investments	$ 2.0	$ 1.1	$ 3.0	$1.7
Equity investments				
Stabilized / Comparable	(1.0)	1.9	(0.6)	—
Stabilized / Non-comparable	(8.9)	11.6	(6.6)	5.5
Lease ups	—	—	(2.7)	0.5
	(9.9)	13.5	(9.9)	6.0
Total	$(7.9)	$14.6	$(6.9)	$7.7

Earnings from underlying loan investments decreased for the year ended December 31, 2011 as compared to the year ended December 31, 2010 primarily due to the BHMP CO-JV conversion of mezzanine notes to additional equity interests for Satori, Skye 2905, and The Venue during 2010 and The Cameron during April 2011. As a result, these BHMP CO-JVs did not have any interest income or only minor amounts for the year ended December 31, 2011. These BHMP CO-JVs had interest income of approximately $2.6 million for the year ended December 31, 2010.

Equity in loss from stabilized/non-comparable investments increased for the year ended December 31, 2011 compared to the comparable period in 2010 as all remaining properties in lease up as of December 31, 2010 have moved from lease up to stabilized/non-comparable as of December 31, 2011 and subject to a full year of depreciation and amortization. While most of our stabilized/non-comparable investments produced an overall loss, primarily due to non-cash expenses for depreciation and amortization, these investments provided cash distributions from operating activity of approximately $11.6 million during the year ended December 31, 2011.

Equity in loss from equity investments in multifamily communities in lease up decreased for the year ended December 31, 2011 compared to the comparable period in 2010, primarily due to a decrease in the number of properties underlying our investments that were in lease up. There were no properties in lease up as of December 31, 2011. As of December 31, 2010, there were five investments classified as lease ups.

Income (loss) from Discontinued Operations. The income (loss) from discontinued operations relates to the Waterford Place BHMP CO-JV's disposition of the Waterford Place community in May 2011. The Waterford Place community was included in our consolidated results effective April 1, 2011 with our acquisition of a controlling interest in the Waterford Place BHMP CO-JV. Prior to April 1, 2011, the operations of the Waterford Place BHMP CO-JV were included in equity in loss of investments in unconsolidated real estate joint ventures. The Waterford Place community was sold on May 11, 2011. Accordingly, the Waterford Place community operations are classified as discontinued operations only for the period from April 1, 2011 to May 11, 2011. Additionally, as of December 31, 2011, we have classified Mariposa as held for sale and accordingly, have presented Mariposa's results of operations in discontinued operations for the years ended December 31, 2011 and 2010. There were no other property dispositions in 2011 or 2010.

Net (Income) Loss Attributable to Noncontrolling Interests. Our noncontrolling interests activity relates to our acquisitions of controlling interest in the BHMP CO-JVs and MW CO-JVs effective December 1, 2011 and the Waterford Place BHMP CO-JV effective April 1, 2011 and represents the net income or loss attributable to our Co-Investment Partners who own noncontrolling interests in our consolidated communities. In May 2011, one of these consolidated communities, the Waterford Place community, was sold. The operating results related to the third parties for the sold community are shown separately as discontinued operations. There were no noncontrolling interests in 2010.

Due to the activity resulting from our investment program, for our operating periods through 2011, we have few comparable operating multifamily communities. Accordingly, same store reporting is currently not meaningful.

We review our investments for impairments in accordance with GAAP. For the years ended December 31, 2011 and 2010, we have not recorded any impairment losses. However, this conclusion could change in future periods based on changes in market conditions, primarily market rents, occupancy, the availability and terms of capital, investor demand for multifamily investments and U.S. economic trends.

Fiscal year ended December 31, 2010 as compared to fiscal year ended December 31, 2009

Rental Revenues. Rental revenues for the year ended December 31, 2010 were approximately $28.9 million, compared to $3.0 million for the year ended December 31, 2009. As noted above, the increase was due primarily to our acquisition activity during 2010.

Property Operating and Real Estate Tax Expenses. Property operating and real estate tax expenses for the year ended December 31, 2010 were approximately $12.7 million, compared to $1.1 million for the year ended December 31, 2009. As noted above, the increase was due primarily to our acquisition activity during 2010.

Asset Management Fees. Asset management fees for the years ended December 31, 2010 and 2009 were approximately $5.2 million and $2.1 million, respectively. These fees are generally based on the amount of our gross real estate investments, the time period in place and the asset management fee rate. Effective July 1, 2010, the asset management fee rate was decreased from an annual rate of 0.75% to 0.50%.

General and Administrative Expenses. General and administrative expenses for the years ended December 31, 2010 and 2009 were approximately $4.2 million and $3.2 million, respectively, and included increased costs for corporate general and administrative expenses incurred and reimbursed to our Advisor, as well as compensation of our board of directors, audit and tax fees, and legal fees.

Acquisition Expenses. Acquisition expenses for the years ended December 31, 2010 and 2009 were approximately $10.8 million and $3.4 million, respectively, which included expenses incurred with third parties, incurred with our Advisor and our amortization of acquisition costs related to our BHMP CO-JV investments. During 2010, we completed seven acquisitions compared to three in 2009. See the section below entitled "Funds from Operations and Modified Funds from Operations" for additional discussion.

Interest Expense. Interest expense for the year ended December 31, 2010 was approximately $4.9 million compared to $0.1 million in 2009. The increase was due to increased borrowing related to permanent mortgages on our wholly owned multifamily communities and our credit facility. As of December 31, 2010, our mortgage loans payable were $93.4 million and the weighted average interest rate was approximately 4.78%. During the year ended December 31, 2009, we had only one mortgage loan payable of $51.3 million, which was outstanding for only a portion of the year. Also during 2010, we closed on a $150 million credit facility. During the year ended December 31, 2010, our borrowings under the credit facility ranged between no amount outstanding and $103.0 million ($64.0 million outstanding on December 31, 2010) with interest rates generally ranging between 2.3% and 2.6%. Also included in interest expense are credit facility fees related to minimum usage and unused commitments. These fees were $1.2 million during the year ended December 31, 2010. Interest expense for the year ended December 31, 2010 is net of interest capitalization of $0.9 million. Interest expense of $0.3 million was capitalized in 2009.

Depreciation and Amortization. Depreciation and amortization expense for the years ended December 31, 2010 and 2009 was approximately $20.2 million and $2.1 million, respectively. Depreciation and amortization expense primarily includes depreciation of our wholly owned multifamily communities and amortization of acquired in-place leases. As noted above, the increase is due to our wholly owned real estate acquired during 2010. See the section below entitled "Funds from Operations and Modified Funds from Operations" for additional discussion.

Interest Income. Interest income, which primarily included interest earned on our cash equivalents, for the years ended December 31, 2010 and 2009 was approximately $1.4 million and $1.1 million, respectively. Our cash equivalent balance is primarily a function of the timing and degree of the proceeds raised from our Initial Public Offering and our expenditures for investment activities. Accordingly, our cash equivalent balances are subject to significant changes. Due to our primary emphasis on providing liquidity for future real estate investments, our cash equivalents are substantially held in daily liquidity bank deposits. In the current environment, these cash equivalents continue to have low earnings rates.

Equity in Earnings (Loss) of Investments in Unconsolidated Real Estate Joint Ventures. Equity in loss of joint venture investments for the year ended December 31, 2010 was approximately $6.9 million compared to approximately $0.2 million for the year ended December 31, 2009.

During 2010, we made $159.8 million of new investments related to equity investments in newly formed BHMP CO-JVs. We also invested $23.6 million in existing BHMP CO-JVs, primarily to acquire Property Entities from unaffiliated owners, increase their equity ownership interests in the Property Entities and/or pay down existing financing as follows:

- In December 2010, the Skye 2905 BHMP CO-JV indirectly acquired the remaining ownership interest in the Skye 2905 Property Entity for $39.3 million. Included as a part of the acquisition, the Skye 2905 BHMP CO-JV partially modified the construction loan, paying $21.2 million to reduce the principal balance to $47.0 million, obtaining a six-month extension option and resetting the LIBOR based interest rate. The total funding by the Skye 2905 BHMP CO-JV was approximately $24.5 million. Effective with the transaction, The Skye 2905 Property Entity became wholly owned by The Skye 2905 BHMP CO-JV. Our contribution to the Skye 2905

BHMP CO-JV was approximately $13.5 million. As a part of the closing of the acquisition and the construction loan modification, the Skye 2905 BHMP CO-JV converted its $14.8 million note receivable to equity. A gain of $3.7 million was recognized for the difference between the Skye 2905 BHMP CO-JV's investment carrying value and the fair value at the acquisition date. Our share of the gain is included in equity in earnings (loss) of investments in unconsolidated real estate joint ventures and was approximately $2.0 million.

- In December 2010, the Satori BHMP CO-JV converted its $14.8 million note receivable, plus accrued interest of $1.4 million for an additional equity ownership interest in the Satori BHMP CO-JV. No additional consideration was paid in connection with the acquisition of the additional equity ownership interest.
- In August 2010, The Venue BHMP CO-JV indirectly acquired the remaining ownership interest in The Venue Property Entity for $0.4 million. Included as a part of the acquisition, The Venue BHMP CO-JV also extinguished The Venue Property Entity's construction loan with a final principal payment of $17.9 million. At the time of the payoff, the construction loan had a principal balance of $19.7 million. The total funding by The Venue BHMP CO-JV for the above transaction was approximately $18.3 million. Our contribution to The Venue BHMP CO-JV was approximately $10.1 million. Effective with the transaction, The Venue Property Entity became wholly owned by The Venue BHMP CO-JV. Upon the acquisition of the controlling interest, The Venue BHMP CO-JV recognized a gain of $1.3 million for the difference between The Venue BHMP CO-JV's investment carrying value and the fair value. Our share of the gain is included in equity in earnings (loss) of investments in unconsolidated real estate joint ventures and was approximately $0.7 million. At the closing of the acquisition, The Venue BHMP CO-JV effectively eliminated its note receivable to The Venue Property Entity.

A breakdown of our approximate equity in earnings by type of underlying investments is as follows (amounts in millions):

	For the Year Ended			
	December 31, 2010		December 31, 2009	
	Equity in Earnings (Loss)	Distributions from Operating Activities	Equity in Earnings (Loss)	Distributions from Operating Activities
Loan investments	$ 3.0	$1.7	$ 7.7	$1.0
Equity investments				
Stabilized / Comparable	(0.6)	—	(0.6)	0.1
Stabilized / Non-comparable	(6.6)	5.5	(2.3)	0.2
Lease ups	(2.7)	0.5	(4.9)	2.2
Developments	—	—	(0.1)	2.2
	(9.9)	6.0	(7.9)	4.7
Total	$(6.9)	$7.7	$(0.2)	$5.7

Earnings from underlying loan investments decreased for the year ended December 31, 2010 as compared to the year ended December 31, 2009 primarily due to the BHMP CO-JV conversion of notes receivable to additional equity interests for Bailey's Crossing, Eclipse and 55 Hundred during the fourth quarter of 2009. As a result, these BHMP CO-JVs did not have any interest income for the year ended December 31, 2010. These BHMP CO-JVs had interest income of approximately $5.1 million for the year ended December 31, 2009. During 2010, The Venue, Skye 2905, and Satori BHMP CO-JVs converted their notes receivable for additional equity ownership interests, further reducing interest income during 2010. One of the remaining notes receivable held by the BHMP CO-JVs also has a conversion option. If this note receivable is also converted, we would expect further decreases in equity earnings and distributions classified as cash provided by operating activities related to loan investments. Cash provided by operating activities may also decrease for loan investments due to loan provisions which provide for full or partial accrual of interest until maturity.

Equity in loss from stabilized/non-comparable investments increased for the year ended December 31, 2010 compared to the comparable period in 2009, primarily due to our share of depreciation and amortization expense and one-time charges for acquisition expenses exceeding net operating income. During 2010, we added investments in six new stabilized/non-comparable communities through BHMP CO-JVs as well as reclassified seven other multifamily communities from lease up to stabilized/non-comparable investments. For the year ended December 31, 2010, we incurred approximately $1.3 million of one-time acquisition expenses related to investments in six operating/non-comparable communities through BHMP CO-JVs, compared to seven investments through BHMP CO-JVs and $1.5 million of associated acquisition expense in 2009. These investments contributed to additional depreciation and amortization expense. The year ended December 31, 2010 also benefited from one time items, including a $1.8 million gain related to a gain for the excess of the fair value over The District Universal Boulevard's purchase price, a $2.7 million gain related to the acquisitions of controlling interests in The Venue and Skye 2905, and a $0.1 million gain related to the early extinguishment of the Halstead mortgage payable. While all our stabilized/non-comparable investments made through BHMP CO-JVs produced an overall loss, primarily due to non-cash expenses for depreciation and amortization, these investments provided cash flows from operating activity of approximately $5.5 million during the year ended December 31, 2010. There were no distributions classified as operating activity for the corresponding period in 2009.

Equity in loss from lease up equity investments decreased for the year ended December 31, 2010 compared to the comparable period in 2009, primarily due to a decrease in the number of properties underlying our investments that were in lease up. All of the investments in properties undergoing lease up produced equity losses as operating, interest, depreciation and amortization expenses exceeded unstabilized rental revenue. During the year ended December 31, 2010, Satori, Cyan/PDX, Eclipse, Forty 55 Lofts, Satori and The Venue were reclassified from lease up to stabilized/non-comparable investments.

Income (loss) from Discontinued Operations. As of December 31, 2011, we have classified Mariposa as held for sale and accordingly, have presented Mariposa's results of operations in discontinued operations for the years ended December 31, 2010 and 2009.

Cash Flow Analysis

Similar to our discussion above related to "Results of Operations," many of our cash flow results are affected by our 2011 and 2010 acquisition activity and the transition of multifamily communities from lease up to stabilized operations. We anticipate investing offering proceeds from our Initial Public Offering (which closed on September 2, 2011) in multifamily communities but then once invested we expect a decline in our acquisition activity. Accordingly, our sources and uses of funds may not be comparable in future periods.

Fiscal year ended December 31, 2011 as compared to the fiscal year ended December 31, 2010

Cash flows provided by operating activities for the year ended December 31, 2011 were $31.7 million as compared to cash flows provided by operating activities of $2.6 million for the same period in 2010. The increase in cash provided by operating activities is primarily due to the acquisitions, primarily consolidated acquisitions, and increased stabilized multifamily community activities noted above, including increased distributions from investments in unconsolidated real estate joint ventures. Distributions received from investments in unconsolidated real estate joint ventures in 2011 were $14.6 million, compared to $7.7 million in 2010. A substantial portion of our GAAP expenses are due to non-cash charges, primarily related to depreciation and amortization. Our depreciation and amortization non-cash charges increased by $19.6 million in 2011 as compared to the same period in 2010. We expect that acquisition expenses and the other non-cash charges will continue to be significant determinates for net cash provided by operating activities.

Cash flows used in investing activities for the year ended December 31, 2011 were $9.7 million compared to $461.2 million during the comparable period of 2010. The decline was due to sales of multifamily investments in 2011 and to fewer 2011 acquisitions with cash consideration as compared to 2010 as noted above. Providing a source of cash was the sale of the Waterford Place multifamily community and the assumption of its mortgage debt by the buyer, netting proceeds of $50.6 million. Additionally, during December 2011, we sold joint venture interests in six of our multifamily communities resulting in net proceeds of $101.0 million. Although we do expect to continue to strategically dispose of other multifamily investments, we currently do not expect sales of this magnitude in the near term. There were no sales in the same period in 2010. The decline was also due to the acquisitions and other investments of $187.3 million of investments in unconsolidated real estate joint ventures in 2010 compared to only one acquisition and other investments of $32.1 million of investments in unconsolidated real estate joint ventures in 2011. As we are approaching the total commitment level for our BHMP Co-Investment Partner, we may have fewer investments in unconsolidated real estate joint ventures in future periods. During 2011, we began investing in mezzanine and land loans related to multifamily developments. For the year ended December 31, 2011, we advanced $22.4 million under such loans. Also providing a source of investing cash flow for the year ended December 31, 2011 were BHMP CO-JV and MW CO-JV distributions related to financings for Cyan/PDX, Skye 2905, 55 Hundred, Venue, Satori and The District of $14.6 million as compared to $7.7 million, and for the year ended December 31, 2010 from BHMP CO-JVs related to financings for the Calypso Apartments and Lofts and 4550 Cherry Creek which were returns of investments in unconsolidated real estate joint ventures.

Cash flows provided by financing activities for the years ended December 31, 2011 and 2010 were $580.9 million and $433.7 million, respectively. For the year ended December 31, 2011, net proceeds from our Initial Public Offering were approximately $539.6 million, compared to $397.4 million for the comparable period in 2010. For the year ended December 31, 2011, distributions on our common stock increased due to increased common stock outstanding from our Initial Public Offering as compared to the comparable period of 2010. In 2011, we received mortgage financing proceeds of $269.4 million and $15.8 million in mortgage financing proceeds during the same period of 2010. During 2011, the net activity on our credit facility resulted in a net pay down of $54.0 million, compared to a net advance of $64.0 million during 2010. We intend to use our credit facility as a part of our overall cash and debt management. During 2011, where we had increased proceeds from our Initial Public Offering, we reduced our credit facility outstanding balances.

Distributions have increased as the number of shares of common stock outstanding increased as a result of our Initial Public Offering and DRIP. With the completion of our Initial Public Offering on September 2, 2011 and based on our current distribution policy, we expect our total distributions to stabilize. We expect to fund distributions from multiple sources including (1) cash flow from our current investments and investments anticipated from the remaining proceeds of our Initial Public Offering, (2) the remaining proceeds of our Initial Public Offering, (3) financings and (4) dispositions.

On March 19, 2012, our board of directors authorized distributions payable to the stockholders of record each day during the months of April, May and June 2012 equal to an annual rate of 3.5% based on a purchase price of $10.00 per share, a reduction from the previous annual rate of 6.0%. This reduction, if continued for the remainder of 2012, would reduce our distributions payable and preserve cash for other uses, including investments in multifamily communities.

Fiscal year ended December 31, 2010 as compared to the fiscal year ended December 31, 2009

Cash flows provided by operating activities for the year ended December 31, 2010 were $2.6 million as compared to cash flows provided by operating activities of $0.2 million for the same period in 2009. A substantial portion of our GAAP net loss is due to non-cash charges, primarily related to depreciation and amortization, including amounts recognized from our investments in unconsolidated real estate joint ventures. We expect that that these non-cash charges will continue to be significant adjustments to net cash provided by operating activities. During 2010, these adjustments for equity losses in unconsolidated joint ventures, depreciation and amortization totaled $28.4 million compared to a $3.1 million deduction in the comparable prior period in 2009. Also during 2010, we recognized approximately $12.1 million of acquisition expenses, approximately $10.8 million related to wholly owned acquisitions and approximately $1.3 million related to acquisitions included within our investments in unconsolidated real estate joint ventures. For the comparable period in 2009, there was approximately $3.4 million of acquisition expenses related to wholly owned acquisitions and $1.6 million of acquisition expenses related to acquisitions included within our investments in unconsolidated real estate joint ventures. Prior to 2009, acquisition expenses were capitalized and not included in cash flows from operating activities. Distributions received from our investments in unconsolidated real estate joint ventures were $7.7 million for the year ended December 31, 2010, compared to $5.7 million for the comparable period in 2009. The increase was primarily due to additional investments and improved operations for certain of the BHMP CO-JVs, offset by decreases in the amounts of interest income earned by the applicable BHMP CO-JVs, primarily as a result of the conversion of notes receivable into initial or additional ownership interests in Eclipse, 55 Hundred, Bailey's Crossing and The Venue. Cash flow from operating activities also benefited from the cash receipt of deferred lease revenue related to Gallery of NoHo Commons.

Cash flows used in investing activities for the year ended December 31, 2010 and 2009 were $461.2 million and $341.0 million, respectively. For the year ended December 31, 2010, we acquired seven wholly owned multifamily communities and invested in six new BHMP CO-JVs. In connection with one of our wholly owned acquisitions, we assumed debt financing of $26.8 million. For the year ended December 31, 2009, our primary investments were in three wholly owned multifamily community acquisitions, fulfilling our loan and equity fundings of our 15 BHMP CO-JV investments as well as funding for our wholly owned note receivable. As our Initial Public Offering continues until July 31, 2011 (although processing of subscriptions may continue through the last date we may legally accept subscriptions), we would expect to acquire additional multifamily communities, the amount dependent primarily on the final net offering proceeds. Providing a source of investing cash flow for the year ended December 31, 2010 were BHMP CO-JV distributions related to financings for eight BHMP CO-JVs which were returns of investments in unconsolidated real estate joint ventures of $101.5 million. These investments were initially funded entirely with cash, and during 2010, financing was obtained for the communities. During the comparable period in 2009, returns of investments in unconsolidated real estate joint ventures primarily related to reimbursements of excess capital contributions and non-operating cash flows.

Cash flows provided by financing activities for the year ended December 31, 2010 and 2009 were $433.7 million and $394.5 million, respectively. For the year ended December 31, 2010, net proceeds from our Initial Public Offering were approximately $397.4 million, compared to $363.3 million for the comparable period in 2009. Additionally, financing proceeds increased due to obtaining additional draws from our credit facility as well as a financing for one of our wholly owned multifamily communities. For the year ended December 31, 2010, distributions on our common stock increased due to increased common stock outstanding from our Initial Public Offering as compared to the year ended December 31, 2009.

Liquidity and Capital Resources

With the completion of our Initial Public Offering, the Company has cash and cash equivalents of $655.5 million as of December 31, 2011. We intend to deploy these funds for additional investments in multifamily communities, to refinance existing mortgage and construction financings which may benefit from the lower interest environment and, to the extent necessary, for distributions to our common stockholders. We anticipate supplementing our investable cash with secured real estate financing, our credit facility, as well as other equity and debt offerings. Our investments may include wholly owned and joint venture equity interests in operating or development multifamily communities and loans secured directly or indirectly by multifamily communities. We may invest in individual acquisitions and portfolios with other multifamily companies. Once we have deployed these proceeds, we would expect a significant reduction in the use of funds for acquisitions and investments.

As discussed in more detail in the following sections, we have identified the following acquisition, development and financing uses of cash during the first quarter of 2012 (in millions):

Grand Reserve BHMP CO-JV investment	$ 26.2
Development program:	
In place as of December 31, 2011	105.3
Subsequent to December 31, 2011	32.2
Total	$163.7

Generally, cash needs for items other than our investments, including any related acquisition costs, include our operating expenses, general administrative expenses, and asset management fees. We expect to meet these requirements from the operations of our existing investments and anticipated new investments. Based on our current distribution levels and current redemption trends, our current operating cash flow is insufficient to meet our total distributions and redemptions, and we will be dependent on our current cash balances and on the returns from these anticipated investments to increase our operating cash flow. There is no assurance that we will be able to achieve these required returns. In addition, given the degree of our remaining proceeds and the competition for acquisition multifamily communities, there may be an extended period to deploy these funds in investments and to receive the income from such investments. During this period, we may use portions of the remaining proceeds from our Initial Public Offering to fund a portion of our redemptions and the distributions paid to our common stockholders, which could reduce the amount available for new investments. During this period, we may also decide to temporarily invest any uninvested proceeds in investments at lower returns than our targeted investments in multifamily and real estate-related investments. These lower returns may affect our ability to make distributions or the amount actually disbursed. We may also refinance or dispose of our investments and use the proceeds to reinvest in new investments, re-lever debt, or use for other obligations, including distributions on our common stock.

We expect to utilize our cash flow from operating activities and our credit facility predominantly for the uses described above. Accordingly, we expect our cash and cash equivalent balances to decrease as we execute our strategy.

Short-Term Liquidity

Currently, our primary indicators of short-term liquidity are our cash and cash equivalents and our credit facility. As of December 31, 2011, our cash and cash equivalents balance was $655.5 million, compared to $52.6 million as of December 31, 2010. The increase is primarily due to the proceeds from our Initial Public Offering and our DRIP during 2011. For the year ended December 31, 2011, we received gross proceeds from our Initial Public Offering and our DRIP of approximately $638.0 million and cash proceeds from our sale of partial interests to the MW Co-Investment Partner of

$100.6 million.. For the year ended December 31, 2010, we received gross proceeds from our Initial Public Offering and our DRIP, of approximately $472.9 million.

Our cash and cash equivalents are invested in bank demand deposits, bank certificates of deposit and money market accounts and a high grade money market fund. We manage our credit exposure by diversifying our investments over several financial institutions. However, because of the degree of our cash balances, a substantial portion of our cash holdings are in excess of U.S. federal insured limits.

With the termination of our Initial Public Offering on September 2, 2011, we are now more dependent on our cash flow from operating activities and the other sources noted above. Cash flow from operating activities was $31.7 million for the year ended December 31, 2011 compared to $2.6 million for the comparable period in 2010. The increase is primarily due to (1) our 2010 investments producing a full period of operations in 2011, (2) new investments in 2011 and (3) a $4.6 million decrease in acquisition expenses in 2011 as compared to 2010. Also contributing to our increase in cash flow from operating activities is the conversion from equity accounting for most of our investments to consolidated accounting. We now show our cash flow from operating activities gross, where equity accounting generally only includes distributions from investees as distributed.

With our positive cash flow from operating activities, we are able to fund our multifamily communities' operating costs, interest expense, general and administrative costs and asset management fees. Our residents generally pay rents monthly which generally coincides with the payment cycle for our operating interest and general and administrative expenses. Real estate taxes and insurance costs, the most significant exception to our 30 day payment cycle, are paid from lender escrows, which are either funded by us monthly, or from elective internal cash reserves. Further, we expect our operating cash flows to benefit from our new acquisitions in 2011, which are only included for a partial period for the year ended December 31, 2011 and accordingly, do not expect to have to rely on other funding sources to meet our recurring operating, financing and administrative expenses.

Because we evaluate the performance and returns of our investments loaded for all acquisition costs, including acquisition fees paid to our Advisor, we have and expect to primarily fund acquisition expenses from the remaining proceeds of our Initial Public Offering and property related debt financing. However, acquisition costs are a use of operating cash, and in accordance with GAAP, acquisition expenses are a deduction to cash flow from operating activities. Accordingly, as our acquisition activity continues, we expect our GAAP reported cash flow from operating activities to be affected by the magnitude of our acquisitions.

We also expect to fund redemptions of our common stock pursuant to our share redemption program, the limitations of which are further described in Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds", from our cash balances, cash flow from operating activities and the other sources noted in our discussion of short-term and long-term liquidity. For the year ended December 31, 2011, redemptions increased to $17.8 million compared to $16.0 million in the comparable period in 2010.

Further, our board approved redemptions of $15.7 million payable prior to March 31, 2012. This compares to $5.3 million paid in the first quarter of 2011. If this trend continues, we will have to reserve additional cash for redemptions, which could reduce the amount available for new investments.

We intend to use the $150 million credit facility to provide greater flexibility in our cash management and to provide funding on an interim basis for our other short-term needs. If circumstances provide us with incentives to acquire investments in all-cash transactions, we may draw on the credit facility for the funding. When we have excess cash, we have the option to pay down the facility, which we have done beginning in the second half of 2011. As required by most credit facility lenders, our credit facility provides for a minimum balance, which for our facility is $10 million. The total borrowings we are eligible to draw depends upon the value of the collateral we have pledged. As of December 31, 2011, we may additionally draw approximately $118.0 million. Future borrowings under the credit facility are subject to periodic revaluations, either increasing or decreasing available borrowings. The carrying amount of the credit facility and the average interest rate for different periods is summarized as follows (amounts in millions):

	December 31, 2011		For the Year Ended December 31, 2011		
	Balance Outstanding	Average Rate[(a)]	Average Balance Outstanding[(b)]	Average Rate[(a)]	Maximum Balance Outstanding
Borrowings	$10.0	2.4%	$57.7	2.3%	$113.0

(a) The average rate is based on month-end rates for the period.

(b) The range of our outstanding balances was $10.0 million to $113.0 million. The balances fluctuate due to the timing and magnitude of investment acquisitions and cash balances primarily related to the gross proceeds raised in our Initial Public Offering.

Long-Term Liquidity, Acquisitions, Dispositions and Property Financing

Our primary funding source for investments is the remaining proceeds we received from our Initial Public Offering, joint venture arrangements, debt financings and dispositions. Our Initial Public Offering terminated on September 2, 2011, with gross and net proceeds from our Initial Public Offering of $1.46 billion and $1.30 billion, respectively. Now that our Initial Public Offering is closed, we are dependent on the short-term and long-term liquidity sources discussed in this section.

As discussed above, we have $655.5 million of cash and cash equivalents as of December 31, 2011 and we expect to use a substantial portion of these funds for additional investments in multifamily communities and to refinance existing mortgage and construction financings. The actual amount invested will depend on the extent we are able to supplement these funds with other long term sources as discussed below or the extent to which we utilize funds for distributions and redemptions related to our common stock or other uses.

We may make equity or debt acquisitions in individual multifamily communities, portfolios or mergers with other real estate companies. The advantage of portfolio or merger acquisitions is that larger amounts can be deployed more quickly.

We may also increase the number and diversity of our investments by entering into Co-Investment Ventures, such as we have done with partners such as the BHMP Co-Investment Partner, the MW Co-Investment Partner or other Co-Investment Venture partners. As of December 31, 2011, approximately $6.9 million of PGGM's $300 million commitment remains unfunded; however, in the event that certain investments are refinanced or new property debt is placed within two years from the date of the acquisition, the amount of unfunded commitment may be increased. PGGM is an investment vehicle for Dutch pension funds. We understand PGGM has assets that exceed over 4 billion euro. Accordingly, we believe PGGM has adequate financial resources to meet its funding commitments and its BHMP CO-JV obligations. As of December 31, 2011, we do not have any firm commitments from other entities.

As of December 31, 2011, if the remaining BHMP Co-Investment Partner's funding commitment is drawn on, our corresponding share of the BHMP CO-JVs would be approximately $8.5 million. We anticipate using the remaining proceeds of the primary portion of our Initial Public Offering and other sources described in this section to fund any amounts required. As of December 31, 2011, other than the developments described above, we do not have any firm commitments to fund any other Co-Investment Ventures.

As of December 31, 2011, we have three wholly owned debt investments and two debt investments through BHMP CO-JVs. The full amount of the commitment has been funded for each of these debt investments. Other than as discussed below under "Contractual Obligations" related to the Grand Reserve Property Entity, we believe each of the borrowers are in compliance with our debt agreements.

As of December 31, 2011, we and our BHMP CO-Investment Partner have six equity investments in Property Entities that include other unaffiliated third party owners. These unaffiliated third parties have contributed $35.0 million to Property Entities as of December 31, 2011. These Property Entities also have property debt and/or other joint venture obligations, and in certain cases guarantees by affiliates of the unaffiliated third parties. As of December 31, 2011, these unaffiliated third parties are in compliance with these obligations. In the event that these parties are unable to meet their share of joint venture obligations in the future, there could be adverse consequences to the operations of the respective multifamily community, and we and our BHMP Co-Investment Venture partner may have to fund any deficiency. Our share of such deficiency could be significant, but we believe would be funded from the sources described in this section.

For each equity investment, we will also evaluate the use of new or existing debt, including our $150 million credit facility. Accordingly, depending on how the investment is structured, we may utilize financing at our company level (primarily related to our wholly owned investments), at the Co-Investment Venture level or at the Property Entity level, where there are unaffiliated third party partners. As a part of the BHMP CO-JV and MW CO-JV governing agreements, the BHMP CO-JVs and MW CO-JVs shall not have individual or aggregate permanent financing leverage greater than 65% of the Co-Investment Venture's property fair values unless the Co-Investment Partner approves a greater leverage rate. Based on current market conditions and our investment and borrowing policies, we would expect our share of property debt financing to be approximately 50% to 60% following the investment of the proceeds raised from the Initial Public Offering and upon stabilization of our portfolio.

If property debt is used on wholly owned properties (referred to as company level debt), we expect it to be secured by the property (either individually or pooled for the credit facility), including rents and leases. Co-Investment Venture level debt, which includes Property Entity level debt, is also secured by the property, including rents and leases, has been obtained in the forms of construction financings and permanent mortgages. Co-Investment Venture level debt is not an obligation or contingency for us but does allow us to increase our access to capital. Lenders for these Co-Investment Venture mortgage loans payable have no recourse to us other than carve-out guarantees for certain matters such as environmental conditions, misuse of funds and material misrepresentations. We will generally seek non-recourse financing, particularly for stabilized communities. As of December 31, 2011, all of our debt, other than borrowings under our credit facility, is individually secured property debt.

In relation to historical averages, favorable financing terms are currently available for high quality multifamily communities. As of December 31, 2011, the weighted average interest rate on our company level communities fixed interest rate financings was 4.3%. As of December 31, 2011, the weighted average interest rate on Co-Investment Venture level fixed interest rate financings was 4.2%. During the year ended December 31, 2011, three Co-Investment Ventures closed on new mortgage financings totaling $81.0 million, at a weighted average interest rate of 4.3%. As of December 31, 2011, the total carrying amount of debt, including debt classified as held for sale and our approximate pro rata share is summarized as follows (amounts in millions; LIBOR at December 31, 2011 was 0.30%):

	Total Carrying Amount	Weighted Average Interest Rate	Maturity Dates	Our Approximate Share[(a)]
Company Level				
Permanent mortgages—fixed interest rates[(b)]	$ 46.1	4.32%	2017 to 2018	$ 46.1
Permanent mortgages—variable interest rates	24.0	Monthly LIBOR + 2.45%	2014[(d)]	24.0
Credit facility	10.0	Monthly LIBOR + 2.08%	2017	10.0
Total Company Level	80.1			80.1
Co-Investment Venture Level—Consolidated:				
Permanent mortgages—fixed interest rates	683.5	4.18%	2013 to 2019[(d)]	373.3
Permanent mortgages—variable interest rate	93.9	Monthy LIBOR + 3.64%	2013[(d)]	37.3
Construction loan—variable interest rate[(c)]	69.1	Monthy LIBOR + 2.75%	2013	29.6
	846.5			440.2
Plus: Unamortized premium adjustments from business combinations	13.7			
Total Co-Investment Venture Level—Consolidated	860.2			
Co-Investment Venture Level—Unconsolidated:				
Construction loan—variable interest rate[(c)]	37.1	Monthy LIBOR + 2.75%	2012[(d)]	15.3
Total Co-Investment Venture Level—Unconsolidated	37.1			15.3
Total All Levels	$977.4			$535.6

(a) Our approximate share for Co-Investment Ventures and Property Entities is calculated based on our share of contributed capital, as applicable. Actual cash distributions may be at different percentages or may vary over time.

(b) Includes a $15.8 million loan classified within "Liabilities related to assets held for sale" on the consolidated balance sheet.

(c) This loan was originated during the construction phase of the multifamily community. The multifamily community is now operating and stabilized.

(d) Includes loan(s) with one or two-year extension options for a fee of generally 25 basis points.

Certain of these debts contain covenants requiring the maintenance of certain operating performance levels. As of December 31, 2011, we believe the respective borrowers were in compliance with these covenants. The above table excludes inter entity debts owed to Co-Investment Ventures or us and does not include debt of Property Entities in which a Co-Investment Venture has not made an equity investment.

Contractual principal payments for each of the five subsequent years and thereafter are as follows (in millions):

Years	Company Level	Consolidated Co-Investment Venture Level	Unconsolidated Co-Investment Venture Level	Our Share
2012	$ —	$ 3.3	$37.1	$ 17.1
2013	$ —	$211.9	$ —	$ 92.9
2014	$24.0	$ 3.3	$ —	$ 25.8
2015	$ 0.2	$ 80.6	$ —	$ 44.5
2016	$ 0.6	$164.7	$ —	$ 91.1
2017 and Thereafter	$55.3	$382.7	$ —	$264.2

We would expect to refinance these borrowings at or prior to their respective maturity dates. There is no assurance that at those times market terms would allow financings at comparable interest rates or leverage levels. In addition, we would anticipate that for some of these communities, lower leverage levels may be necessary or beneficial and may require additional equity or capital contributions from us or the Co-Investment Venture partners. We expect to use proceeds from our Initial Public Offering or other sources discussed in this section to fund any such additional capital contributions.

Although the Property Entity construction loans payable are not our direct responsibility, these construction loans payable will require permanent financing at their maturity dates, including any extension options. In obtaining permanent financing, we, the Co-Investment Venture, or Property Entity may be required to pay off or partially pay down the construction loans payable. During 2009, 2010, and 2011, the Co-Investment Ventures made additional equity investments in six multifamily communities to retire or partially pay down other construction loans. Our share of these loan payments was approximately $72.8 million. Generally, the instances where the entire loans were paid off were due to situations where the Co-Investment Venture was able to acquire 100% of the ownership interest in the multifamily community and the lenders were not willing to reduce the interest rate to market or were willing to accept a discount to extinguish the construction loan. Generally, the instances where the loans were partially paid down were due to situations where the Co-Investment Venture acquired less than 100% of the ownership in a community or the Co-Investment Venture was seeking short-term bridge financing, and the lenders required lower leverage. We believe we bettered our economic position in each of these situations, either from a loan discount, a loan extension, priority distribution terms and/or the ability to refinance at lower interest rates. Although each situation has its own circumstances and involves different lenders and third party owners, we, the Co-Investment Ventures, or Property Entities may decide to make additional investments in the remaining two multifamily communities which have construction loans. Our share of any financing pay downs for the other Property Entities could also be significant and we would expect to use the remaining proceeds from our Initial Public Offering or other sources discussed in this section to fund any such amounts. Such fundings could affect our ability to make other investments.

GSEs have been an important financing source for multifamily communities. Currently, the U.S. Government is discussing potential restructurings of the GSEs including possible privatizations. As of December 31, 2011, approximately 55% of all permanent financings currently outstanding by us, the Co-Investment Ventures and Property Entities were originated by GSEs. However, beginning in 2010, other loan providers, primarily insurance companies and to a lesser extent banks, have been a greater source for multifamily community financing, and we expect this trend to continue. Accordingly, if the GSEs are restructured, we believe there are or will be sufficient other lending sources to provide financing to the multifamily sector; however in such an event, the cost of financing could increase.

Additional sources of long term liquidity may be increased leverage on our existing investments. As of December 31, 2011, the leverage on our portfolio, as measured by GAAP cost, was approximately

48%. Through refinancings, we may be able to generate additional liquidity by increasing this leverage to our target leverage of 50-60%. In addition, as of December 31, 2011, two of our Co-Investment Ventures have multifamily communities with total carrying values of approximately $77.1 million that are not encumbered by any secured debt.

We also evaluate existing financing terms in light of current market terms. If more favorable terms can be obtained, considering prepayment costs and availability and other costs of refinancing, we may also prepay existing debt. Beginning in September 2010, we, BHMP CO-JVs or Property Entities have refinanced three loans payable, replacing one fixed rate mortgage loan that was at a 6.17% interest rate with a new mortgage loan at 3.79%. The other two refinancings involved replacing floating construction loans with long term mortgage loans. As market interest rates for operating, high quality multifamily communities are at favorable long term interest rates, we may be able to replace higher interest rate debt. If similar opportunities become available, we expect to use the remaining proceeds from our Initial Public Offering and other sources described in this section to fund our portion of any such refinancing.

We may use our credit facility to provide bridge or long-term financing for our wholly owned communities. Where the credit facility is used as bridge financing, we would use proceeds on a temporary basis until we could secure permanent financing. The proceeds of such permanent financing would then be available to repay borrowings under the credit facility. However, the credit facility may be used on a longer term basis, similar to permanent financing.

Other potential future sources of capital may include proceeds from arrangements with other joint venture owners, proceeds from the sale of our investments, if and when they are sold, and undistributed cash flow from operating activities. We may also sell our debt or equity securities. We anticipate that within four to six years after the termination of our Initial Public Offering we will begin the process of either listing our common stock on a national securities exchange or liquidating our assets, depending on the then current market conditions.

Dispositions may also be a source of capital which may be recycled into investments in multifamily communities with higher long-term growth potential or into other investments with more favorable earnings prospects. We may also use sales proceeds for other uses, including distributions on our common stock. Any such dispositions will be on a selective basis as opportunities present themselves, where we believe current investments have achieved attractive pricing and alternative multifamily investments may provide for higher total returns. Other selection factors may include the age of the community, where we would look to dispose of properties before major improvements were required, increasing risk of competition, changing sub-market fundamentals, and compliance with applicable federal REIT tax requirements. We completed our first dispositions during 2011, generating cash proceeds of $128.3 million, gains on sale of $5.7 million and increases to additional paid-in capital of $39.6 million.

Our development program includes both equity and loan investments. Equity investments are structured on our own account or with Co-Investment Partners. Loan investments include mezzanine loans and land loans. Most of the land loans include options to convert into equity at our option. The following tables, which may be subject to finalization of budgets, permits and plans, summarize our equity and loan multifamily development program as of December 31, 2011 (amounts in millions):

Equity Investments

Community	Location	Type	Units	Costs Incurred	Total Estimated Costs	Our Share of Total Estimated Costs	Estimated Completion Date	Effective Ownership[a]
7 Rio[b]	Austin, TX	Co-Investment Venture	221	$ 6.1	$ 53.7	$53.7	3rd Quarter 2014	90%
Allegro Phase II	Addison, TX	Wholly owned	121	1.7	16.1	16.1	3rd Quarter 2013	100%
Renaissance Phase II	Concord, CA	BHMP CO-JV	163	7.9	35.5	19.5	3rd Quarter 2014	55%
			505	$15.7	$105.3	$89.3		

(a) Our effective ownership represents our share of contributed capital and may change over time as certain milestones related to budgets, plans and completion are achieved.

(b) If the development achieves certain milestones primarily related to approved budgets less than maximum amounts, we will reimburse the Co-Investment Venture partner for their equity ownership and we will be responsible for all of the development costs. The Co-Investment Venture partner would then be entitled to back end interests based the development achieving certain total returns.

Loan Investments

Community	Location	Type	Units	Total Commitment	Amounts Advanced at December 31, 2011	Fixed Interest Rate	Maturity Date	Effective Ownership[a]
Brookhaven[b]	Atlanta, GA	Land loan option	295	$ 4.2	$ 4.2	10%	August 2012	100%
Pacifica[c]	Costa Mesa, CA	Land loan option	113	4.9	4.9	10%	October 2012	100%
The Domain	Houston, TX	Mezzanine loan	320	10.5	9.1	14%	April 2014	100%
			728	$19.6	18.2			

(a) Effective ownership represents our current ownership percent in the mezzanine or land loan.

(b) Subsequent to year end we elected not to convert our land loan into an equity investment. Accordingly, the amount for total commitment represents the amount funded.

(c) Our option period to convert our land loan to an equity investment expires April 1, 2012. If we elect to convert to an equity investment, we anticipate that we will be responsible for funding all of the development costs and the Co-Investment Partner will be entitled to back end interests based on the development achieving certain total returns.

As of December 31, 2011, for the developments in which we currently have an equity interest, we have started initial development activities. However, we have only entered into significant commitments for Allegro Phase II. We expect to enter into construction contracts for 7 Rio in the first half of 2012 and Renaissance Phase II in the second half of 2012.

Subsequent to December 31, 2011, we acquired land, plans and other predevelopment assets for a development in Delray, Florida for a cash price of $7.6 million. The development is a planned 180 unit multifamily community with a total estimated cost of $32.2 million. We expect to enter into construction contracts in the first half of 2012. We intend to utilize existing cash balances, our credit facility, or a construction loan to finance our share of the development costs.

Due to their recent construction, recurring property capital expenditures for our multifamily communities are not expected to be significant in the near term. For recent stabilized acquisitions, we substantially funded our share of any deferred maintenance at the time of the acquisition. As of December 31, 2011, the remaining amounts of deferred maintenance for these recent acquisitions is not significant. For the remainder of our multifamily communities, we would expect recurring capital expenditures to be funded from the Co-Investment Ventures or our cash flow from operating activities. For non-recurring capital expenditures, we would look to the capital sources noted above. Other than as discussed above, as of December 31, 2011, neither we nor any of the Co-Investment Ventures have any other significant commitments for property capital expenditures for operating multifamily communities.

In February 2012, the Grand Reserve BHMP CO-JV settled a dispute concerning the enforceability of an option agreement with the Grand Reserve Property Entity to acquire the Grand Reserve multifamily community. In the settlement, the BHMP CO-JV agreed to acquire the Grand Reserve multifamily community by assuming the existing construction loan of $26.2 million and other standard operating liabilities and receiving $0.3 million in cash and all other standard operating assets of the multifamily community. Simultaneous with the settlement closing, the BHMP CO-JV paid off the construction loan. We contributed the full amount of the payoff in exchange for an additional 32.5% interest in the BHMP CO-JV.

Distributions

The distributions funded with cash for the years ended December 31, 2011 and 2010 were approximately $35.6 million and $25.1 million, respectively. Distributions funded through the issuance of shares under our DRIP for the years ended December 31, 2011 and 2010 were approximately $44.1 million and $28.2 million, respectively. For the years ended December 31, 2011 and 2010, cash flow from operating activities was approximately $31.7 million and $2.6 million, respectively. For the years ended December 31, 2011 and 2010, distributions to stockholders funded with cash exceeded cash flow from operating activities by $3.9 million and $22.5 million, respectively. During 2011, our cash distributions in excess of our cash flow from operations were funded from our available cash. The primary sources of our available cash were the remaining proceeds from our Initial Public Offering and dispositions. We terminated our Initial Public Offering in September 2011 raising net proceeds in 2011 of $539.6 million. In May 2011, we sold our investment in the Waterford BHMP CO-JV, realizing cash proceeds of $27.6 million and a GAAP gain of $18.1 million. In December 2011, we sold partial interests in multifamily communities to the MW Co-Investment Partner, realizing cash proceeds of $101.0 million, a GAAP gain of $5.7 million and an increase in additional paid-in capital of $39.6 million. During 2010, the primary source for our distributions in excess of our cash flow from operations was the proceeds from our Initial Public Offering. For more information about our distributions, our distribution policy, and the reduction in our distribution rate beginning in April 2012 see Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities—Distributions" of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

Our primary off-balance sheet arrangements relate to investments in unconsolidated real estate joint ventures by us or through consolidated Co-Investment Ventures. As of December 31, 2011, we had one investment in an unconsolidated joint venture, Veritas, which was made through the Veritas BHMP CO-JV. While we consolidate the Veritas BHMP CO-JV, the investment in the Veritas Project Entity is recorded on the equity basis of accounting. This investment is not a variable interest entity and is not consolidated because the Veritas BHMP CO-JV's ownership interest in the Veritas Property Entity is as a limited partner, and we or the BHMP CO-JV do not control the Veritas Property Entity. See the "Critical Accounting Policies and Estimates" section above for additional discussions of our consolidation policies and critical assumptions.

As of December 31, 2011, the Veritas BHMP CO-JV has a mortgage loan investment outstanding in the Property Entity of $21.0 million. The Veritas Property Entity and its affiliates have provided the Veritas BHMP CO-JV with collateral interests in the underlying property, improvements, and their interests in the Veritas Property Entity. The Veritas Property Entity has also obtained additional financing that is senior to the Veritas BHMP CO-JV mezzanine loan investment and its equity investment. The senior loan is secured by the Veritas multifamily community. We or the Veritas BHMP CO-JV have no contractual obligations on this senior level financing obtained by the Property Entity. In prior years, other BHMP CO-JVs had other mezzanine loan or unconsolidated equity investments but during 2011 all of these other investments are now reported on the consolidated basis of accounting. See "Results of Operations—Fiscal year ended December 31, 2010 as compared to December 31, 2009" for discussions related to these investments.

We have no other off-balance sheet arrangements that are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

We have contractual obligations related to our mortgage loan payables, credit facility, development program and capital expenditures and maintenance of our multifamily communities. The following table summarizes our primary contractual obligations as of December 31, 2011 (amounts in millions):

	Total	2012	2013	2014	2015	2016	Thereafter
Mortgage loans							
Principal payments	$ 916.6	$ 3.3	$211.9	$27.3	$ 80.8	$165.3	$428.0
Interest expense	170.7	36.3	35.7	27.7	25.0	21.9	24.1
	1,087.3	39.6	247.6	55.0	105.8	187.2	452.1
Credit Facility[(a)]							
Principal payments	10.0	—	—	—	—	—	10.0
Interest expense and fees	14.1	2.7	2.7	2.7	2.7	2.7	0.6
	24.1	2.7	2.7	2.7	2.7	2.7	10.6
Obligations related to developments	0.2	0.2	—	—	—	—	—
Capital expenditures related to multifamily communities	0.8	0.8	—	—	—	—	—
Total	$1,112.4	$43.3	$250.3	$57.7	$108.5	$189.9	$462.7

(a) The principal amounts provided for our credit facility are based on amounts outstanding as of December 31, 2011, which are currently not due until final maturity of the credit facility. We expect to increase the borrowings under the credit facility and accordingly, the contractual principal obligations may increase in future periods. The interest expense and fees for the credit facility are based on the minimum interest and fees due as of December 31, 2011 under the credit facility. Amounts are included through the current stated maturity date of April 2017.

Substantially all of our Co-Investment Ventures include buy/sell provisions. These provisions apply to all BHMP CO-JVs and MW CO-JVs as well as our 7 Rio Co-Investment Venture. They also apply to most BHMP CO-JVs and their respective Property Entities. Under these provisions and during specific periods, a Co-Investment Partner could make an offer to purchase the interest of the other partner and the other partner would have the option to accept the offer or purchase the offering partner's interest at that price. As of December 31, 2011, no such offers are outstanding.

The Bailey's Crossing BHMP CO-JV may become obligated to purchase a limited partnership interest in the Bailey's Crossing Property Entity at a price set through an appraisal process. The obligation is for a one-year period commencing November 2011. As this amount is based on future events and valuations, we are not able to estimate this amount if exercised; however, the limited partner's invested capital as of December 31, 2011 is approximately $11.8 million. Our approximate share is $6.5 million. The 7 Rio Co-Investment Venture contains provisions where it is probable that the noncontrolling interest will be redeemed at its stated amount of $0.4 million if the development achieves certain milestones primarily related to approved budgets at less than the maximum amounts.

In February 2012, the Grand Reserve BHMP CO-JV settled a dispute concerning the enforceability of an option agreement and acquired the Grand Reserve multifamily community. See further discussion above under "Long-Term Liquidity, Acquisitions, Dispositions and Property Financing."

For each equity investment made by us or by the applicable Co-Investment Venture or Property Entity, we will evaluate requirements for capital expenditures. As of December 31, 2011, our consolidated multifamily communities have commitments for capital expenditures of $0.8 million, primarily related to recurring upgrades of multifamily units. Subsequent to December 31, 2011, we have entered into a $12.0 million construction contract with a general contractor to construct Allegro II. These construction costs are expected to be paid beginning in 2012 through the completion of the development. Additionally, we have contractual commitments for other development costs of $0.2 million for our development projects which we expect to pay in 2012.

The multifamily communities in which we have investments may have commitments to provide affordable housing. Under these arrangements, we generally receive from the resident a below-market rent, which is determined by a local or national authority. In certain arrangements, a local or national housing authority makes payments covering some or substantially all of the difference between the restricted rent paid by residents and market rents. In connection with our acquisition of The Gallery at NoHo Commons, we assumed an obligation to provide affordable housing through 2048. As partial reimbursement for this obligation, the housing authority will make level annual payments of approximately $2.0 million through 2028 and no reimbursement for the remaining 20-year period. We may also be required to reimburse the housing authority if certain operating results are achieved on a cumulative basis during the term of the agreement. At the acquisition, we recorded a liability of $14.0 million based on the fair value of terms over the life of the agreement. We will record rental revenue from the housing authority on a straight line basis, deferring a portion of the collections as deferred lease revenues. As of December 31, 2011 and 2010, we have approximately $16.7 million and $15.9 million, respectively, of carrying value for deferred lease revenues and other related liabilities. Effective February 1, 2012, the California legislature terminated the State's redevelopment agencies. We believe our obligation to provide the affordable housing for The Gallery at NoHo Commons and our other California communities is not affected; however, we are still reviewing our status with the local authorities.

Our board of directors has authorized a share redemption program. During the year ended December 31, 2011, our board of directors approved redemptions for approximately 2.0 million shares of common stock for approximately $17.8 million. During the year ended December 31, 2010, our board of directors approved redemptions for approximately 1.8 million shares of common stock for approximately $16.0 million. We have funded and intend to continue funding these redemptions from cash flow from operating activities, the remaining proceeds from our Initial Public Offering, and the other sources identified above. For more information about our share redemption program, see Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities—Share Redemption Program" of this Annual Report on Form 10-K.

On March 28, 2012, we sold the Mariposa Lofts Apartments to a third party purchaser for $40 million. The purchaser assumed $16 million mortgage note payable. As of December 31, 2011, the net carrying value of the multifamily community is $26 million. We received cash of approximately $24 million and reported a gain on sale of approximately $14 million.

Funds from Operations and Modified Funds from Operations

In addition to our net income (loss) which is presented in accordance with GAAP, we also present certain supplemental non-GAAP performance measurements. These measurements are not to be considered more relevant or accurate than the performance measurements presented in accordance with GAAP. In compliance with SEC requirements, our non-GAAP measurements are reconciled to net income, the most directly comparable GAAP performance measure. As with other non-GAAP performance measures, neither the SEC nor any other regulatory body has passed judgment on these non-GAAP performance measures.

Funds from operations ("FFO") is a non-GAAP performance financial measure that is widely recognized as a measure of REIT operating performance. We use FFO as defined as of December 31, 2011 by the National Association of Real Estate Investment Trusts ("NAREIT") to be net income (loss), computed in accordance with GAAP excluding extraordinary items, as defined by GAAP, and gains (or losses) from sales of property (including deemed sales and settlements of pre-existing relationships), plus depreciation and amortization on real estate assets, impairment write-downs of depreciable real estate or of investments in unconsolidated real estate partnerships, joint ventures and subsidiaries that are driven by measurable decreases in the fair value of depreciable real estate assets, and after related adjustments for unconsolidated partnerships, joint ventures and subsidiaries and noncontrolling interests. We believe that FFO is helpful to our investors and our management as a measure of operating performance because it excludes real estate-related depreciation and amortization, impairments of depreciable real estate, gains and losses from property dispositions, and extraordinary items, and as a result, when compared year to year, highlights the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which may not be immediately apparent from net income. Historical cost accounting for real estate assets in accordance with GAAP assumes that the value of real estate and intangibles diminishes predictably over time independent of market conditions or the physical condition of the asset. Since real estate values have historically risen or fallen with market conditions (which includes property level factors such as rental rates, occupancy, capital improvements and competition, as well as macro-economic factors such as economic growth, interest rates, demand and supply for real estate and inflation), many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, is helpful for our investors in understanding our performance. Factors that impact FFO include start-up costs, fixed costs, delay in buying assets, acquisition expenses, lower yields on cash held in accounts, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. In addition, FFO will be affected by the types of investments in our and our Co-Investment Ventures' portfolios, which include, but are not limited to, equity and mezzanine, mortgage and bridge loan investments in existing operating properties and properties in various stages of development and the accounting treatment of the investments in accordance with our accounting policies.

Since FFO was promulgated, GAAP has adopted several new accounting pronouncements, such that management, investors and analysts have considered the presentation of FFO alone to be insufficient. In addition, real estate companies that are experiencing significant acquisition activity, particularly during their initial life cycle, have not reached sustainable operations and are significantly affected by acquisition activity. While other start-up entities may also experience significant acquisition activity, other industries' acquisitions tend to be more asset focused. Under GAAP, most acquisition costs related to acquisitions of a controlling interest in real estate are expensed, while asset acquisition costs or costs related to investments in non-controlling interests are capitalized.

Accordingly, in addition to FFO, we use modified funds from operations ("Modified Funds from Operations" or "MFFO") as defined as of December 31, 2011 by the Investment Program Association

("IPA"). The IPA's Guideline 2010-01, "Supplemental Performance Measure for Publicly Registered, Non-Listed REITs: Modified Funds from Operations" defines MFFO as FFO further adjusted for the following items:

(1) acquisition fees and expenses;

(2) straight line rent amounts, both income and expense;

(3) amortization of above or below market intangible lease assets and liabilities;

(4) amortization of discounts and premiums on debt investments;

(5) gains or losses from the early extinguishment of debt;

(6) gains or losses on the extinguishment or sales of hedges, foreign exchange, securities and other derivatives holdings except where the trading of such instruments is a fundamental attribute of our operations;

(7) gains or losses related to fair value adjustments for derivatives not qualifying for hedge accounting, including interest rate and foreign exchange derivatives;

(8) gains or losses related to consolidation from, or deconsolidation to, equity accounting;

(9) gains or losses related to contingent purchase price adjustments; and

(10) adjustments related to the above items for unconsolidated entities in the application of equity accounting.

In October 2011, NAREIT clarified its definition of FFO to exclude impairment charges related to depreciable property and investments in unconsolidated real estate partnerships and joint ventures. Although IPA has not formally modified its definition of MFFO, with this clarification, we have deleted impairment charges as an adjustment to MFFO. As we have not recognized any impairment charges, this change in definition has not affected our historical reporting of FFO or MFFO.

We believe that MFFO is helpful in assisting management assess the sustainability of operating performance in future periods and, in particular, after our offering and acquisition stages are complete, primarily because it excludes acquisition expenses that affect property operations only in the period in which the property is acquired. Although MFFO includes other adjustments, the exclusion of acquisition expense and other adjustments related to business combinations are generally the most significant adjustments to us at the present time, as we are currently in our acquisition stage. Thus, MFFO provides helpful information relevant to evaluating our operating performance in periods in which there is no acquisition or business combination activity and to compare our operating performance to other real estate companies that are not incurring acquisition expenses.

As explained below, management's evaluation of our operating performance excludes the items considered in the calculation based on the following economic considerations:

- *Acquisition expenses.* In evaluating investments in real estate, including both business combinations and investments accounted for under the equity method of accounting, management's investment models and analyses differentiate costs to acquire the investment from the operations derived from the investment. Both of these acquisition costs have been and are expected to be funded from the proceeds of the primary portion of our Initial Public Offering and other financing sources and not from operations. We believe by excluding expensed acquisition costs, MFFO provides useful supplemental information that is comparable for each type of our real estate investments and is consistent with management's analysis of the investing and operating performance of our properties. Acquisition expenses include those paid to our Advisor or third parties.

- *Gains or losses related to fair value adjustments for derivatives not qualifying for hedge accounting and gains or losses related to contingent purchase price adjustments.* Each of these items relates to a fair value adjustment, which is based on the impact of current market fluctuations and underlying assessments of general market conditions and specific performance of the holding, which may not be directly attributable to our current operating performance. As these gains or losses relate to underlying long-term assets and liabilities, where we are not speculating or trading assets, management believes MFFO provides useful supplemental information by focusing on the changes in our core operating fundamentals rather than changes that may reflect anticipated gains or losses.

- *Adjustments for amortization of above or below market intangible lease assets.* Similar to depreciation and amortization of other real estate related assets that are excluded from FFO, GAAP implicitly assumes that the value of intangibles diminishes predictably over time and that these charges be recognized currently in revenue. Since real estate values and market lease rates in the aggregate have historically risen or fallen with market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the realized economics of the real estate.

- *Adjustments for straight line rents and amortization of discounts and premiums on debt investments.* In the proper application of GAAP, rental receipts and discounts and premiums on debt investments are allocated to periods using various systematic methodologies. This application will result in income recognition that could be significantly different than underlying contract terms. By adjusting for these items, MFFO provides useful supplemental information on the realized economic impact of lease terms and debt investments and aligns results with management's analysis of operating performance.

- *Adjustment for gains or losses related to early extinguishment of hedges, debt, consolidation or deconsolidation and contingent purchase price.* Similar to extraordinary items excluded from FFO, these adjustments are not related to our continuing operations. By excluding these items, management believes that MFFO provides supplemental information related to sustainable operations that will be more comparable between other reporting periods and to other real estate operators.

Many of these adjustments are similar to adjustments required by SEC rules for the presentation of proforma business combination disclosures, particularly acquisition expenses, gains or losses recognized in business combinations and other activity not representative of future activities. However, investors are cautioned that neither FFO nor MFFO is a pro forma measurement.

By providing MFFO, we believe we are presenting useful information that also assists investors and analysts to better assess the sustainability of our operating performance after our acquisition stage is completed. We also believe MFFO is a recognized measure of sustainable operating performance by the real estate industry. MFFO is useful in comparing the sustainability of our operating performance after our acquisition stage is completed with the sustainability of the operating performance of other real estate companies that are not as involved in acquisition activities or as affected by other MFFO adjustments. However, investors are cautioned that MFFO should only be used to assess the sustainability of our operating performance after our acquisition stage is completed, as it excludes acquisition costs that have a negative effect on our operating performance and the reported book value of our common stock and stockholders' equity during the periods in which properties are acquired.

FFO or MFFO should not be considered as an alternative to net income (loss), nor as an indication of our liquidity, nor are they indicative of funds available to fund our cash needs, including our ability to fund distributions. In particular, as we are currently in the acquisition phase of our life cycle, acquisition costs and other adjustments which are increases to MFFO are, and may continue to be, a significant use of cash, an expense in the determination of our GAAP net income, and a use of our cash flow from operating activities. Additionally, the exclusion of impairments limits the usefulness of FFO and MFFO as historical operating performance measures for a company such are ours where the disclosed value of a share of common stock is an estimated value, and there is no net assets value determination during the offering stage and for a period thereafter. FFO and MFFO are not useful measures in evaluating net asset value because impairments are taken into account in determining net asset value but not in determining FFO and MFFO. Investors are therefore cautioned that we may not recover any impairment charges. MFFO also excludes rental revenue adjustments and unrealized gains and losses related to certain other fair value adjustments. Although the related holdings are not held for sale or used in trading activities, if the holdings were sold currently, it could affect our operating results and any fair value losses may not be recoverable from future operations. Accordingly, both FFO and MFFO should be reviewed in connection with other GAAP measurements. Our FFO and MFFO as presented may not be comparable to amounts calculated by other REITs.

The following table presents our calculation of FFO and MFFO and provides additional information related to our operations (in millions, except per share amounts):

	For the Year Ended December 31,		
	2011	**2010**	**2009**
Net income (loss) attributable to common stockholders	$ 98.6	$(34.6)	$ (8.3)
Real estate depreciation and amortization, net of noncontrolling interests[(a)]	56.1	43.1	7.6
Gain on sale of joint venture interests[(b)]	(5.7)	—	—
FFO attributable to common stockholders	149.0	8.5	(0.7)
Gain on revaluation of equity on a business combination[(c)]	(121.9)	(2.7)	—
Gain on early extinguishment of debt	—	(0.1)	—
Acquisition expenses, net of noncontrolling interests[(d)]	6.3	12.1	5.0
Straight-line rents, net of noncontrolling interests	0.8	0.9	0.3
MFFO attributable to common stockholders	$ 34.2	$ 18.7	$ 4.6
GAAP weighted average common shares[(e)]	138.1	83.5	32.5
Net income (loss) per common share	$ 0.71	$(0.41)	$(0.26)
FFO per common share	$ 1.08	$ 0.10	$(0.02)
MFFO per common share	$ 0.25	$ 0.22	$ 0.14

(a) The real estate depreciation and amortization amount includes our share of consolidated real estate-related depreciation and amortization of intangibles, less amounts attributable to noncontrolling interests, and our similar estimated share of unconsolidated Co-Investment Venture depreciation and amortization, which is included in earnings of unconsolidated real estate joint venture investments.

(b) As provided in our definition of FFO, we excluded in our computation of FFO above the $5.7 million gain from the sale of our partial interests in six multifamily communities to the MW CO-JV in December 2011. In conjunction with this transaction, we realized cash proceeds of $100.6 million and an increase to paid-in capital of $39.6 million.

(c) As provided in our definition of MFFO, we excluded in our computation of MFFO above the $121.9 million gain on revaluation of equity on business combinations in 2011. In May 2011, the primary asset acquired in a business combination, the Waterford Place multifamily community, was sold, providing proceeds, net of the assumption of the related mortgage loan and settle of other net assets, liabilities and noncontrolling interest, of approximately $27.8 million and a gain on revaluation of equity of $18.1 million. Additionally, in December 2011, the business combinations of our investments in the BHMP CO-JVs and MW CO-JVs resulted in an aggregate gain of approximately $103.8 million. The gain was primarily a function of the recognition of recording the assets of the multifamily communities at their fair value on December 1, 2011.

(d) Acquisition expenses include our share of expenses incurred by us, less amounts attributable to noncontrolling interests, and our unconsolidated investments in real estate joint ventures, including amounts incurred with our Advisor. Acquisition expenses also include operating expenses that were identified or given credit by the seller in the acquisition but are expensed in accordance with GAAP.

(e) During the year ended December 31, 2011, GAAP weighted average common shares were 138.1 million resulting in an increase of 65% from the comparable period of 2010. The increases are due to increases in number of shares sold under our Initial Public Offering during 2011.

As noted above, we believe FFO is helpful to investors as measures of operating performance and MFFO is useful to investors to assess the sustainability of our operating performance after our acquisition stage is completed. FFO and MFFO are not indicative of our cash available to fund distributions since other uses of cash, such as capital expenditures and principal payment of debt related to investments in unconsolidated real estate joint ventures, are not deducted when calculating FFO and MFFO.

We believe the current definition of MFFO is consistent with industry standards for our operations and provides useful information to investors and management, subject to the limitations described above. However, MFFO is not a replacement for financial information presented in conformity with GAAP and should be reviewed in connection with other GAAP measurements.

New Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (the "FASB") issued further clarification on when a loan modification or restructuring is considered a troubled debt restructuring. In determining whether a loan modification represents a troubled debt restructuring, an entity should consider whether the debtor is experiencing financial difficulty and the lender has granted a concession to the borrower. This guidance is to be applied retrospectively, with early application permitted. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011. The adoption of this guidance did not have a material impact on our consolidated financial statements or disclosures.

In May 2011, the FASB issued updated guidance for fair value measurements. The guidance amends existing guidance to provide common fair value measurements and related disclosure requirements between GAAP and International Financial Reporting Standards ("IFRS"). This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating this guidance to determine if it will have a material impact on our consolidated financial statements or disclosures.

Inflation

The real estate market has not been affected significantly by inflation in the past several years due to a relatively low inflation rate. The majority of our fixed-lease terms are less than 12 months and reset to market if renewed. The majority of our leases also contain protection provisions applicable to reimbursement billings for utilities. Should inflation return, due to the short term nature of our leases, multifamily investments are considered good inflation hedges.

REIT Tax Election

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code and have qualified as a REIT since the year ended December 31, 2007. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income to our stockholders. As a REIT, we generally will not be subject to federal income tax at the corporate level. We are organized and operate in such a manner as to qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to remain qualified as a REIT.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve the financing objectives, we borrow primarily at fixed rates or variable rates with what we believe are the lowest margins available and in some cases, the ability to convert variable rates to fixed rates either directly or through interest rate hedges. With regard to variable rate financing, we manage interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

As of December 31, 2011, we had approximately $743.3 million of outstanding consolidated mortgage debt, including mortgage debt included in liabilities related to assets held for sale, at a weighted average fixed interest rate of approximately 4.2%, $187.0 million of variable rate consolidated mortgage debt on our at a variable interest rate of monthly LIBOR plus 3.2%, and the outstanding amount under our credit facility was $10.0 million as of December 31, 2011, with a weighted average of monthly LIBOR plus 2.08%. As of December 31, 2011, we have five consolidated note receivables with a carrying value of approximately $45.2 million and a weighted average fixed interest rate of 12.2%.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt or fixed rate real estate loan receivable unless such instruments are traded or are otherwise terminated prior to maturity. However, interest rate changes will affect the fair value of our fixed rate instruments. As we do not expect to trade or sell our fixed rate debt instruments prior to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

Conversely, movements in interest rates on variable rate debt, loans receivable and real estate-related securities would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. As of December 31, 2011, we did not have any loans receivable or real estate-related securities with variable interest rates. We are exposed to interest rate changes primarily as a result of our variable rate debt used to acquire or hold our consolidated multifamily communities and our consolidated cash investments. We quantify our exposure to interest rate risk based on how changes in interest rates affect our net income. We consider changes in the 30-day LIBOR rate to be most indicative of our interest rate exposure as it is a function of the base rate for our credit facility and is reasonably correlated to changes in our earnings rate on our cash investments. We consider increases of 0.5%, 1.0% and 1.5% in the 30-day LIBOR rate to be reflective of reasonable changes we may experience in the current interest rate environment. The table below reflects the annual effect of an increase in the 30-day LIBOR to our net income related to our significant variable interest rate exposures for our wholly owned assets and liabilities as of December 31, 2011 (amounts in millions, where positive amounts reflect an increase in income and bracketed amounts reflect a decrease in income):

	Increases in Interest Rates		
	1.5%	1.0%	0.5%
Variable rate mortgage debt and credit facility interest expense	$(3.0)	$(2.0)	$(1.0)
Cash investments	9.8	6.6	3.3
Total	$ 6.8	$ 4.6	$ 2.3

There is no assurance that we would realize such income or expense as such changes in interest rates could alter our asset or liability positions or strategies in response to such changes. The table also does not reflect changes in operations related to our unconsolidated investments in real estate joint ventures, where we do not have control over financing matters and substantial portions of variable rate debt related to multifamily development projects where interest is capitalized.

We do not have any foreign operations and thus we are not exposed to foreign currency fluctuations as of December 31, 2011.

Item 8. Financial Statements and Supplementary Data

The information required by this Item 8 is included in our Consolidated Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

Item 9. Change in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our Chief Executive Officer and Chief Financial Officer, evaluated, as of December 31, 2011, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2011 to provide reasonable assurance that information required to be disclosed by us in this report is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

We believe, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated, as of December 31, 2011, the effectiveness of our internal control over financial reporting using the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway

Commission. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our internal controls, as of December 31, 2011, were effective in providing reasonable assurance regarding reliability of financial reporting.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Adoption of Amended and Restated Valuation Policy

On March 19, 2012, our board of directors adopted the Second Amended and Restated Policy for Estimation of Common Stock Value (the "Amended and Restated Valuation Policy") to be effective immediately. At the same time, our board of directors approved certain amendments to our share redemption program and DRIP. These amendments are intended to simplify and clarify the manner in which our estimated value per share, and the related pricing under our share redemption program and DRIP, may be adjusted in the event that our board of directors makes special distributions that it designates to cause such adjustments.

Under the Amended and Restated Valuation Policy, if we make a specially designated distribution to stockholders, the estimated value per share will be reduced by the per share amount of such specially designated distribution, and we will provide the estimated value per share as adjusted in a current report on Form 8-K or any other appropriate public filing with the SEC.

In all other material respects, the terms of our valuation policy will remain unchanged. The information set forth herein with respect to the Amended and Restated Valuation Policy does not purport to be complete in scope and is qualified in its entirety by the full text of the Amended and Restated Valuation Policy, which is being filed as Exhibit 99.1 and is incorporated into this report by reference.

Adoption of Amended and Restated Distribution Reinvestment Plan

On March 19, 2012, our board of directors adopted the Third Amended and Restated Distribution Reinvestment Plan (the "Amended and Restated DRIP"). At the same time, our board of directors approved certain amendments to our valuation policy. These amendments are intended to simplify and clarify the manner in which our estimated value per share, and the related pricing under our DRIP, may be adjusted in the event that our board of directors makes special distributions that it designates to cause such adjustments. We expect that the Amended and Restated DRIP will be effective no later than April 27, 2012 upon giving participants the requested notice under the current plan.

Under the Amended and Restated DRIP, prior to the termination of our DRIP offering of shares currently registered with the SEC (File No. 333-148414), shares under the plan will be priced at: (1) prior to the first the valuation of our shares of common stock conducted by our board of directors or a committee thereof (as opposed to a valuation that is based solely on the offering price of securities in the most recent offering) (the "Initial Board Valuation") under our valuation policy, 95% of the current estimated value per share (the "Valuation") as determined in accordance with the valuation policy; or (2) on or after the Initial Board Valuation, 100% of the current Valuation.

In all other material respects, the terms of our DRIP will remain unchanged. The information set forth herein with respect to the Amended and Restated DRIP does not purport to be complete in scope and is qualified in its entirety by the full text of the Amended and Restated DRIP, which is being filed as Exhibit 4.4 and is incorporated into this report by reference.

Adoption of Second Amended and Restated Share Redemption Program

On March 19, 2012, our board of directors adopted the Second Amended and Restated Share Redemption Program. See Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities—Share Redemption Program" of this Annual Report on Form 10-K.

Letter Agreement with Advisor

On March 19, 2012, we entered into a letter agreement with our Advisor pursuant to which our Advisor waived the difference between asset management fees calculated on the basis of value of our investments and asset management fees calculated on the basis of cost of our investments for the quarter ended December 31, 2011, resulting in a waiver of approximately $140,000.

The information set forth above with respect to the letter agreements does not purport to be complete in scope and is qualified in its entirety by the full text of the letter agreements, which are filed as Exhibit 10.9 hereto and are incorporated into this report by reference.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

Because our directors take a critical role in guiding our strategic direction and oversee our management, they must demonstrate broad-based business and professional skills and experiences, concern for the long-term interests of our stockholders, and personal integrity and judgment. In addition, our directors must have time available to devote to board activities and to enhance their knowledge of our industry. As described further below, we believe our directors have the appropriate mix of experiences, qualifications, attributes and skills required of our board members in the context of the current needs of our company.

Robert M. Behringer, 63, is our Chairman of the Board and a director. Mr. Behringer is also the founder, sole manager and Chairman of Behringer Harvard Holdings, the indirect parent company of our Advisor. Mr. Behringer also serves as Chairman of the Board and a director of Behringer Harvard REIT I, Inc. ("Behringer Harvard REIT I"), Behringer Harvard Opportunity REIT I, Inc. ("Behringer Harvard Opportunity REIT I") and Behringer Harvard Opportunity REIT II, Inc. ("Behringer Harvard Opportunity REIT II"), all publicly registered real estate investment trusts. In addition to overseeing various real estate transactions, as an officer and director of Behringer Harvard-sponsored programs and their advisors, Mr. Behringer has overseen the acquisition, structuring and management of various types of real estate-related loans, including mortgages and mezzanine loans. Since 2002, Mr. Behringer has been a general partner of Behringer Harvard Short-Term Opportunity Fund I LP ("Behringer Harvard Short-Term Opportunity Fund"), a publicly registered real estate limited partnership. Mr. Behringer also controls the general partners of Behringer Harvard Strategic Opportunity Fund I LP ("Behringer Harvard Strategic Opportunity Fund I") and Behringer Harvard Strategic Opportunity Fund II LP ("Behringer Harvard Strategic Opportunity Fund II"), private real estate limited partnerships.

From 1995 until 2001, Mr. Behringer was Chief Executive Officer of Harvard Property Trust, Inc., a privately-held REIT formed by Mr. Behringer that has been liquidated and that had an asset value of approximately $174 million before its liquidation. Before forming Harvard Property Trust, Inc., Mr. Behringer invested in commercial real estate as Behringer Partners, a sole proprietorship formed in 1989 that invested in single asset limited partnerships. From 1985 until 1993, Mr. Behringer was Vice President and Investment Officer of Equitable Real Estate Investment Management, Inc. (now known as Lend Lease Real Estate Investments, Inc.), one of the largest pension funds advisors and owners of real estate in the United States. While at Equitable, Mr. Behringer was responsible for its General Account Real Estate Assets located in the south-central United States, which included working on mortgage loan "workouts" and restructurings. The portfolio included institutional-quality office, industrial, retail, apartment and hotel properties exceeding 17 million square feet with a value of approximately $2.8 billion. Mr. Behringer's experience at Equitable required him to negotiate unique terms (such as loan length, interest rates, principal payments, loan covenants (i.e., debt to equity ratios), collateral, guaranties and general credit enhancements) for each restructured loan, specifically tailored to the debtor's particular facts and circumstances and market conditions. Although Mr. Behringer was a significant participant in acquisitions, management, leasing, redevelopment and dispositions, his primary responsibility was to increase net operating income and the overall value of the portfolio.

Mr. Behringer has over 25 years of experience in real estate investment, management and finance activities, including approximately 140 different properties with over 24 million square feet of office, retail, industrial, apartment, hotel and recreational space. Since the founding of the Behringer Harvard organization and through December 31, 2011, Mr. Behringer's experience includes over 170 properties, with over 40 million square feet of office, retail, industrial, apartment, hotel and recreational properties. Mr. Behringer is a Certified Property Manager, Real Property Administrator and Certified Hotel Administrator, holds FINRA Series 7, 24 and 63 registrations and is a member of the Institute of Real Estate Management, the Building Owners and Managers Association, the Urban Land Institute and the Real Estate Council. Mr. Behringer was also a licensed certified public accountant for over 20 years. Mr. Behringer received a Bachelor of Science degree from the University of Minnesota.

Our board of directors has concluded that Mr. Behringer is qualified to serve as Chairman of the Board and one of our directors for reasons including his over 25 years of experience in real estate investing and having sponsored numerous public and private real estate programs. With this background, we believe Mr. Behringer has the depth and breadth of experience to implement our business strategy. Further, as Chairman of the Board and a director of Behringer Harvard REIT I, Behringer Harvard Opportunity REIT I and Behringer Harvard Opportunity REIT II, he has an understanding of the requirements of serving on a public company board and the leadership experience necessary to serve as the Chairman of the Board of our company.

Robert S. Aisner, 65, is our Chief Executive Officer and also serves as one of our directors. In addition, Mr. Aisner serves as Chief Executive Officer of our Advisor and our property manager. In addition, Mr. Aisner serves as President, Chief Executive Officer and a director of Behringer Harvard REIT I, as a director and Vice Chairman of the Board of Behringer Harvard Opportunity REIT I and Behringer Harvard Opportunity REIT II and as Chairman of the Board of Behringer Harvard Multifamily REIT II, Inc. ("Behringer Harvard Multifamily REIT II") (as of the date of this Annual Report on Form 10-K, its initial registration statement has been filed, but not yet declared effective). Mr. Aisner is also Chief Executive Officer and President of Behringer Harvard Holdings, the indirect parent company of our Advisor. Mr. Aisner has over 30 years of commercial real estate experience. In addition to Mr. Aisner's commercial real estate experience, as an officer and director of Behringer Harvard-sponsored programs and their advisors, Mr. Aisner has overseen the acquisition, structuring and management of various types of real estate-related loans, including mortgages and mezzanine loans. From 1996 until joining Behringer Harvard in 2003, Mr. Aisner served as: (1) Executive Vice President of AMLI Residential Properties Trust, formerly a New York Stock Exchange-listed REIT focused on the development, acquisition and management of upscale apartment communities and served as advisor and asset manager for institutional investors with respect to their multifamily real estate investment activities; (2) President of AMLI Management Company, which oversaw all of AMLI's apartment operations in 80 communities; (3) President of the AMLI Corporate Homes division that managed AMLI's corporate housing properties; (4) Vice President of AMLI Residential Construction, a division of AMLI that performed real estate construction services; and (5) Vice President of AMLI Institutional Advisors, the AMLI division that served as institutional advisor and asset manager for institutional investors with respect to their multifamily real estate activities. Mr. Aisner also served on AMLI's Executive Committee and Investment Committee. During Mr. Aisner's tenure, AMLI was actively engaged in real estate debt activities, some of which were similar to our current loan structures. In February 2006, AMLI merged into an indirect subsidiary of Morgan Stanley Real Estate's Prime Property Fund, and the consideration paid for AMLI represented a 20.7% premium over the closing price of its common shares on the last full trading day prior to the public announcement of the merger. From 1994 until 1996, Mr. Aisner owned and operated Regents Management, Inc., which had both a multifamily development and construction group and a general commercial property management group. From 1984 to 1994, Mr. Aisner served as Vice President of HRW Resources, Inc., a real estate development and management company. Mr. Aisner received a Bachelor of Arts degree from Colby College and a Masters of Business Administration degree from the University of New Hampshire.

Our board of directors has concluded that Mr. Aisner is qualified to serve as one of our directors for reasons including his over 30 years of commercial real estate experience. This experience allows him to offer valuable insight and advice with respect to our investments and investment strategies. In addition, as the Chief Executive Officer of our advisor and with prior experience as an executive officer of a New York Stock Exchange-listed REIT, Mr. Aisner is able to direct to the board of directors to the critical issues facing our company. Further, as a director of Behringer Harvard REIT I, Behringer Harvard Opportunity REIT I, Behringer Harvard Opportunity REIT II and Behringer Harvard Multifamily REIT II, he has an understanding of the requirements of serving on a public company board.

Sami S. Abbasi, 46, has served as one of our independent directors since November 2006. Since November 2011, Mr. Abbasi has served as Chief Executive Officer and Director of American Pathology Partners, Inc., a laboratory services and cancer diagnostics company. From January 2007 until September 2011, Mr. Abbasi served as Chairman and Chief Executive Officer of National Surgical Care, Inc., which owns, develops, and operates surgical facilities in partnership with physicians and healthcare systems, since January 2007. From November 2004 to November 2006, Mr. Abbasi served as President and Chief Executive Officer of Radiologix, Inc., a provider of diagnostic imaging services, which was acquired by RadNet, Inc., formerly known as Primedex Health Systems, Inc., in November 2006. From February 2005 until November 2006, Mr. Abbasi served as a director of Radiologix. Mr. Abbasi served as Executive Vice President and Chief Operating Officer of Radiologix from October 2003 until November 2004 and as Executive Vice President and Chief Financial Officer of Radiologix from December 2000 until March 2004. Radiologix was a leading national provider of diagnostic imaging services and was listed on the American Stock Exchange until its November 2006 acquisition by Primedex. From January 2000 through June 2000, Mr. Abbasi served as Chief Financial Officer and Chief Operating Officer of Adminiquest, Inc., a private company that provided web-enabled and full-service outsourcing solutions to the insurance and benefits industry. From August 1996 through December 1999, Mr. Abbasi was Senior Vice President and Chief Financial Officer of Radiologix. From January 1995 through July 1996, Mr. Abbasi served as Vice President in the Healthcare Group of Robertson, Stephens and Company, where he was responsible for investment banking business development and executing a broad range of corporate finance transactions and mergers and acquisitions. From June 1988 through January 1995, Mr. Abbasi held various positions at Citicorp Securities, including Vice President and Senior Industry Analyst in the Healthcare Group. Mr. Abbasi serves on the board of directors and the audit committee for American CareSource Holdings, Inc. Mr. Abbasi received his Masters of Business Administration from the University of Rochester and his Bachelor of Arts, magna cum laude, in Economics from the University of Pennsylvania.

Our board of directors has concluded that Mr. Abbasi is qualified to serve as one of our directors and the chairman of our audit committee for reasons including his significant executive, corporate finance and accounting experience that compliments that of our other board members. In particular, Mr. Abbasi has over 10 years of experience as a director and/or executive officer of private and public companies, with a broad range of responsibilities including those relating to financial statements and coordinating with external auditors. Mr Abbasi also has many years of experience in commercial and investment banking, which background enables Mr. Abbasi to provide valuable insight to our board.

Roger D. Bowler, 67, has served as one of our independent directors since November 2006. Mr. Bowler served in various capacities at Embrey Partners, Ltd. ("Embrey"), a San Antonio, Texas based multifamily development and management company, from 1981 through 2006. From 1991 through 2006, Mr. Bowler served as Executive Vice President for Embrey and was responsible for corporate operations, as well as project feasibility, financing, and sales. Prior to his employment at Embrey, Mr. Bowler established and managed a corporate planning group for a Midwest bank holding company. Mr. Bowler also served as the Senior Financial Officer for a Houston retail and office developer. Mr. Bowler earned a Bachelor's degree in Accounting and a Masters of Business Administration in finance from Michigan State University. From 1984 through 2006, Mr. Bowler served on the Advisory Board of Directors for the JP Morgan Chase Bank of San Antonio. Mr. Bowler currently serves on the Board of Directors for the Marathon Title Insurance Company and American

Village Communities, Inc. of Fairfax, Virginia. Mr. Bowler was a member of the National Housing Council prior to his retirement from Embrey.

Our board of directors has concluded that Mr. Bowler is qualified to serve as one of our directors for reasons including his significant experience relating to real estate investments and multifamily investments, in particular. For 25 years, Mr. Bowler served in various capacities at an apartment development and management company, including 15 years as an executive officer. Mr. Bowler also has experience as a director and is actively engaged in the professional community, industry trends and issues in the multifamily space.

Jonathan L. Kempner, 61, has served as one of our independent directors since November 2008. In October 2009, Mr. Kempner became the President of Tiger 21, LLC, a peer-to-peer learning group for high-net-worth investors. Prior to this, Mr. Kempner was President and Chief Executive Officer of the Mortgage Bankers Association ("MBA") from April 2001 to December 2008. MBA is the national association representing the real estate finance industry with over 2,400 member companies, including mortgage companies, mortgage brokers, commercial banks, thrifts life insurance companies and others in the mortgage lending field. In addition, Mr. Kempner served on MBA's Board of Directors (ex officio) and on the board of its business development affiliate, Lender Technologies Corp.

Prior to assuming his role at the MBA, for 14 years, Mr. Kempner was President of the National Multi Housing Council, a leading trade association representing apartment owners, managers, developers, lenders and service providers. Previously from 1983 to 1987, Mr. Kempner was Vice President and General Counsel of Oxford Development Corp., a privately owned real estate services firm in Maryland, with a focus on commercial real estate development, asset and property management, brokerage and investment advisory services. From 1982 to 1983, Mr. Kempner served as Assistant Director and General Counsel of the Pennsylvania Avenue Development Corp., a federally owned real estate firm. From 1981 to 1982, Mr. Kempner also served as Assistant General Counsel to the Charles E. Smith Companies, a significant owner and developer of apartment complexes.

Mr. Kempner practiced law with Fried Frank, a leading international commercial law firm, from 1977 to 1980 immediately following a clerkship for U.S. District Judge David W. Williams of the Central District of California. Mr. Kempner also served as a Special Consultant to the U.S. Department of the Treasury Office of Capital Markets and as a Staff Assistant to the Subcommittee on Representation of Citizen Interests of the U.S. Senate Committee on the Judiciary and in the office of Sen. Abraham Ribicoff.

Mr. Kempner holds a bachelor's degree from the University of Michigan (high honors and high distinction, Phi Beta Kappa) and a law degree from Stanford University Law School, where he served on the Stanford Law Review. Mr. Kempner serves on the editorial boards of numerous real estate publications and is on the board of directors of a nonprofit organization, the Ciesla Foundation.

Our board of directors has concluded that Mr. Kempner is qualified to serve as one of our directors for reasons including his 21 years of combined experience heading the Mortgage Bankers Association and the National Multi Housing Council and his prior experience as a director. With this background, Mr. Kempner brings to our board substantial insight and experience with respect to the multifamily real estate and mortgage industries. In addition, Mr. Kempner has substantial experience acting as an attorney and general counsel, which brings a unique perspective to our board. Mr. Kempner also remains active in the professional and charitable communities.

E. Alan Patton, 49, has served as one of our independent directors since November 2006. Since January 2011, Mr. Patton has been a Senior Vice President of Hines Interests Limited Partnership, an international real estate firm, where his main focus is to expand the firm's multifamily development activity throughout the United States with involvement in site sourcing, product design, development and capital raising and financing. From 1998 to January 2011, Mr. Patton served as President of The Morgan Group, Inc., a multifamily development and management company, and was responsible for its day-to-day operations. From 1990 to 1998, Mr. Patton was the Managing Director of the Chase Bank of Texas Realty Advisory Group (formerly known as Texas Commerce Realty Advisors). During his eight-year tenure at Chase Bank, Mr. Patton developed and managed Chase's Real Estate Mezzanine Financing product, worked in the Real Estate Workout/Restructuring Group and the Commercial Real Estate Lending Group.

Mr. Patton previously served as a Project Manager with a Houston-based commercial general contractor, Miner-Dederick Companies, Inc., where he managed office and medical building construction projects nationwide for eight years. Mr. Patton attended Harding University and the University of Houston, from which he received his Bachelor in Science—Finance degree and his Masters of Business Administration. Mr. Patton is on the Board of Directors of the National Multi Housing Council and a council member of the Urban Land Institute.

Our board of directors has concluded that Mr. Patton is qualified to serve as one of our directors for reasons including his significant real estate and real estate finance experience. He provides valuable knowledge and insight with respect to multifamily investment and management issues. In addition, his expertise in the real estate finance markets complements that of our other board members. Mr. Patton is also active in the professional community.

Executive Officers

In addition to Robert M. Behringer and Robert S. Aisner, the following individuals serve as our executive officers:

Robert J. Chapman, 64, is our President, President of our Advisor, our property manager and an Executive Vice President of Behringer Harvard Holdings, our sponsor. Prior to joining Behringer Harvard in September 2007, Mr. Chapman was Executive Vice President and Chief Financial Officer of AMLI Residential Properties Trust, formerly a New York Stock Exchange-listed REIT, from December 1997 to August 2007. In February 2006, AMLI merged into an indirect subsidiary of Morgan Stanley Real Estate's Prime Property Fund, and the consideration paid for AMLI represented a 20.7% premium over the closing price of its common shares on the last full trading day prior to the public announcement of the merger. Mr. Chapman also served as a non-employee board member and the audit committee chairman of Behringer Harvard Opportunity REIT I from March 2005 to August 2007. From 1994 to 1997, Mr. Chapman was Managing Director of Heitman Capital Management Corporation. Mr. Chapman served as Managing Director and Chief Financial Officer of JMB Institutional Realty Corporation in 1994 and as Managing Director and Chief Financial Officer of JMB Realty Corporation, where he was employed from 1976 to 1994. From 1972 to 1976, Mr. Chapman was associated with KPMG LLP. Mr. Chapman received a B.B.A. in Accounting in 1970 and an M.B.A. in Finance in 1971 from the University of Cincinnati. Mr. Chapman is a CPA and, when previously affiliated with a broker-dealer, was a FINRA Registered Representative. Mr. Chapman is, or has been, a member of the Association of Foreign Investors in Real Estate, the Mortgage Bankers Association, the National Association of Real Estate Investment Trusts, the National Multi Housing Council, Pension Real Estate Association, the Real Estate Investment Advisory Council, the Urban Land Institute, the International Council of Shopping Centers, the American Institute of Certified Public Accountants and the Illinois CPA Society. Mr. Chapman has served as a Board Member of the National Association of Real Estate Companies and the Real Estate Advisory Council of the University of Cincinnati and is currently an adjunct professor of real estate finance at DePaul University in Chicago.

Mark T. Alfieri, 50, is our Chief Operating Officer and Chief Operating Officer of our Advisor. Mr. Alfieri also serves as Chief Executive Officer and Chief Operating Officer of Behringer Harvard Multifamily REIT II, as well as Executive Vice President and Chief Operating Officer of that entity's advisor and property manager. Prior to joining Behringer Harvard in May 2006, from January 1999 to April 2006 Mr. Alfieri was Senior Vice President of AMLI Residential Properties Trust, formerly a New

York Stock Exchange-listed REIT, where he directed investment activities for the Southwest region. During his seven-year tenure at AMLI Residential Properties Trust, Mr. Alfieri consummated over $1.4 billion in multifamily transactions. From 2000 to 2006, Mr. Alfieri was a member of CEC, AMLI's senior executive committee. In February 2006, AMLI merged into an indirect subsidiary of Morgan Stanley Real Estate's Prime Property Fund, and the consideration paid for AMLI represented a 20.7% premium over the closing price of its common shares on the last full trading day prior to the public announcement of the merger. From 1991 until 1998, Mr. Alfieri was president and Chief Executive Officer of Revest Group, Inc., a regional full service investment company. Revest was engaged in the acquisition and development of multifamily and commercial properties as a sponsor/general partner on behalf of international and domestic private investors. Mr. Alfieri also was president and Chief Executive Officer of Revest Management Services. Revest Management Services fee managed office, ministorage and multifamily properties. Mr. Alfieri graduated from Texas A&M with a Bachelor of Business Administration degree in Marketing. Mr. Alfieri is a licensed Real Estate Broker in the State of Texas. Mr. Alfieri served on the Board of Directors of the National Multi Housing Council from 2002 to 2004 and is currently a member of the National Multi Housing Council.

Gerald J. Reihsen, III, 53, is our Executive Vice President—Corporate Development & Legal and Assistant Secretary. Mr. Reihsen also serves in these and similar executive capacities with other entities affiliated with Behringer Harvard Holdings. Mr. Reihsen is also President of Behringer Securities LP.

For over 20 years, Mr. Reihsen's business and legal background has centered on sophisticated financial and transactional matters, including commercial real estate transactions, real estate partnerships, and public and private securities offerings. Prior to joining Behringer Harvard in 2001, for the period from 1985 to 2000, Mr. Reihsen practiced as an outside corporate securities attorney. After serving from 1986 to 1995 in the corporate department of Gibson, Dunn & Crutcher, a leading international commercial law firm, Mr. Reihsen established his own firm, Travis & Reihsen, where he served as a corporate/securities partner until 1998. In 1998, Mr. Reihsen became the lead partner in the corporate/securities section of the law firm Novakov Davis, where he served until 2000. In 2000, Mr. Reihsen practiced law as a principal of Block & Balestri, a corporate and securities law firm. In 2000 and 2001, Mr. Reihsen was employed as the Vice President—Corporate Development and Legal of Xybridge Technologies, Inc., a telecommunications software company that Mr. Reihsen helped guide through venture funding, strategic alliances with international telecommunications leaders and its ultimate sale to Zhone Technologies, Inc.

Mr. Reihsen holds FINRA Series 7, 24, 27 and 63 registrations. Mr. Reihsen received a Bachelor of Arts degree, magna cum laude, from the University of Mississippi and a Juris Doctorate degree, cum laude, from the University of Wisconsin.

Gary S. Bresky, 45, is our Executive Vice President. Mr. Bresky has also served in this and similar executive capacities with other entities affiliated with Behringer Harvard Holdings.

Mr. Bresky has been active in commercial real estate and related financial activities for over 15 years. Prior to joining Behringer Harvard in 2002, Mr. Bresky served as a Senior Vice President of Finance with Harvard Property Trust, Inc. from 1997 to 2001. In this capacity, Mr. Bresky was responsible for directing all accounting and financial reporting functions and overseeing all treasury management and banking functions for the company. Mr. Bresky also was integral in analyzing deal and capital structures as well as participating in all major decisions related to any acquisition or sale of assets.

From 1995 until 1996, Mr. Bresky worked in the Real Estate Group at Coopers & Lybrand LLP in Dallas, Texas, where he focused on finance and accounting for both public and private real estate investment trusts. His experience included conducting annual audits, preparing public securities reporting compliance filings and public real estate securities registration statements for his clients. From 1989 to 1994, Mr. Bresky worked with Ten West Associates, Ltd. and Westwood Financial

Corporation in Los Angeles, California as a real estate analyst and asset manager for two commercial real estate portfolios totaling in excess of $185 million. From 1988 until 1989, Mr. Bresky worked as an analysts' assistant for both Shearson-Lehman Bros., Inc. and Hambrecht and Quist Inc. assisting brokers in portfolio management. Mr. Bresky holds FINRA Series 7, 24, 27 and 63 registrations. Mr. Bresky received a Bachelor of Arts degree from the University of California—Berkeley and a Masters of Business Administration degree from the University of Texas at Austin.

Howard S. Garfield, 54, is our Chief Financial Officer, Chief Accounting Officer and Treasurer. In addition, Mr. Garfield serves as Chief Financial Officer, Chief Accounting Officer and Treasurer of our Advisor and our property manager. Mr. Garfield also serves as Senior Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer of Behringer Harvard Multifamily REIT II and its advisor and property manager. Prior to joining Behringer Harvard in February 2009, from April 2008 to February 2009, Mr. Garfield was Senior Vice President—Private Equity Real Estate Funds for Lehman Brothers Holdings Inc., formerly a New York Stock Exchange listed investment banking firm, where he was responsible for accounting and fund administration for certain private equity real estate funds sponsored by Lehman Brother Holdings Inc. From 2006 to April 2008, Mr. Garfield was Executive Vice President and Chief Financial Officer of Homevestors of America, Inc., a privately held franchisor related to reselling single-family homes. Mr. Garfield received a Bachelor of Business Administration degree, summa cum laude, from the University of Texas at Austin. Mr. Garfield is a certified public accountant in the State of Texas and a member of the National Association of Real Estate Companies.

M. Jason Mattox, 36, is our Executive Vice President. Mr. Mattox also serves as an Executive Vice President of our Advisor and our property manager and has served in these and similar executive capacities with other entities affiliated with Behringer Harvard Holdings. Mr. Mattox also serves as Executive Vice President and a member of the board of directors of Behringer Harvard Multifamily REIT II. In addition, Mr. Mattox is Executive Vice President of Behringer Harvard Multifamily REIT II's advisor and property manager.

From 1997 until joining Behringer Harvard in 2002, Mr. Mattox served as a Vice President of Harvard Property Trust, Inc. and became a member of its Investment Committee in 1998. From 1999 until 2001, Mr. Mattox served as Vice President of Sun Resorts International, Inc., a recreational property investment company, coordinating marina acquisitions throughout the southern United States and the U.S. Virgin Islands. From 1999 until 2001, in addition to providing services related to investing, acquisition, disposition and operational activities, Mr. Mattox served as an asset manager with responsibility for over one million square feet of Harvard Property Trust, Inc.'s commercial office assets in Texas and Minnesota, overseeing property performance, management offices, personnel and outsourcing relationships.

Mr. Mattox is a continuing member of the Building Owners and Managers Association and the National Association of Industrial and Office Properties. Mr. Mattox holds FINRA Series 7, 24 and 63 registrations. Mr. Mattox received a Bachelor of Business Administration degree, with honors, and a Bachelor of Science degree, cum laude, from Southern Methodist University.

Daniel J. Rosenberg, 36, is our Senior Vice President—Legal, General Counsel and Secretary and serves in the same capacity for our Advisor and our property manager. Mr. Rosenberg also serves as Senior Vice President—Legal, General Counsel and Secretary for Behringer Harvard Multifamily REIT II, as well as for its advisor and property manager. Mr. Rosenberg joined Behringer Harvard in June 2004. Mr. Rosenberg is responsible for legal matters related to Behringer Harvard's multifamily platform. Prior to the formation of the first Behringer Harvard sponsored multifamily program in 2006, Mr. Rosenberg was responsible for all legal aspects of Behringer Harvard's private offerings. Prior to joining Behringer Harvard, Mr. Rosenberg was a corporate associate at the New York office of what was then Katten Muchin Zavis Rosenman LLP, a leading national law firm, where he represented private and public companies in a wide range of corporate transactions, including acquisitions, divestitures, mergers, financings, joint ventures, private placements and high-yield debt offerings.

Mr. Rosenberg received a Bachelor of Arts degree from the University of Wisconsin at Madison and a Juris Doctor degree from Emory University School of Law in Atlanta, Georgia. Mr. Rosenberg is licensed as an attorney in Texas and New York.

Key Personnel

The following individuals are non-executive personnel who are important to our success:

Andrew J. Bruce is the Senior Vice President—Capital Markets of our Advisor and our property manager. Since February and January of 2012, respectively, Mr. Bruce has also served as Chief Financial Officer of Behringer Harvard Opportunity REIT I and Behringer Harvard Opportunity REIT II. Mr. Bruce also serves as Senior Vice President—Capital Markets for Behringer Harvard Multifamily REIT II as well as for its advisor and property manager. Mr. Bruce is responsible for managing the financing activities and the finance group for the Behringer Harvard-sponsored programs. This includes the structuring and placement of commercial debt for new acquisitions and developments, for the refinancing of existing debt, and for fund level credit facilities. In addition, Mr. Bruce is responsible for maintaining existing banking and lending relationships as well as cultivating new relationships. Mr. Bruce also is charged with analyzing and managing the programs' use of derivatives and hedging instruments, and working with the programs' real estate professionals in their efforts to analyze potential new development projects that the programs are considering.

Prior to joining Behringer Harvard, from 1994 to early 2006 Mr. Bruce worked for AMLI Residential Properties Trust, formerly a New York Stock Exchange listed REIT, in Dallas and in Chicago. While at AMLI, Mr. Bruce was responsible for placing AMLI's secured and unsecured debt and for overseeing the underwriting projections for new development projects, including acquisitions made on behalf of the AMLI/BPMT joint venture.

Mr. Bruce graduated from Western Michigan University with a Bachelor of Business Administration degree. Mr. Bruce also earned a Masters in Business Administration degree from the University of Chicago, and a CPA designation while working in Illinois.

Robert T. Poynter is the Senior Vice President and Chief Investment Officer of our Advisor and a Senior Vice President of our property manager. Mr. Poynter also serves as Senior Vice President and Chief Investment Officer and Senior Vice President, respectively, of the advisor and property manager of Behringer Harvard Multifamily REIT II. Mr. Poynter is responsible for reviewing and improving existing policies regarding the multifamily investment and acquisition process for Behringer Harvard and for developing best practices for the multifamily group. In this capacity Mr. Poynter also is responsible for sourcing, underwriting and administering the multifamily investment and acquisition process for Behringer Harvard.

Prior to joining Behringer Harvard, from October 1983 to September 2006, Mr. Poynter was employed by JPI, a multifamily development and acquisition company. Mr. Poynter was a Senior Vice President of several different JPI-affiliated entities and served as the Strategic Recapitalization Services Partner. During that time, Mr. Poynter worked on condominium and home sales, corporate housing, third party property management services and acquisitions. Mr. Poynter is a licensed Real Estate Broker in the state of Texas. Mr. Poynter received a Bachelor of Science degree from the Wharton School at the University of Pennsylvania.

James A. Fadley is Senior Vice President of our Advisor and property manager. Mr. Fadley is also Senior Vice President of the advisor and property manager of Behringer Harvard Multifamily REIT II. Mr. Fadley is responsible for Behringer Harvard's multifamily due diligence and transactional closing group. Prior to joining Behringer Harvard in June 2009, Mr. Fadley was employed from September 1986 to January 2009 by JPI, a multifamily development and acquisitions company. During his career at JPI, Mr. Fadley held a variety of positions including Executive Vice President & Senior Operations Partner of Investment Services and Co-Divisional President and Chief Investment Officer of JPI's

Student Living Division. Mr. Fadley served as a member of JPI's Investment Committee, and was also responsible for its design, implementation and administration. During his tenure at JPI, over $8 billion of apartment properties were acquired, developed and sold. At JPI Mr. Fadley was responsible for managing JPI's business relationship with GE Capital, which included investor reporting, venture compliance and the GE approval process. Mr. Fadley also served in a variety of other roles at JPI including investment analysis, asset management and dispositions, project capitalization and market research. Prior to joining JPI, Mr. Fadley was employed by Arthur Andersen & Co. from July 1979 to August 1986 where he was a manager in the audit division. In 1979, Mr. Fadley received his Bachelor of Business Administration, cum laude from Southern Methodist University.

Ross P. Odland is the Senior Vice President—Portfolio Management of our Advisor and our property manager. Mr. Odland also serves as Senior Vice President of the advisor and property manager of Behringer Harvard Multifamily REIT II. Mr. Odland is responsible for developing investment strategies, sourcing, developing and managing joint venture partnerships, and leading the asset management group for the multifamily group.

Prior to joining Behringer Harvard, from 2000 to 2007, Mr. Odland was Vice President of Portfolio Management at AMLI Residential Properties Trust, formerly a New York Stock Exchange listed REIT, where he managed the company's joint venture relationships and performed portfolio and asset management duties for the company's southwest region. From 1997 to 2000, Mr. Odland was a consultant with Pricewaterhouse Coopers in the Real Estate Advisory Group. In this role, Mr. Odland performed valuation, market research, and due diligence activities for publicly traded REITS and institutional real estate funds.

Mr. Odland holds a Bachelor of Business Administration degree from the University of Wisconsin-Madison. Mr. Odland is a chartered financial analyst (CFA) and member of the CFA Society of Dallas-Fort Worth and a member of the Pension Real Estate Advisory Association.

Margaret M. "Peggy" Daly is the Senior Vice President—Property Management of our property manager, and serves in the same capacity for the property manager of Behringer Harvard Multifamily REIT II. In addition, Ms. Daly is Senior Vice President of Property Management for Harvard Property Trust, LLC, an affiliate of our sponsor and our advisor, a position she has held since joining Behringer Harvard in May 2010. Ms. Daly is responsible for development and leadership of property management and operating platform for our assets.

Ms. Daly has over 30 years of experience in management of Class A multifamily assets. Prior to joining Behringer Harvard, from March 2008 to April 2010, Ms. Daly was Executive Vice President of Property Management at Place Properties LLP where she was responsible for the profitability, business development and performance results of over 22,500 beds of student housing. From August 1988 to March 2008, Ms. Daly was with AMLI Residential Properties Trust, formerly a New York Stock Exchange listed REIT, where she served as the Executive Vice President—National Director of Operations, Senior Vice President—Revenue Management and Regional Vice President. From June 1979 to March 1988, Ms. Daly was a Divisional Vice President of Property Management with Trammell Crow Residential.

Ms. Daly attended Virginia Polytechnic Institute in Business Administration. She served on the board of directors of the Atlanta Apartment Association from 1996-2000, was a member of the Advisory Board for the school of Property Management at Virginia Polytechnic Institute, and has served on expert panels at National Apartment Association (NAA), National Multi Housing Council (NMHC) and Multifamily Executive conferences.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires each director, officer and individual beneficially owning more than 10% of a registered security of us to file with the SEC, within specified time frames, initial statements of beneficial ownership (Form 3) and statements of changes in beneficial ownership (Forms 4 and 5) of our common stock. These specified time frames require the reporting of changes in ownership within two business days of the transaction giving rise to the reporting obligation. Reporting persons are required to furnish us with copies of all Section 16(a) forms filed with the SEC. Based solely on a review of the copies of such forms furnished to us during and with respect to the fiscal year ended December 31, 2011, or written representations that no additional forms were required, we believe that all required Section 16(a) filings were timely and correctly made by reporting persons during 2011.

Code of Ethics

Our board of directors has adopted an Amended and Restated Code of Business Conduct Policy that is applicable to all members of our board of directors, our executive officers and employees of our advisor and its affiliates. We have posted the policy on the website maintained for us at www.behringerharvard.com. If in the future we amend, modify or waive a provision in the Amended and Restated Code of Business Conduct Policy, we may, rather than filing a Current Report on Form 8-K, satisfy the disclosure requirement by posting promptly such information on the website maintained for us as necessary.

Audit Committee Financial Expert

The Audit Committee consists of independent directors Sami S. Abbasi, the chairman, Roger D. Bowler, Jonathan L. Kempner and E. Alan Patton. Our board of directors has determined that Mr. Abbasi is an "audit committee financial expert," as defined by the rules of the SEC. The biography of Mr. Abbasi, including his relevant qualifications, is previously described in this Item 10. Our shares are not listed for trading on any national securities exchange and therefore our audit committee members are not subject to the independence requirements of the New York Stock Exchange ("NYSE") or any other national securities exchange. However, each member of our audit committee is "independent" as defined by the NYSE.

Item 11. Executive Compensation

Executive Compensation

We do not directly compensate our named executive officers for services rendered to us, and we do not intend to pay any compensation directly to our executive officers. As described in Item 13, "Certain Relationships and Related Party Transactions" of this Annual Report on Form 10-K, we pay our Advisor and its affiliates certain fees and reimbursements. We do not reimburse our Advisor directly or indirectly for the salary or other compensation of any of our executive officers. Further, our Advisor sets its own compensation policy and pays compensation in its sole discretion, independent of our business. Accordingly, we do not have nor has our board of directors considered a compensation policy or program for our executive officers and have not included a Compensation and Discussion Analysis in this Annual Report on Form 10-K.

Directors' Compensation

We pay each of our directors who are not employees of us or our Advisor or its affiliates an annual retainer of $30,000 per year. In addition, we pay the chairman of our Audit Committee an annual retainer of $10,000 per year and the chairmen of our Compensation and Nominating Committees annual retainers of $5,000 per year. These retainers are paid quarterly in arrears. In addition, we pay each of our directors who are not employees of us or our Advisor or its affiliates (1) $1,500 for each board or committee meeting attended in person or by telephone and (2) $750 for each written consent considered by the director. Prior to July 1, 2009, we paid our non-employee directors an annual retainer of $25,000 per year, we paid the chairman of our Audit Committee an additional annual retainer of $10,000 per year and the chairmen of our Compensation and Nominating Committees additional annual retainers of $5,000 per year, and we paid each of our non-employee directors (1) $1,000 for each board or committee meeting attended in person and (2) $500 for each board or committee meeting attended by telephone and for each written consent considered by the director.

All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. If a director also is an employee of us, or an employee of our Advisor or its affiliates, we do not pay compensation for services rendered as a director.

Under our Incentive Award Plan, we issued each of our non-employee directors, with the exception of Mr. Kempner who was not appointed as a director until 2008, 1,000 shares of restricted common stock on the date he became a director in November 2006 and, after serving as a non-employee director for one year, another 1,000 shares of restricted common stock in contemplation of a second year of service as a non-employee director in November 2007. All of these restricted stock awards are now fully vested. We have not issued any additional awards under the Incentive Award Plan.

The following table summarizes compensation earned or paid to the non-employee directors during 2011:

	Fees Earned or Paid in Cash[a]	All Other Compensation	Total
Sami S. Abbasi	$68,500	$—	$68,500
Roger D. Bowler	$65,000	$—	$65,000
Jonathan L. Kempner	$60,000	$—	$60,000
E. Alan Patton	$60,500	$—	$60,500

(a) This column includes fees earned in 2011, a portion of which were paid in 2012. The amounts paid in 2012 are: $16,000 for Mr. Abbasi, $16,250 for Mr. Bowler, $15,000 for Mr. Kempner, and $16,250 for Mr. Patton.

Incentive Award Plan

Our Incentive Award Plan was approved by the board of directors on November 14, 2006 and by the stockholders on November 15, 2006 and later amended and restated and approved by the board of directors on March 14, 2008. The Incentive Award Plan is administered by our Compensation Committee and provides for equity awards to our employees, directors and consultants and those of our advisor and its affiliates. The Incentive Award Plan authorizes the grant of non-qualified and incentive stock options, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents and other stock-based awards. A total of 10,000,000 shares have been authorized and reserved for issuance under our Incentive Award Plan. There have been no awards since November 2007, and we currently have no plans to issue any additional awards under the Incentive Award Plan.

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee served as an officer or employee of us or any of our subsidiaries during the fiscal year ended December 31, 2011 or formerly served as an officer of the us or any of our subsidiaries. In addition, during the fiscal year ended December 31, 2011, none of our executive officers served as a member of a board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or Compensation Committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

The following table gives information regarding our equity compensation plans as of December 31, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	—	—	9,994,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	—	—	9,994,000[(a)]

(a) All shares authorized for issuance pursuant to awards not yet granted under the Incentive Award Plan.

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of December 31, 2011, regarding the beneficial ownership of our common stock by each person known by us to own 5% or more of the outstanding shares of common stock, each of our directors, each named executive officers, and our directors and executive officers as a group. The percentage of beneficial ownership is calculated based on 165,086,701 shares of common stock outstanding as of December 31, 2011.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership[(a)]	Percentage of Class
Robert M. Behringer[(b)(c)]	37,246	*
Robert S. Aisner[(c)(d)]	6,139	*
Sami S. Abbasi[(e)]	2,000	*
Roger D. Bowler[(f)]	4,000	*
Jonathan L. Kempner[(g)]	—	—
E. Alan Patton[(h)]	5,000	*
Robert J. Chapman	12,277	*
Mark T. Alfieri[(c)]	6,139	*
Gerald J. Reihsen, III[(c)(i)]	6,139	*
Howard S. Garfield[(c)]	—	—
Daniel J. Rosenberg[(c)]	—	—
Gary S. Bresky[(c)(j)]	3,069	*
M. Jason Mattox[(c)(k)]	1,228	*
All current directors and executive officers as a group (12 persons)	83,237	*

* Represents less than 1%

(a) For purposes of calculating the percentage beneficially owned, the number of shares of common stock deemed outstanding includes 165,086,701 shares of common stock outstanding as of December 31, 2011; it does not include 1,000 shares of convertible stock owned by our Advisor. Beneficial ownership is determined in accordance with the rules of SEC that deem shares to be beneficially owned by any person or group who has or shares voting and investment power with respect to such shares.

(b) Includes 24,969 shares of common stock owned by Behringer Harvard Holdings but does not include 1,000 shares of convertible stock owned by our Advisor, an indirect subsidiary of Behringer Harvard Holdings. As of December 31, 2011, Mr. Behringer controlled the disposition of approximately 40% of the outstanding limited liability company interests and the voting of 85% of the outstanding limited liability company interests of Behringer Harvard Holdings.

(c) The address of Messrs. Behringer, Aisner, Alfieri, Chapman, Reihsen, Garfield, Rosenberg, Bresky and Mattox is c/o Behringer Harvard Multifamily REIT I, Inc., 15601 Dallas Parkway, Suite 600, Addison, Texas 75001.

(d) Does not include 24,969 shares of common stock owned by Behringer Harvard Holdings, of which Mr. Aisner controls the disposition of 4% of the limited liability company interests, or 1,000 shares of convertible stock owned by our Advisor, an indirect subsidiary of Behringer Harvard Holdings. Mr. Behringer has the right to vote Mr. Aisner's interest in Behringer Harvard Holdings.

(e) The address of Mr. Abbasi is c/o Behringer Harvard Multifamily REIT I, Inc., 15601 Dallas Parkway, Suite 600, Addison, Texas 75001.

(f) The address of Mr. Bowler is c/o Behringer Harvard Multifamily REIT I, Inc., 15601 Dallas Parkway, Suite 600, Addison, Texas 75001.

(g) The address of Mr. Kempner is c/o Behringer Harvard Multifamily REIT I, Inc., 15601 Dallas Parkway, Suite 600, Addison, Texas 75001.

(h) The address of Mr. Patton is c/o Behringer Harvard Multifamily REIT I, Inc., 15601 Dallas Parkway, Suite 600, Addison, Texas 75001.

(i) Does not include 24,969 shares of common stock owned by Behringer Harvard Holdings, of which Mr. Reihsen controls the disposition of 4.5% of the limited liability company interests, or 1,000 shares of convertible stock owned by our Advisor, an indirect subsidiary of Behringer Harvard Holdings. Mr. Behringer has the right to vote Mr. Reihsen's interest in Behringer Harvard Holdings.

(j) Does not include 24,969 shares of common stock owned by Behringer Harvard Holdings, of which Mr. Bresky controls the disposition of 3% of the limited liability company interests, or 1,000 shares of convertible stock owned by our Advisor, an indirect subsidiary of Behringer Harvard Holdings. Mr. Behringer has the right to vote Mr. Bresky's interest in Behringer Harvard Holdings.

(k) Does not include 24,969 shares of common stock owned by Behringer Harvard Holdings, of which Mr. Mattox controls the disposition of 1.5% of the limited liability company interests, or 1,000 shares of convertible stock owned by our Advisor, an indirect subsidiary of Behringer Harvard Holdings. Mr. Behringer has the right to vote Mr. Mattox's interest in Behringer Harvard Holdings.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Policies and Procedures with Respect to Related Party Transactions

We do not currently have written formal policies and procedures for the review, approval or ratification of transactions with related persons, as defined by Item 404 of Regulation S-K of the

Exchange Act. Under that definition, transactions with related persons are transactions in which we were or are a participant and the amount involved exceeds $120,000 and in which any related person had or will have a direct or indirect material interest. Related parties include any executive officers, directors, director nominees, beneficial owners of more than 5% of our voting securities, immediate family members of any of the foregoing persons, and any firm, corporation or other entity in which any of the foregoing persons is employed and in which such person has 10% or greater beneficial ownership interest.

Our charter, however, contains provisions setting forth our ability to engage in certain transactions. Our board reviews all of these transactions as well as any related party transactions. As a general rule, any related party transaction must be approved by a majority of the directors not otherwise interested in the transaction. In determining whether to approve or authorize a particular related party transaction, these directors will consider whether the transaction between us and the related party is fair and reasonable to us and has terms and conditions no less favorable to us than those available from unaffiliated third parties.

Our Advisor and certain of its affiliates have earned fees and compensation in connection with each of our public offerings and earn fees and compensation in connection with the acquisition, debt financing, management and sale of our assets.

We have no employees and are supported by related party service agreements. We are dependent on our Advisor, Behringer Harvard Multifamily Management Services, LLC ("BHM Management"), and their affiliates for certain services that are essential to us, including, but not limited to, investment and disposition decisions, asset management, financing, property management and leasing services and other general administrative responsibilities. In the event that these companies become unable to provide us with the respective services, we would be required to obtain such services from other sources.

Certain of these services are provided through our advisory management agreement (the "Advisory Management Agreement"), as it has been amended and restated. The Advisory Management Agreement may be renewed for an unlimited number of successive one-year terms. The current term of the Advisory Management Agreement expires on July 1, 2012. The board of directors has a duty to evaluate the performance of our Advisor annually before the parties can agree to renew the agreement.

We were required to reimburse the Advisor for organization and offering expenses related to our Initial Public Offering of shares (other than pursuant to a distribution reinvestment plan) and any organization and offering expenses previously advanced by the Advisor related to a prior offering of shares to the extent not previously reimbursed by us out of proceeds from the prior offering ("O&O Reimbursement"). Our obligation to reimburse the Advisor was capped at 1.5% of the gross proceeds of the completed Initial Public Offering exclusive of proceeds from the DRIP. In April 2009, in connection with an amendment to the Advisory Management Agreement, a payment of $6.9 million was made to the Advisor for prior O&O Reimbursement incurred but not previously paid. For the year ended December 31, 2011, we reduced our O&O Reimbursement by $0.6 million to adjust the O&O Reimbursement to the actual amount to be disbursed to our Advisor. For the years ended December 31, 2010 and 2009, we incurred O&O Reimbursement of approximately $6.5 million and $8.9 million, respectively. As of December 31, 2011, our Advisor has incurred expenses related to the Initial Public Offering totaling approximately $30.8 million, of which approximately $8.9 million has not been recognized by us as offering costs in accordance with the Advisory Management Agreement.

Behringer Securities LP ("Behringer Securities"), an affiliate of our Advisor, served as the dealer manager for the Initial Public Offering and received selling commissions of up to 7% of gross offering proceeds. Behringer Securities reallowed all selling commissions to participating broker-dealers. In connection with the Initial Public Offering, up to 2.5% of gross proceeds were paid to Behringer Securities as a dealer manager fee. Behringer Securities reallowed a portion of its dealer manager fee to certain broker-dealers that participated in the Initial Public Offering. No selling commissions or dealer manager fees are payable on shares sold under our DRIP, and any DRIP offering expenses are nominal.

The following presents the components of our sale of common stock, net related to our Initial Public Offering (amounts in millions):

	For the Year Ended December 31,		
Sale of common stock	**2011**	**2010**	**2009**
Gross proceeds	$593.8	$444.7	$410.7
Less offering costs:			
O&O Reimbursement	0.6	(6.5)	(8.9)
Dealer manager fees	(14.8)	(11.1)	(10.3)
Selling commissions	(40.0)	(29.7)	(28.2)
Total offering costs	(54.2)	(47.3)	(47.4)
Sale of common stock, net	$539.6	$397.4	$363.3

Our Advisor and its affiliates receive acquisition and advisory fees of 1.75% of (1) the contract purchase price paid or allocated in respect of the development, construction or improvement of each asset acquired directly by us, including any debt attributable to these assets, or (2) when we make an investment indirectly through another entity, our pro rata share, based on our stated or back-end ownership percentage, of the gross asset value of real estate investments held by that entity. Fees due in connection with a development or improvements are based on amounts approved by our board of directors and reconciled to actual amounts at the completion of the development or improvement. Our Advisor and its affiliates also receive 1.75% of the funds advanced in respect of a loan or other investment.

Our Advisor receives a non-accountable acquisition expense reimbursement in the amount of 0.25% of (1) the funds paid for purchasing an asset, including any debt attributable to the asset, plus the funds budgeted for development, construction or improvement in the case of assets that we acquire and intend to develop, construct or improve, and (2) funds advanced in respect of a loan or other investment. We will also pay third parties, or reimburse the Advisor, for any investment-related expenses due to third parties in the case of a completed investment, including, but not limited to, legal fees and expenses, travel and communication expenses, costs of appraisals, accounting fees and expenses, third-party brokerage or finder's fees, title insurance, premium expenses and other closing costs. In addition, to the extent our Advisor or its affiliates directly provide services formerly provided or usually provided by third parties, including, without limitation, accounting services related to the preparation of audits required by the SEC, property condition reports, title services, title insurance, insurance brokerage or environmental services related to the preparation of environmental assessments in connection with a completed investment, the direct employee costs and burden to our Advisor of providing these services are acquisition expenses for which we reimburse our Advisor. In addition, acquisition expenses for which we reimburse our Advisor include any payments made to (1) a prospective seller of an asset, (2) an agent of a prospective seller of an asset, or (3) a party that has the right to control the sale of an asset intended for investment by us that are not refundable and that are not ultimately applied against the purchase price for such asset. Except as described above with respect to services customarily or previously provided by third parties, our Advisor is responsible for paying all of the expenses it incurs associated with persons employed by the Advisor to the extent dedicated to making investments for us, such as wages and benefits of the investment personnel. Our Advisor is also responsible for paying all of the investment-related expenses that we or our Advisor incurs that are due to third parties or related to the additional services provided by our Advisor as described above with respect to investments we do not make, other than certain non-refundable payments made in connection with any acquisition.

For the years ended December 31, 2011, 2010 and 2009, our Advisor earned acquisition and advisory fees, including the acquisition expense reimbursement, of approximately \$4.8 million, \$11.2 million and \$8.1 million, respectively. For the years ended December 31, 2011, 2010 and 2009, approximately \$1.1 million, \$3.2 million and \$5.1 million of these amounts, respectively, were capitalized to investments in unconsolidated real estate joint ventures.

Our Advisor receives debt financing fees of 1% of the amount available to us under debt financing which was originated, assumed or refinanced by or for us. Our Advisor may pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for us. For the years ended December 31, 2011, 2010 and 2009, our Advisor has earned debt financing fees of approximately \$2.3 million, \$2.6 million and \$1.1 million, respectively.

Our Advisor receives a monthly asset management fee for each real estate related asset held by us. From September 2, 2008 through July 1, 2010, the asset management fee was equal to one-twelfth of 0.75% of the sum of the higher of the cost or value of each asset as of the last day of the preceding month.

Effective July 1, 2010, the asset management fee was modified so that the amount of the fee is dependent upon our performance with respect to reaching a modified funds from operations or MFFO coverage amount per quarter of \$0.15 per share of our common stock (equivalent to an annualized \$0.60 per share). As modified, the asset management fee will be a monthly fee equal to one-twelfth of the Applicable Asset Management Fee Percentage ("the AAMF Percentage") of the sum of the higher of the cost or value of our assets. Effective July 1, 2010, the AAMF Percentage was 0.50% (reduced from 0.75% prior to July 1, 2010). The percentage will increase to 0.75% following two consecutive fiscal quarters during which our MFFO for each such fiscal quarter equals or exceeds 80% of the MFFO coverage amount described above. Once the AAMF Percentage has increased to 0.75%, it will not decrease during the term of the agreement, regardless of our MFFO in any subsequent period. The percentage will increase further to 1.0% following two consecutive fiscal quarters during which our MFFO for each such fiscal quarter equals or exceeds 100% of such MFFO coverage amount. Finally, the percentage will return to 0.75% upon the first day following the fiscal quarter during which our Advisor has, since July 1, 2010, earned asset management fees equal to the amount of asset management fees our Advisor would have earned if the AAMF Percentage had been 0.75% every day since July 1, 2010. In no event will our Advisor receive more than the asset management fee at the annual 0.75% rate originally contracted for, but will be at risk for up to one-third of those fees and incentivized to grow our MFFO. Since July 1, 2010, the AAMF Percentage has been 0.50%.

For the years ended December 31, 2011, 2010 and 2009, our Advisor earned asset management fees of approximately \$6.3 million, \$5.2 million and \$1.9 million, respectively.

We will pay a development fee to our Advisor in an amount that is usual and customary for comparable services rendered to similar projects in the geographic market of the project; provided, however, we will not pay a development fee to an affiliate of our Advisor if our Advisor or any of its affiliates elects to receive an acquisition and advisory fee based on the cost of such development. Our Advisor has earned no development fees since our inception.

Property management services are provided by BHM Management and its affiliates through a property management agreement (the "Property Management Agreement"). The Property Management Agreement expires on November 21, 2012, but if neither us nor BHM Management give written notice of termination at least 30 days prior to the expiration date, then it will automatically continue for consecutive two-year periods. The Property Management Agreement also provides that, in the event we terminate the Advisory Management Agreement with our Advisor, BHM Management will have the right to terminate the agreement upon at least thirty days' prior written notice. Further, the Property Management Agreement applies where we have control over the selection of property management. As of December 31, 2011, 33 multifamily communities, including BHMP CO-JVs and MW CO-JVs, were subject to the Property Management Agreement. For all other multifamily communities, an unaffiliated third party owner has selected the property manager.

Property management fees are equal to 3.75% of gross revenues. In the event that we contract directly with a non-affiliated third party property manager in respect to a property, we pay BHM Management or its affiliates an oversight fee equal to 0.5% of gross rental revenues of the property managed. In no event will we pay both a property management fee and an oversight fee to BHM Management or its affiliates with respect to a particular property. We reimburse the costs and expenses incurred by BHM Management on our behalf, including the wages and salaries and other employee-related expenses of all on-site employees of BHM Management and other out-of-pocket expenses that are directly related to the management of specific properties.

For the years ended December 31, 2011 and 2010, BHM Management or its affiliates earned property management fees, net of expenses to third party property managers but including reimbursements to BHM Management, of $3.6 million and $0.7 million, respectively. For the year ended December 31, 2009, BHM Management or its affiliates earned minimal property management fees.

As part of our reimbursement of administrative expenses, we reimburse our Advisor for any direct expenses and costs of salaries and benefits of persons employed by our Advisor performing advisory services for us, provided, however, that we will not reimburse our Advisor for personnel employment costs incurred by our Advisor in performing services under the Advisory Management Agreement to the extent that the employees perform services for which the Advisor receives a separate fee other than with respect to acquisition services formerly provided or usually provided by third parties. We also do not reimburse our Advisor for the salary or other compensation of our executive officers.

Included in general and administrative expenses are accounting and legal personnel costs incurred on our behalf by our Advisor for the years ended December 31, 2011, 2010 and 2009 of approximately $1.9 million, $2.2 million and $1.4 million, respectively.

During 2011, our Advisor waived the difference between asset management fees calculated on the basis of value of our investments and asset management fees calculated on the basis of cost of our investments for the year ended December 31, 2011, resulting in a waiver of approximately $0.2 million. Additionally, our Advisor waived debt financing fees of $0.3 million related to the restructuring of a senior loan related to our restructure of our investment in Skye 2905. Further, for the first and third quarter of 2011, BHM Management waived its right to seek reimbursement from us of its operating expenses related to off-site personnel. During the second quarter, BHM Management waived reimbursement of approximately $0.1 million for its operating expenses related to off-site personnel.

Independence

Although our shares are not listed for trading on any national securities exchange and therefore our board of directors is not subject to the independence requirements of the NYSE or any other national securities exchange, our board has evaluated whether our directors are "independent" as defined by the NYSE. The NYSE standards provide that to qualify as an independent director, in addition to satisfying certain bright-line criteria, the board of directors must affirmatively determine that a director has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us). Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his family members, and Behringer Harvard Multifamily REIT I, our senior management and our independent registered public accounting firm, the board has determined that the majority of the members of our board, and each member of our audit committee, compensation committee and nominating committee, is "independent" as defined by the NYSE.

Item 14. Principal Accountant Fees and Services

Independent Registered Public Accounting Firm

Deloitte & Touche LLP has served as our independent registered public accounting firm since November 14, 2006. Our management believes that Deloitte & Touche LLP is knowledgeable about our operations and accounting practices and is well qualified to act as our independent registered public accounting firm.

Audit and Other Fees

The following table presents fees for professional services rendered by our independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche") for the audits of our annual financial statements for the years ended December 31, 2011 and 2010:

	2011	2010
Audit fees[(a)]	$630,000	$500,000
Audit-related fees[(b)]	186,000	408,000
Tax fees[(c)]	—	27,000
All other fees	—	—
Total fees	$816,000	$935,000

(a) Audit fees consist principally of fees for the audit of our annual consolidated financial statements and review of our consolidated financial statements included in our quarterly reports on Form 10-Q.

(b) Audit-related fees consist of professional services performed in connection with a review of registration statements, as amended, for the public offerings of our common stock audits and reviews of historical financial statements for property acquisitions (including compliance with the requirements of Rules 3-05, 3-06, 3-09 or 3-14) and Sarbanes-Oxley Act, Section 404 advisory services.

(c) Tax fees consist principally of assistance with matters related to tax compliance, tax planning and tax advice.

The Audit Committee considers the provision of these services to be compatible with maintaining the independence of Deloitte & Touche.

Audit Committee's Pre-Approval Policies and Procedures

The Audit Committee must approve any fee for services to be performed by our independent registered public accounting firm in advance of the service being performed. For proposed projects using the services of our independent registered public accounting firm that are expected to cost under $25,000, the Audit Committee will be provided information to review and must approve each project prior to commencement of any work. For proposed projects using the services of our independent registered public accounting firm that are expected to cost $25,000 and over, the Audit Committee will be provided with a detailed explanation of what is being included and asked to approve a maximum amount for specifically identified services in each of the following categories: (1) audit fees; (2) audit-related fees; (3) tax fees; and (4) all other fees for any services allowed to be performed by the independent registered public accounting firm. If additional amounts are needed, the Audit Committee must approve the increased amounts prior to the previously approved maximum being reached and before the additional work may continue. Approval by the Audit Committee may be granted at its regularly scheduled meetings or otherwise, including by telephonic or other electronic communications. We will report the status of the various types of approved services and fees, and cumulative amounts paid and owed, to the Audit Committee on a regular basis.

The Audit Committee approved all of the services provided by, and fees paid to, Deloitte & Touche during the years ended December 31, 2011 and 2010.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) List of Documents Filed.

1. *Financial Statements*

   The list of the financial statements filed as part of this Annual Report on Form 10-K is set forth on page F-1 herein.

2. *Financial Statement Schedules*

   Schedule II—Valuation and Qualifying Accounts
   Schedule III—Real Estate and Accumulated Depreciation
   Schedule IV—Mortgage Loans on Real Estate

3. *Exhibits*

   The list of exhibits filed as part of this Annual Report on Form 10-K is set forth in the Exhibit Index following the financial statements in response to Item 601 of Regulation S-K.

(b) Exhibits.

The exhibits filed in response to Item 601 of Regulation S-K are listed on the Exhibit Index attached hereto.

(c) Financial Statement Schedules.

All financial statement schedules, except for Schedules II, III and IV (see (a) 2. above), have been omitted because the required information of such schedules is not present, is not present in amounts sufficient to require a schedule or is included in the financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BEHRINGER HARVARD MULTIFAMILY REIT I, INC.

Dated: March 28, 2012

By: /s/ ROBERT S. AISNER
Robert S. Aisner
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

March 28, 2012	/s/ ROBERT M. BEHRINGER Robert M. Behringer *Chairman of the Board and Director*
March 28, 2012	/s/ ROBERT S. AISNER Robert S. Aisner *Chief Executive Officer and Director*
March 28, 2012	/s/ HOWARD S. GARFIELD Howard S. Garfield *Chief Financial Officer, Chief Accounting Officer and Treasurer*
March 28, 2012	/s/ ROBERT J. CHAPMAN Robert J. Chapman *President*
March 28, 2012	/s/ SAMI S. ABBASI Sami S. Abbasi *Director*
March 28, 2012	/s/ ROGER D. BOWLER Roger D. Bowler *Director*
March 28, 2012	/s/ JONATHAN L. KEMPNER Jonathan L. Kempner *Director*
March 28, 2012	/s/ E. ALAN PATTON E. Alan Patton *Director*

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Behringer Harvard Multifamily REIT I, Inc.
Addison, Texas

We have audited the accompanying consolidated balance sheets of Behringer Harvard Multifamily REIT I, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Behringer Harvard Multifamily REIT I, Inc. and subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 28, 2012

Behringer Harvard Multifamily REIT I, Inc.
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31, 2011	December 31, 2010
Assets		
Real estate		
Land	$ 308,496	$ 96,470
Buildings and improvements	1,728,864	440,556
	2,037,360	537,026
Less accumulated depreciation	(39,451)	(13,941)
Net operating real estate	1,997,909	523,085
Construction in progress, including land	15,729	905
Total real estate, net	2,013,638	523,990
Assets held for sale	26,543	—
Investments in and advances to unconsolidated real estate joint ventures	23,430	349,411
Cash and cash equivalents	655,495	52,606
Intangibles, net	39,802	19,992
Other assets, net	46,816	12,802
Total assets	$2,805,724	$ 958,801
Liabilities and equity		
Liabilities		
Mortgage loans payable	$ 914,467	$ 93,360
Credit facility payable	10,000	64,000
Liabilities related to assets held for sale	16,130	—
Accounts payable and other liabilities	22,725	8,644
Deferred lease revenues and other related liabilities, net	16,680	15,909
Distributions payable	8,413	5,179
Tenant security deposits	3,762	940
Total liabilities	992,177	188,032
Commitments and contingencies		
Redeemable, noncontrolling interests	8,539	—
Equity		
Preferred stock, $.0001 par value per share; 124,999,000 shares authorized, none outstanding	—	—
Non-participating, non-voting convertible stock, $.0001 par value per share; 1,000 shares authorized, 1,000 shares issued and outstanding	—	—
Common stock, $.0001 par value per share; 875,000,000 shares authorized, 165,086,701 and 102,859,791 shares issued and outstanding at December 31, 2011 and 2010, respectively	17	10
Additional paid-in capital	1,502,010	896,500
Cumulative distributions and net loss	(110,090)	(125,741)
Total equity attributable to common stockholders	1,391,937	770,769
Non-redeemable, noncontrolling interests	413,071	—
Total equity	1,805,008	770,769
Total liabilities and equity	$2,805,724	$ 958,801

See Notes to Consolidated Financial Statements.

Behringer Harvard Multifamily REIT I, Inc.
Consolidated Statements of Operations
(in thousands, except per share amounts)

	For the Year Ended December 31, 2011	2010	2009
Rental revenues	$ 67,448	$ 28,868	$ 2,983
Expenses			
Property operating expenses	20,328	8,679	803
Real estate taxes	9,248	3,967	329
Asset management fees	6,307	5,146	2,051
General and administrative expenses	4,570	4,242	3,160
Acquisition expenses	6,163	10,775	3,393
Interest expense	11,245	4,916	101
Depreciation and amortization	38,813	20,147	2,113
Total expenses	96,674	57,872	11,950
Interest income	3,360	1,376	1,089
Gain on revaluation of equity on business combinations	121,938	—	—
Gain on sale of joint venture interests	5,724	—	—
Equity in loss of investments in unconsolidated real estate joint ventures	(7,877)	(6,892)	(238)
Income (loss) from continuing operations	93,919	(34,520)	(8,116)
Income (loss) from discontinued operations	569	(50)	(189)
Net income (loss)	94,488	(34,570)	(8,305)
Net (income) loss attributable to noncontrolling interests:			
Redeemable noncontrolling interests in continuing operations	274	—	—
Non-redeemable noncontrolling interests in continuing operations	4,004	—	—
Non-redeemable noncontrolling interests in discontinued operations	(134)	—	—
Net income (loss) attributable to common stockholders	$ 98,632	$(34,570)	$ (8,305)
Weighted average number of common shares outstanding	138,111	83,532	32,473
Basic and diluted income (loss) per common share:			
Continuing operations	$ 0.71	$ (0.41)	$ (0.26)
Discontinued operations	—	—	—
Basic and diluted income (loss) per common share	$ 0.71	$ (0.41)	$ (0.26)
Amounts attributable to common stockholders:			
Continuing operations	$ 98,197	$(34,520)	$ (8,116)
Discontinued operations	435	(50)	(189)
Net income (loss) attributable to common stockholders	$ 98,632	$(34,570)	$ (8,305)

See Notes to Consolidated Financial Statements.

Behringer Harvard Multifamily REIT I, Inc.

Consolidated Statements of Equity

(in thousands)

	Convertible Stock Number of Shares	Convertible Stock Par Value	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Noncontrolling Interests	Cumulative Distributions and Net Loss to Common Stockholders	Total Equity
Balance at January 1, 2009	1	$—	15,348	$ 1	$ 117,268	$ —	$ (4,875)	$ 112,394
Net loss	—	—	—	—	—	—	(8,305)	(8,305)
Sales of common stock, net	—	—	41,129	4	363,332	—	—	363,336
Redemptions of common stock	—	—	(304)	—	(2,512)	—	—	(2,512)
Distributions:								
Declared on common stock	—	—	—	—	—	—	(22,688)	(22,688)
Stock issued pursuant to distribution reinvestment plan, net	—	—	925	—	8,792	—	—	8,792
Balance at December 31, 2009	1	$—	57,098	$ 5	$ 486,880	$ —	$ (35,868)	$ 451,017
Net loss	—	—	—	—	—	—	(34,570)	(34,570)
Sales of common stock, net	—	—	44,626	5	397,406	—	—	397,411
Redemptions of common stock	—	—	(1,837)	—	(16,029)	—	—	(16,029)
Distributions:								
Declared on common stock	—	—	—	—	—	—	(55,303)	(55,303)
Stock issued pursuant to distribution reinvestment plan, net	—	—	2,973	—	28,243	—	—	28,243
Balance at December 31, 2010	1	$—	102,860	$10	$ 896,500	$ —	$(125,741)	$ 770,769
Net income (loss)	—	—	—	—	—	(3,870)	98,632	94,762
Sales of common stock, net	—	—	59,550	7	539,554	—	—	539,561
Redemptions of common stock	—	—	(1,969)	—	(17,780)	—	—	(17,780)
Distributions:								
Declared on common stock	—	—	—	—	—	—	(82,981)	(82,981)
Noncontrolling interests	—	—	—	—	—	7,573	—	7,573
Acquisition of noncontrolling interests	—	—	—	—	—	360,405	—	360,405
Sale of noncontrolling interests	—	—	—	—	39,596	48,963	—	88,559
Stock issued pursuant to distribution reinvestment plan, net	—	—	4,646	—	44,140	—	—	44,140
Balance at December 31, 2011	1	$—	165,087	$17	$1,502,010	$413,071	$(110,090)	$1,805,008

See Notes to Consolidated Financial Statements.

Behringer Harvard Multifamily REIT I, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities			
Net income (loss)	$ 94,488	$ (34,570)	$ (8,305)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on revaluation of equity on business combinations	(121,938)	—	—
Gain on sale of joint venture interests	(5,724)	—	—
Equity in loss of investments in unconsolidated real estate joint ventures	7,877	6,892	238
Distributions received from investments in unconsolidated real estate joint ventures	14,576	7,717	5,720
Depreciation and amortization	28,690	13,325	1,482
Amortization of deferred financing costs and debt premium/discount	1,674	973	172
Amortization of intangibles	9,453	7,218	1,237
Amortization of deferred lease revenues and other related liabilities	(1,387)	(1,381)	(401)
Changes in operating assets and liabilities:			
Deferred lease revenues and other related liabilities	1,988	2,093	—
Accounts payable and other liabilities	3,277	829	455
Other assets	(1,323)	(503)	(354)
Cash provided by operating activities	31,651	2,593	244
Cash flows from investing activities			
Acquisitions of and additions to real estate	(179,265)	(374,841)	(147,942)
Proceeds from sale of real estate, net	50,556	—	—
Proceeds from sale of joint venture interests	101,041	—	—
Investments in unconsolidated real estate joint ventures	(32,143)	(187,267)	(193,930)
Acquisition of noncontrolling interests, including cash	14,202	—	—
Advances on notes receivable	(22,426)	—	(2,183)
Return of investments in unconsolidated real estate joint ventures	56,202	101,523	4,205
Escrow deposits	2,137	(731)	(2,158)
Other, net	(7)	112	1,040
Cash used in investing activities	(9,703)	(461,204)	(340,968)
Cash flows from financing activities			
Proceeds from sales of common stock	593,841	444,682	410,705
Mortgage proceeds	269,365	15,820	51,300
Mortgage principal payments	(120,518)	(535)	—
Credit facility proceeds	190,000	170,000	—
Credit facility payments	(244,000)	(106,000)	—
Financing costs paid	(4,693)	(3,111)	(854)
Offering costs paid	(57,154)	(46,018)	(52,663)
Contributions from noncontrolling interests	10,286	—	—
Distributions paid on common stock	(35,600)	(25,143)	(11,483)
Distributions paid to noncontrolling interests	(2,806)	—	—
Redemptions of common stock	(17,780)	(16,018)	(2,512)
Cash provided by financing activities	580,941	433,677	394,493
Net change in cash and cash equivalents	602,889	(24,934)	53,769
Cash and cash equivalents at beginning of year	52,606	77,540	23,771
Cash and cash equivalents at end of year	$ 655,495	$ 52,606	$ 77,540

See Notes to Consolidated Financial Statements.

1. Organization and Business

Organization

Behringer Harvard Multifamily REIT I, Inc. (which, together with its subsidiaries as the context requires, may be referred to as the "Company," "we," "us," or "our") was organized in Maryland on August 4, 2006. We invest in and operate high quality multifamily communities. These multifamily communities include conventional multifamily assets, such as mid-rise, high-rise, garden style, and age-restricted properties, typically requiring residents to be age 55 or older. We may also invest in other types of multifamily communities, such as student housing. Our targeted communities include existing "core" properties that are already stabilized and producing rental income as well as more opportunistic properties in various phases of development, redevelopment, lease up or repositioning. Further, we may invest in other types of commercial real estate, real estate-related securities, mortgage, bridge, mezzanine or other loans and Section 1031 tenant-in-common interests, or in entities that make investments similar to the foregoing. We completed our first investment in April 2007, and as of December 31, 2011, we have made wholly owned or joint venture equity investments ("Co-Investment Ventures") in 37 consolidated multifamily communities, of which 34 are stabilized operating properties, and three are in development. In addition to our consolidated investments, we have one unconsolidated joint venture equity investment in another multifamily community, where the joint venture has also made a loan investment. In addition, we have made four separate consolidated debt investments, primarily mezzanine and land loans.

Our Co-Investment Ventures are principally with Behringer Harvard Master Partnership I LP (the "BHMP Co-Investment Partner") and Milky Way Partners, L.P. (the "MW Co-Investment Partner"). We refer to our Co-Investment Ventures with the BHMP Co-Investment Partner as "BHMP CO-JVs" and those with the MW Co-Investment Partner as "MW CO-JVs." If a Co-Investment Venture makes an equity or debt investment in a separate entity with an additional third party equity owner, we refer to such a separate entity as a "Property Entity." As of December 31, 2011, only BHMP CO-JVs had investments in Property Entities. If specifically referred to by its context, we will name the BHMP CO-JV, the MW CO-JV or the Property Entity. We also have other Co-Investment Ventures with other real estate owners. Where we believe it is meaningful, we disclose our share of Co-Investment Venture activity, which represents amounts directly attributable to us and our wholly owned subsidiaries, based on our share of capital contributed.

We have no employees and are supported by related party service agreements. We are externally managed by Behringer Harvard Multifamily Advisors I, LLC ("Behringer Harvard Multifamily Advisors I" or the "Advisor"), a Texas limited liability company. The Advisor is responsible for managing our affairs on a day-to-day basis and for identifying and making real estate investments on our behalf. Substantially all of our business is conducted through our indirectly wholly owned operating partnership, Behringer Harvard Multifamily OP I LP, a Delaware limited partnership ("Behringer Harvard Multifamily OP I"). Our wholly owned subsidiary, BHMF, Inc., a Delaware corporation ("BHMF Inc."), owns less than 0.1% of Behringer Harvard Multifamily OP I as its sole general partner. The remaining ownership interest in Behringer Harvard Multifamily OP I is held as a limited partner's interest by our wholly owned subsidiary, BHMF Business Trust, a Maryland business trust.

We have elected to be taxed, and currently qualify, as a real estate investment trust ("REIT") for federal income tax purposes. As a REIT, we generally are not subject to corporate-level income taxes. To maintain our REIT status, we are required, among other requirements, to distribute annually at least 90% of our "REIT taxable income," as defined by the Internal Revenue Code of 1986, as

1. Organization and Business (Continued)

amended (the "Code"), to our stockholders. If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax on our taxable income at regular corporate tax rates. As of December 31, 2011, we believe we are in compliance with all applicable REIT requirements.

Offerings of Our Common Stock

In December 2007, we completed a private offering (the "Private Offering"), in which we sold approximately 14.2 million shares of our common stock with gross offering proceeds of approximately $127.3 million. Net proceeds, after selling commissions, dealer manager fees, and other offering costs, were approximately $114.3 million.

On September 2, 2011, we terminated offering shares of common stock in the primary portion of our initial public offering (the "Initial Public Offering"), in which we sold 146.4 million shares of our common stock with aggregate gross primary offering proceeds of approximately $1.46 billion. Net proceeds, after selling commissions, dealer manager fees, and other offering costs, were approximately $1.30 billion. Upon termination of our Initial Public Offering, we reallocated 50 million unsold shares remaining from our Initial Public Offering to our distribution reinvestment plan ("DRIP"). As a result, we are currently offering a maximum of 100 million total shares of our common stock pursuant to our DRIP at a price of $9.50 per share. As of December 31, 2011, we have sold approximately 8.6 million shares under our DRIP for gross proceeds of approximately $81.3 million. There are approximately 91.4 million shares remaining to be sold under the DRIP.

We currently expect to offer shares under the DRIP until the sixth anniversary of the termination of our Initial Public Offering. We may suspend or terminate the DRIP at any time by providing ten days' prior written notice to participants, and we may amend or supplement the DRIP at any time by delivering notice to participants at least 30 days' prior to the effective date of the amendment or supplement.

Our common stock is not currently listed on a national securities exchange. Depending upon then-prevailing market conditions, we intend to begin to consider the process of listing or liquidation within four to six years after the date of the termination of our Initial Public Offering.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include our consolidated accounts and the accounts of our wholly owned subsidiaries. We also consolidate other entities in which we have a controlling financial interest or entities where we are determined to be the primary beneficiary. Variable interest entities ("VIEs") are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. The primary beneficiary is required to consolidate a VIE for financial reporting purposes. The determination of the primary beneficiary requires management to make significant estimates and judgments about our rights, obligations, and economic interests in such entities as well as the same of the other owners. For entities in which we have less than a controlling financial interest or entities with respect to which we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or

2. Summary of Significant Accounting Policies (Continued)

losses of these entities is included in consolidated net income. All inter-company accounts and transactions have been eliminated in consolidation.

Real Estate and Other Related Intangibles

For real estate properties acquired by us or our Co-Investment Ventures classified as business combinations, we determine the purchase price, after adjusting for contingent consideration and settlement of any pre-existing relationships. We record the acquired assets and liabilities based on their fair values, including tangible assets (consisting of land, any associated rights, buildings and improvements), identified intangible assets and liabilities, asset retirement obligations, assumed debt, other liabilities and noncontrolling interests. Identified intangible assets and liabilities primarily consist of the fair value of in-place leases and contractual rights. Goodwill is recognized as of the acquisition date and measured as the aggregate fair value of the consideration transferred and any noncontrolling interests in the acquiree over the fair value of identifiable net assets acquired. Likewise, a bargain purchase gain is recognized in current earnings when the aggregate fair value of the consideration transferred and any noncontrolling interests in the acquiree are less than the fair value of the identifiable net assets acquired.

The fair value of any tangible assets acquired is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, buildings and improvements. Land values are derived from appraisals, and building values are calculated as replacement cost less depreciation or estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. When we acquire rights to use land or improvements through contractual rights rather than fee simple interests, we determine the value of the use of these assets based on the relative fair value of the assets after considering the contractual rights and the fair value of similar assets. Assets acquired under these contractual rights are classified as intangibles and amortized on a straight-line basis over the shorter of the contractual term or the estimated useful life of the asset. Contractual rights related to land or air rights that are substantively separated from depreciating assets are amortized over the life of the contractual term or, if no term is provided, are classified as indefinite-lived intangibles. Intangible assets are evaluated at each reporting period to determine whether the indefinite and finite useful lives are appropriate.

We determine the value of in-place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. The aggregate value of in-place leases and tenant relationships are determined by applying a fair value model. The estimates of fair value of in-place leases include an estimate of carrying costs during the expected lease up periods for the respective units considering current market conditions. In estimating fair value of in-place leases, we consider items such as real estate taxes, insurance, leasing commissions, legal expenses, tenant improvements and other operating expenses to execute similar deals as well as projected rental revenue and carrying costs during the expected lease up period. The estimate of the fair value of tenant relationships also includes our estimate of the likelihood of renewal.

We determine the value of above-market and below-market in-place leases for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) estimates of current market lease rates for the corresponding in-place leases, measured over a period equal to (i) the remaining non-cancelable lease term for above-market leases, or (ii) the

2. Summary of Significant Accounting Policies (Continued)

remaining non-cancelable lease term plus any fixed rate renewal options for below-market leases. We record the fair value of above-market and below-market leases as intangible assets or intangible liabilities, respectively, and amortize them as an adjustment to rental income over the above determined lease term. Given the short term nature of multifamily leases, the value of above-market or below-market in-place leases are generally not material.

We amortize the value of in-place leases acquired to expense over the remaining term of the leases. The value of tenant relationship intangibles will be amortized to expense over the initial term and any anticipated renewal periods, but in no event will the amortization period for intangible assets exceed the remaining depreciable life of the building. Intangible lease assets are classified as intangibles and intangible lease liabilities are recorded within deferred lease revenues and other related liabilities.

We determine the fair value of assumed debt by calculating the net present value of the scheduled debt service payments using interest rates for debt with similar terms and remaining maturities that management believes we could obtain. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan.

Initial valuations are subject to change until our information is finalized, which is no later than 12 months from the acquisition date. We have had no significant valuation changes for acquisitions prior to December 31, 2011.

Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy. Expenditures for ordinary repairs and maintenance costs are charged to expense as incurred. Buildings are depreciated over their estimated useful lives ranging from 25 to 35 years using the straight-line method. Improvements are depreciated over their estimated useful lives ranging from 3 to 15 years using the straight-line method. Properties classified as held for sale are not depreciated.

Impairment of Real Estate Related Assets and Investments in Unconsolidated Real Estate Joint Ventures

If events or circumstances indicate that the carrying amount of the property may not be recoverable, we make an assessment of the property's recoverability by comparing the carrying amount of the asset to our estimate of the undiscounted future operating cash flows expected to be generated over the holding period of the asset including its eventual disposition. If the carrying amount exceeds the aggregate undiscounted future operating cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property. In addition, we evaluate indefinite-lived intangible assets for possible impairment at least annually by comparing the fair values with the carrying values. The fair value of intangibles is generally estimated by valuation of similar assets.

For real estate we own through an investment in an unconsolidated real estate joint venture or other similar real estate investment structure, at each reporting date we compare the estimated fair value of our real estate investment to the carrying value. An impairment charge is recorded to the extent the fair value of our real estate investment is less than the carrying amount and the decline in value is determined to be other than a temporary decline. We did not record any impairment losses for the years ended December 31, 2011, 2010 or 2009.

2. Summary of Significant Accounting Policies (Continued)

Assets Held for Sale and Discontinued Operations

We report dispositions of multifamily communities as discontinued operations in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Assuming we have no involvement after the sale, the sale of a multifamily community is considered a discontinued operation. In addition, multifamily communities classified as held for sale are also considered a discontinued operation. We generally consider assets to be held for sale when all significant contingencies surrounding the closing have been resolved, which generally corresponds with the actual closing date. Multifamily communities held for sale are reported at the lower of their carrying value or their estimated fair value less costs to sell.

Cash and Cash Equivalents

We consider investments in bank deposits, money market funds and highly-liquid cash investments with original maturities of three months or less to be cash equivalents.

Investments in and Advances to Unconsolidated Real Estate Joint Ventures

We define our joint venture arrangements with institutional or other real estate investors as Co-Investment Ventures. We or our Co-Investment Ventures account for certain investments in unconsolidated real estate joint ventures using the equity method of accounting because we exercise significant influence over, but do not control, these entities. These investments are initially recorded at cost, including any acquisition costs, and are adjusted for our share of equity in earnings and distributions. We report our share of income and losses based on our economic interests in the entities.

We capitalize interest expense to investments in unconsolidated real estate joint ventures for our share of qualified expenditures during their development phase.

We amortize any excess of the carrying value of our investments in joint ventures over the book value of the underlying equity over the estimated useful lives of the underlying operating property, which represents the assets to which the excess is most clearly related.

When we or our Co-Investment Ventures acquire a controlling interest in a previously noncontrolled investment, a gain or loss on revaluation of equity is recognized for the differences between the investment's carrying value and fair value.

Noncontrolling Interests

Redeemable, noncontrolling interests are comprised of potential future obligations of the Co-Investment Ventures that allow the investors holding the noncontrolling interest to require the Co-Investment Venture to purchase their interest. We record obligations under the redeemable noncontrolling interests initially at fair value, increased or decreased for the noncontrolling interest's share of net income or loss or the redemption value if redemption is probable. The redeemable noncontrolling interests are temporary equity not within the Co-Investment Venture's control, and presented in our consolidated balance sheet outside of permanent equity between debt and equity.

Non-redeemable, noncontrolling interests are comprised of our Co-Investment Venture partners' interests in multifamily communities as well as Class A, preferred cumulative, non-voting membership units ("Preferred Units") issued by subsidiary REITS. We report our Co-Investment Venture partners'

2. Summary of Significant Accounting Policies (Continued)

interest in our consolidated real estate joint venture and other subsidiary interests held by third parties as noncontrolling interests. We record these noncontrolling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss or equity contributions and distributions. These noncontrolling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are allocated to the noncontrolling interest holder based on its economic ownership percentage.

Transactions involving a partial sale of a controlling interest are recorded at carrying value with no recognition of gain or loss. Any differences between the cash received and the change in noncontrolling interest is recorded as a direct charge to additional paid-in capital. Transactions resulting in a change in control are recorded at fair value with recognition of a gain or loss upon de-consolidation of the business.

Other Assets

Other assets primarily include deferred financing costs, notes receivable, accounts receivable, restricted cash and prepaid assets and deposits. Deferred financing costs are recorded at cost and are amortized using a straight-line method that approximates the effective interest method over the life of the related debt. We evaluate whether notes receivable are loans, investments in joint ventures or acquisitions of real estate based on a review of any rights to participate in expected residual profits and other equity and loan characteristics. As of December 31, 2011 and 2010, all of our notes receivables were loans.

Revenue Recognition

Rental income related to leases is recognized on an accrual basis when due from residents or commercial tenants, generally on a monthly basis. Rental revenues for leases with uneven payments and terms greater than one year are recognized on a straight-line basis over the term of the lease. Any deferred revenue is recorded as a liability within deferred lease revenues and other related liabilities.

Acquisition Costs

Acquisition costs for business combinations, which are expected to include most consolidated property acquisitions other than raw land acquisitions, are expensed when it is probable that the transaction will be accounted for as a business combination and the purchase will be consummated. Our acquisition costs related to investments in unconsolidated real estate joint ventures are capitalized as a part of our basis in the investment. Pursuant to our Advisory Management Agreement (as defined below), our Advisor is obligated to reimburse us for all investment-related expenses that the Company pursues but ultimately does not consummate. Prior to the determination of its status, amounts incurred are recorded in other assets. Acquisition costs and expenses include amounts incurred with our Advisor and with third parties.

Organization and Offering Costs

Prior to the termination of our Initial Public Offering in September 2011, our Advisor was obligated to pay all of our Initial Public Offering and Private Offering organization and offering costs and we were required to make reimbursements in accordance with the Advisory Management Agreement, as amended. Organization expenses were expensed as incurred. Offering costs were

2. Summary of Significant Accounting Policies (Continued)

recognized based on estimated amounts probable of reimbursement and were offset against additional paid-in capital.

Redemptions of Common Stock

We account for the possible redemption of our shares by classifying securities that are convertible for cash at the option of the holder outside of equity. We do not reclassify the shares to be redeemed from equity to a liability until such time as the redemption has been formally approved. The portion of the redeemed common stock in excess of the par value is charged to additional paid-in capital.

Income Taxes

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code and have qualified as a REIT since the year ended December 31, 2007. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income to our stockholders. As a REIT, we generally will not be subject to federal income tax at the corporate level. We are organized and operate in such a manner as to qualify for taxation as a REIT under the Code and intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to remain qualified as a REIT.

We have evaluated the current and deferred income tax related to state taxes, with respect to which we do not have a REIT exemption, and we have no significant tax liability or benefit as of December 31, 2011 or 2010.

The carrying amounts of our assets and liabilities for financial statement purposes differ from our basis for federal income taxes due to fair value accounting for business combinations, straight lining of lease and related agreements and differing depreciation methods. The primary asset and liability balance sheet accounts with differences are real estate, assets and liabilities held for sale, intangibles, other assets, mortgage loans payable and deferred lease revenues and other related liabilities. As a result of these differences, the carrying value for financial statement purposes exceeds our net federal income tax basis as of December 31, 2011 by $73.4 million.

We recognize the financial statement benefit of an uncertain tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. As of December 31, 2011 and 2010, we had no significant uncertain tax positions.

Concentration of Credit Risk

We invest our cash and cash equivalents among several banking institutions and money market accounts in an attempt to minimize exposure to any one of these entities. As of December 31, 2011 and 2010, we had cash and cash equivalents deposited in certain financial institutions in excess of federally-insured levels. We regularly monitor the financial stability of these financial institutions and believe that we are not exposed to any significant credit risk in cash and cash equivalents.

Income (loss) per Share

Basic earnings per share is calculated by dividing net earnings available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share is calculated similarly, except that during periods of net income it includes the dilutive effect of the

2. Summary of Significant Accounting Policies (Continued)

assumed exercise of securities, including the effect of shares issuable under our stock-based incentive plans. During periods of net loss, the assumed exercise of securities is anti-dilutive and is not included in the calculation of earnings per share.

The Behringer Harvard Multifamily REIT I, Inc. Amended and Restated 2006 Incentive Award Plan (the "Incentive Award Plan") authorizes the grant of non-qualified and incentive stock options, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents and other stock-based awards. A total of 10 million shares has been authorized and reserved for issuance under the Incentive Award Plan. As of December 31, 2011, no options have been issued. For the years ended December 31, 2011, 2010 and 2009, 6,000 shares of the restricted stock have been included in the basic and dilutive earnings per share calculation.

As of December 31, 2011 and 2010, we had 1,000 shares of convertible stock issued and outstanding, no shares of preferred stock issued and outstanding, and had no options to purchase shares of common stock outstanding. The convertible stock is not included in the dilutive earnings per share because the shares of convertible stock do not participate in earnings and would currently not be convertible into any common shares, if converted.

Reportable Segments

Our current business consists of investing in and operating multifamily communities. Substantially all of our consolidated net income (loss) is from investments in real estate properties that we wholly own or own through Co-Investment Ventures, the latter of which may be accounted for under the equity method of accounting. Our management evaluates operating performance on an individual investment level. However, as each of our investments has similar economic characteristics in our consolidated financial statements, the Company is managed on an enterprise-wide basis with one reportable segment.

Fair Value

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy) has been established.

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement falls is based on the lowest level input that is

2. Summary of Significant Accounting Policies (Continued)

significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In connection with our measurements of fair value related to the many real estate assets, noncontrolling interests and financial instruments, there are generally not available observable market price inputs for substantially the same items. Accordingly, each of these are classified as Level 3, and we make assumptions and use various estimates and pricing models, including, but not limited to, the estimated cash flows, discount and interest rates used to determine present values, market capitalization rates, rental rates, costs to lease properties, useful lives of the assets, the cost of replacing certain assets, and equity valuations. These estimates are from the perspective of market participants and will also be obtained from independent third-party appraisals. However, we are responsible for the source and use of these estimates. A change in these estimates and assumptions could be material to our results of operations and financial condition.

The only nonrecurring fair value measurements during the years ended December 31, 2011 and 2010 were in connection with the revaluation of our investments in and advances to unconsolidated joint ventures included in Note 4, "Business Combinations."

As of December 31, 2011, we believe the carrying values of cash and cash equivalents, notes receivable, affiliate receivables and payables and credit facility payable approximate their fair values based on their highly-liquid nature and/or short-term maturities, including prepayment options. As of December 31, 2011, we estimate the fair value of our mortgage loans payable at $937.9 million, compared to its carrying value of $930.3 million, including mortgage loan payable of $15.8 million reported in liabilities related to assets held for sale on the consolidated balance sheet. As of December 31, 2010, we estimate the fair value of our mortgage loans payable at $94.7 million compared to its carrying value of $93.4 million. As of December 31, 2011 and 2010, we had no significant assets or liabilities measured at fair value on a recurring or nonrecurring basis. We estimate fair values for financial instruments based on interest rates with similar terms and remaining maturities that management believes we could obtain.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and accompanying notes to consolidated financial statements. These estimates include such items as: the purchase price allocations for real estate acquisitions; impairment of long-lived assets, notes receivable and equity-method real estate investments; fair value evaluations; revenue recognition of note receivable interest income and equity in earnings of investments in unconsolidated real estate joint ventures; depreciation and amortization; and allowance for doubtful accounts. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the Consolidated Balance Sheet as of December 31, 2010 and the Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009, to be consistent with 2011 presentation. On the Consolidated Balance Sheet as of December 31, 2010, the $0.3 million of receivable from affiliates and the $3.7 million of deferred financing costs, net are

2. Summary of Significant Accounting Policies (Continued)

included in other assets, net, and the $2.9 million payables to affiliates are included in accounts payable and other liabilities.

On the Consolidated Statements of Cash Flows for the year ended December 31, 2009, $0.4 million of payables to affiliates are included in accounts payable and other liabilities. Further, for the years ended December 31, 2010 and 2009, $0.1 million and $1.0 million, respectively, of advances to/from unconsolidated real estate joint ventures and $(32,000) and $0.1 million, respectively, of prepaid or reimbursed acquisition costs were combined and are included in investing activities—other, net. We believe these changes in presentation simplify the consolidated balance sheet and consolidated statements of cash flows by combining immaterial line items.

3. New Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (the "FASB") issued further clarification on when a loan modification or restructuring is considered a troubled debt restructuring. In determining whether a loan modification represents a troubled debt restructuring, an entity should consider whether the debtor is experiencing financial difficulty and the lender has granted a concession to the borrower. This guidance is to be applied retrospectively, with early application permitted. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011. The adoption of this guidance did not have a material impact on our consolidated financial statements or disclosures.

In May 2011, the FASB issued updated guidance for fair value measurements. The guidance amends existing guidance to provide common fair value measurements and related disclosure requirements between GAAP and International Financial Reporting Standards ("IFRS"). This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating this guidance to determine if it will have a material impact on our consolidated financial statements or disclosures.

4. Business Combinations

Consolidation of Previously Unconsolidated Multifamily Communities

In April 2011, the Waterford Place BHMP CO-JV operating agreement was modified, requiring us to consolidate our 55% ownership interest in the Waterford Place BHMP CO-JV. No consideration was paid in connection with the business combination. The principal asset of the Waterford Place BHMP CO-JV was the Waterford Place multifamily community, which at the time of the business combination was classified as held for sale. We recognized a gain of $18.1 million related to the revaluation of our equity interest for the difference between our carrying value in the unconsolidated real estate joint venture and the fair value of our ownership interest just before the modification. The fair value was substantially derived from the terms of the sale agreement, which closed in May 2011.

In December 2011, we sold joint venture interests in six multifamily communities to the MW Co-Investment Partner for an aggregate purchase price of $180.3 million, excluding closing costs. These joint venture interests ranged from 15% to 45% interests in the following multifamily communities: 7166 at Belmar, Acacia on Santa Rosa Creek, Argenta, Cyan/PDX, The Gallery at NoHo Commons and The Lofts at Park Crest (the "BH Sale Properties").

4. Business Combinations (Continued)

As we reported our investment in 7166 Belmar and Cyan/PDX under the equity method of accounting, we recognized a gain on the sale of the partial interests of $5.7 million. As we reported our investments in Acacia on Santa Rosa Creek, Argenta, The Gallery at NoHo Commons and The Lofts at Park Crest under the consolidation method and as we retained a controlling interest in the investments after the partial sale, no gain was recognized in the consolidated statement of operations. Instead, the difference between the net cash proceeds received and the noncontrolling interest recorded based on the book values at the time of the partial sale are recorded as a direct increase to additional paid-in capital for $39.6 million.

Simultaneously with the closing on the sale of the above joint venture interests, the MW Co-Investment Partner and the BHMP Co-Investment Partner also closed on a sale of the BHMP Co-Investment Partner's entire joint venture interests in 12 multifamily communities: 4550 Cherry Creek, 7166 at Belmar, Argenta, Briar Forest Lofts, Burrough's Mill, Calypso Apartment and Lofts, Cyan/PDX, Eclipse, Fitzhugh Urban Flats, Forty55 Lofts, The Venue and West Village (the "Master Sale Properties"). The 99% limited partner of the BHMP Co-Investment Partner is Stichting Depositary PGGM Private Real Estate Fund, a Dutch foundation acting in its capacity as depositary of and for the account and risk of PGGM Private Real Estate Fund, an investment vehicle for Dutch pension funds ("PGGM"). Substantially all of the capital provided to the BHMP Co-Investment Partner is from PGGM. We have no ownership or other direct financial interests in either of these entities. The BHMP Co-Investment Partner remains our partner in 13 BHMP CO-JVs through which we hold joint interests in multifamily communities.

As a result of the transactions described above, the MW Co-Investment Partner serves as our joint venture partner in the ownership of the BH Sale Properties and the Master Sale Properties (some of which overlap), replacing the BHMP Co-Investment Partner. The MW Co-Investment Partner is a partnership between Heitman LLC ("Heitman"), which serves as the general partner, and Korea Exchange Bank, as Trustee for and on behalf of National Pension Service (acting for and on behalf of the National Pension Fund of the Republic of Korea Government) ("NPS"), which serves as the limited partner. We have no ownership or other direct financial interests in either of these entities.

As a result of the closing of the transactions above, our interests in the BH Sale Properties and the Master Sale Properties are now 55%, with the MW Co-Investment Partner owning 45% of each multifamily community referred to above.

In connection with the sale of joint venture interests to the MW Co-Investment Partner, we entered into new joint venture agreements with the MW Co-Investment Partner and all of our joint venture agreements with the BHMP Co-Investment Partner were amended (including those unrelated to the joint venture interests sold to the MW Co-Investment Partner). These amendments included changes to the governing rights such as the control rights over operating plans, which, along with other factors have resulted in our having sufficient control over the BHMP CO-JVs and MW CO-JVs and as such we have fair valued the investments in unconsolidated real estate joint ventures and consolidated all of the BHMP CO-JVs and MW CO-JVs ("Consolidated BHMP/MW CO-JVs") effective December 1, 2011. As a part of the consolidation of previously held equity method investments, we have recognized a gain on revaluation of equity on business combinations of $103.8 million. The investments in and advances to unconsolidated real estate joint ventures were recorded at their fair value on December 1, 2011 based primarily on the fair value of the investment's underlying assets and liabilities. Fair value of real estate was determined based on market capitalization rates, comparable

4. Business Combinations (Continued)

sales and forecasted operations which include estimates of rental rates, costs to lease, and operating expenses. Fair value of mortgage loan payables and notes receivable were determined based on market pricing, primarily market interest rates and other market terms as of December 1, 2011. All other assets and liabilities were reviewed to determine their fair value based on applicable market factors. All of these estimates are from the perspective of market participants.

The nonrecurring fair value measurements of the investments in and advances to unconsolidated real estate joint ventures related to the consolidation of Waterford Place BHMP CO-JV and the Consolidated BHMP/MW CO-JVs are all considered Level 3 inputs under the fair value hierarchy as described in Note 2, "Summary of Significant Accounting Policies." The following fair value hierarchy table presents information about our assets measured at fair value on a nonrecurring basis during the year ended December 31, 2011 (in millions):

December 31, 2011	Level 1	Level 2	Level 3	Total Fair Value	Gain (Loss)
Assets					
Investments in and advances to unconsolidated real estate joint ventures:					
Waterford Place BHMP CO-JV	$—	$—	$ 27.6	$ 27.6	$ 18.1
Consolidated BHMP/MW CO-JVs			389.7	389.7	103.8
	$—	$—	$417.3	$417.3	$121.9

There were no nonrecurring fair value measurements for the year ended December 31, 2010.

Subsequent to these transactions, the BHMP CO-JVs and MW CO-JVs collectively had 29 consolidated multifamily communities and one unconsolidated multifamily community as of December 31, 2011.

Other Acquisitions of Real Estate

In 2011, we acquired in separate transactions three consolidated interests in multifamily communities, Argenta (96%), West Village (55%) and Stone Gate (55%), totaling 711 units, for an aggregate gross purchase price of approximately $194.7 million. A portion of the aggregate purchase price was funded with mortgage loan payables of $58.5 million.

In 2010, we acquired in separate transactions seven wholly owned multifamily communities, Acacia on Santa Rosa Creek, The Lofts at Park Crest, Burnham Pointe, Uptown Post Oak, Acappella, The Reserve at La Vista Walk and Allegro totaling 1,816 units for an aggregate purchase price, excluding closing costs, of approximately $401.1 million, including the assumption of a mortgage loan payable and other liabilities of $27.2 million.

Business Combination Summary Information

The following tables present certain additional information regarding our 2011 and 2010 business combinations and other acquisitions. The tables provide separate information for our material 2011 acquisitions: Waterford Place business combination, the MW CO-JVs business combinations, and the

4. Business Combinations (Continued)

BHMP CO-JVs business combinations; and for our material 2010 acquisitions: The Lofts at Park Crest and Burnham Pointe.

The amounts recognized for major assets acquired and liabilities assumed, including a reconciliation to cash consideration as of the business combination date individually presented for material business combinations and acquisitions and summarized for the other 2011 and 2010 acquisitions are as follows (in millions):

	2011 Acquisitions as of December 31, 2011					2010 Acquisitions as of December 31, 2010			
	Waterford Place	MW CO-JVs	BHMP CO-JVs	Other Acquisitions	Total 2011 Acquisitions	The Lofts at Park Crest	Burnham Pointe	Other Acquisitions	Total 2010 Acquisitions
Assets held for sale	$110.9	$ —	$ —	$ —	$ 110.9	$ —	$ —	$ —	$ —
Land	—	75.3	117.8	24.7	217.8	—	10.4	47.0	57.4
Buildings and improvements	—	518.7	622.4	166.3	1,307.4	49.7	76.0	191.3	317.0
Construction in progress	—	—	7.9	—	7.9	—	—	0.9	0.9
Investment in and advances to unconsolidated real estate joint venture	—	—	24.1	—	24.1	—	—	—	—
Cash	0.2	5.1	9.0	—	14.3	—	—	—	—
Intangible assets:									
In place lease	—	10.5	15.3	3.5	29.3	2.7	1.6	5.3	9.6
Contractual rights[(a)]	—	—	—	—	—	16.2	—	—	16.2
Total intangible assets	—	10.5	15.3	3.5	29.3	18.9	1.6	5.3	25.8
Other assets	0.3	2.8	9.6	—	12.7	—	—	—	—
Liabilities related to assets held for sale	(61.2)	—	—	—	(61.2)	—	—	—	—
Mortgage loan payable	—	(249.5)	(417.0)	(58.5)	(725.0)	—	—	(26.8)	(26.8)
Deferred lease revenues and other liabilities[(b)]	—	(7.4)	(8.7)	—	(16.1)	(0.4)	—	—	(0.4)
Noncontrolling interests	(22.6)	(160.5)	(185.8)	—	(368.9)	—	—	—	—
Net Assets	27.6	195.0	194.6	136.0	553.2	68.2	88.0	217.7	373.9
Other consolidation/ elimination adjustments:									
Investment in and advances to unconsolidated real estate joint venture	(9.5)	(100.5)	(185.3)	—	(295.3)	—	—	—	—
Gain on revaluation of equity for business combinations[(c)]	(18.1)	(94.5)	(9.3)	—	(121.9)	—	—	—	—
Cash consideration	$ —	$ —	$ —	$136.0	$ 136.0	$68.2	$88.0	$217.7	$373.9

(a) Contractual rights include land and parking garage rights.

(b) The deferred lease revenues and other liabilities for 2011 primarily relate to residential rents paid in advance and for 2010 relate to contingent consideration payable of $0.4 million.

(c) Represents the gain on revaluation of equity for business combinations recorded at time of consolidation.

4. Business Combinations (Continued)

The amounts recognized for revenues and net losses from the business combination dates to December 31, 2011 and 2010, individually for material business combinations and acquisitions and summarized for other acquisitions are as follows (in millions):

	For the Year Ended December 31, 2011					For the Year Ended December 31, 2010			
	Waterford Place	MW CO-JVs	BHMP CO-JVs	Other Acquisitions	Total 2011 Acquisitions	The Lofts at Park Crest	Burnham Pointe	Other Acquisitions	Total 2010 Acquisitions
Revenues	$ —	$ 4.0	$4.6	$ 9.8	$ 18.4	$5.2	$ 3.4	$ 8.5	$17.1
Acquisition expenses	$ —	$ —	$—	$ 6.2	$ 6.2	$0.4	$ 1.0	$ 1.2	$ 2.6
Depreciation and amortization	$ —	$ 3.8	$4.8	$ 8.1	$ 16.7	$2.6	$ 3.2	$ 7.0	$12.8
Gain on revaluation of equity on business combinations	$18.1	$94.5	$9.3	$ —	$121.9	$—	$ —	$ —	$ —
Income from discontinued operations, net of noncontrolling interest	$ 0.3	$ —	$—	$ —	$ 0.3	$—	$ —	$ —	$ —
Net income (loss) attributable to common stockholders	$18.4	$93.2	$7.9	$(9.1)	$110.4	$0.5	$(2.6)	$(5.0)	$(7.1)

The following unaudited consolidated pro forma information is presented as if we acquired the MW CO-JVs and BHMP CO-JVs and each of the multifamily communities on January 1, 2010. The information excludes activity that is non-recurring and not representative of our future activity, primarily acquisition expenses of $6.2 million and $10.8 million for the years ended December 31, 2011 and 2010, respectively. The acquisition and subsequent disposition of the Waterford Place multifamily community are not presented in the pro forma results below as income (loss) from continuing operations was not affected by these transactions. We have excluded the gain on revaluation of equity on business combinations of $121.9 million for the acquisition of Waterford Place, the MW CO-JVs and the BHMP CO-JVs for the year ended December 31, 2011. The information presented below is not necessarily indicative of what the actual results of operations would have been had we completed these transactions on January 1, 2010, nor does it purport to represent our future operations (amounts in millions, expect per share):

	Proforma For the Year Ended December 31,	
	2011	2010
Revenues	$162.9	$106.2
Depreciation and amortization	$ 88.5	$ 75.4
Loss from continuing operations	$(30.9)	$(51.4)
Loss from continuing operations per share	$(0.22)	$(0.43)

4. Business Combinations (Continued)

We are in the process of finalizing our acquisition allocations for our 2011 material acquisitions, which are subject to change until our information is finalized, no later than twelve months from the acquisition date.

5. Real Estate Investments

Real Estate Investments and Intangibles and Related Depreciation and Amortization

As of December 31, 2011 and December 31, 2010, major components of our real estate investments and intangibles and related accumulated depreciation and amortization were as follows (in millions):

	December 31, 2011			December 31, 2010		
	Buildings and Improvements	Intangibles: In-Place Leases	Intangibles: Other Contractual	Buildings and Improvements	Intangibles: In-Place Leases	Intangibles: Other Contractual
Cost	$1,728.9	$ 41.3	$16.4	$440.6	$12.1	$16.3
Less: accumulated depreciation and amortization	(39.5)	(17.4)	(0.5)	(13.9)	(8.2)	(0.2)
Net	$1,689.4	$ 23.9	$15.9	$426.7	$ 3.9	$16.1

Depreciation expense associated with our consolidated buildings and improvements for the years ended December 31, 2011, 2010 and 2009 was approximately $27.0 million, $11.3 million and $1.1 million, respectively.

Cost of intangibles related to our consolidated investments in real estate consisted of the value of in-place leases and other contractual intangibles. These in-place leases are amortized over the remaining term of the in-place leases, approximately a six month term for multifamily in-place lease and terms ranging from three to 20 years for retail leases. Amortization expense associated with our lease intangibles for the years ended December 31, 2011, 2010, and 2009 was approximately $9.5 million, $7.0 million, and $0.8 million, respectively.

Included in other contractual intangibles as of December 31, 2011 and 2010 is $6.8 million related to the use rights of a parking garage and site improvements and $9.5 million of indefinite-lived contractual rights related to land air rights.

Anticipated amortization associated with lease and other contractual intangibles for each of the following five years is as follows (in millions):

Year	Anticipated Amortization of lease intangibles (in millions)
2012	$21.0
2013	$ 0.6
2014	$ 0.6
2015	$ 0.6
2016	$ 0.5

5. Real Estate Investments (Continued)

Assets Held for Sale, Sales of Real Estate and Discontinued Operations

As of December 31, 2011, we have entered into a purchase and sale agreement with an unaffiliated third party buyer to sell Mariposa Loft Apartments ("Mariposa") for $40.0 million, including the assumptions of the mortgage loan payable and standard operating working capital accounts. Accordingly, we have classified Mariposa as held for sale on the consolidated balance sheet as of that date. The sale of Mariposa closed on March 28, 2012. We had no multifamily communities held for sale as of December 31, 2010. Assets and liabilities related to assets held for sale include the following as of December 31, 2011 (in millions):

	December 31, 2011
Net operating real estate (net of accumulated depreciation of $2.8 million in 2011)	$26.1
Other assets	0.4
Total assets held for sale	$26.5
Mortgage loan payable	$15.8
Accounts payable and other liabilities	0.3
Total liabilities related to assets held for sale	$16.1

During May 2011, we sold Waterford Place for a contract price of $110.0 million, before closing costs and net proceeds of approximately $50.2 million, of which $27.6 million was our share of proceeds. Because we recorded the business combination of the Waterford Place BHMP CO-JV at its fair value, there was no gain or loss upon the closing of the sale of Waterford Place.

The results of operations for both Waterford Place and Mariposa have been classified as discontinued operations in the accompanying consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009. Because the Waterford Place multifamily community was recorded using the equity method of accounting prior to April 1, 2011, discontinued operations are only presented from April 1, 2011 through December 31, 2011 in the following table (in millions):

	For the Year Ended December 31,		
	2011	2010	2009
Rental revenue	$4.9	$ 3.7	$ 1.1
Expenses			
Property operating expenses	1.4	1.1	0.3
Real estate taxes	0.6	0.5	0.2
Interest expense	1.1	0.8	—
Depreciation and amortization	1.2	1.4	0.8
Total expenses	4.3	3.8	1.3
Income from discontinued operations	$0.6	$(0.1)	$(0.2)

6. Investments in and Advances to Unconsolidated Real Estate Joint Ventures

The following table presents our investments in and advances to unconsolidated real estate joint ventures as of December 31, 2011 and 2010:

	Our Investments in and Advances to Unconsolidated Real Estate Joint Ventures (in millions)			
	December 31, 2011[(a)]		December 31, 2010	
Unconsolidated Joint Ventures	Ownership %	Balance	Ownership %	Balance
Equity Investments				
Behringer Harvard Alexan Prospect Venture, LLC	—	$ —	55%	$ 27.8
Behringer Harvard Baileys Venture, LLC	—	—	55%	29.3
Behringer Harvard Belmar, LLC	—	—	70%	12.4
Behringer Harvard Braeswood Venture, LLC	—	—	55%	6.5
Behringer Harvard Briar Forest, LLC	—	—	55%	9.1
Behringer Harvard Burroughs Mill Venture, LLC	—	—	55%	7.1
Behringer Harvard Calypso Venture, LLC	—	—	55%	13.6
Behringer Harvard Cameron House Venture, LLC	—	—	55%	11.2
Behringer Harvard Cherry Creek, LLC	—	—	55%	12.5
Behringer Harvard Columbia Venture, LLC	—	—	55%	21.6
Behringer Harvard Cyan Venture, LLC	—	—	70%	45.4
Behringer Harvard District, LLC	—	—	55%	33.4
Behringer Harvard Eldridge Venture, LLC	—	—	55%	6.8
Behringer Harvard Fitzhugh, LLC	—	—	55%	11.1
Behringer Harvard Johns Creek Venture, LLC	—	—	64%	3.4
Behringer Harvard Lovers Lane Venture, LLC	—	—	55%	5.5
Behringer Harvard Redwood Venture, LLC	—	—	55%	12.7
Behringer Harvard Russell Venture, LLC	—	—	55%	14.4
Behringer Harvard San Sebastian Venture, LLC	—	—	55%	19.9
Behringer Harvard Satori Venture, LLC	—	—	55%	11.0
Behringer Harvard St. Rose Venture, LLC(b)	—	—	55%	14.2
Behringer Harvard Tupelo Alley, LLC	—	—	55%	10.7
Behringer Harvard Waterford Place Venture, LLC	—	—	55%	9.8
SW 130 St. Rose Limited Partnership[(b)]	41%	23.4[(c)]	—	—
		$23.4		$349.4

(a) As discussed above, all of the BHMP CO-JVs and MW CO-JVs as of December 31, 2010 were consolidated as of December 31, 2011.

(b) As of December 31, 2010, Behringer Harvard St. Rose Venture, LLC was reported on the equity method of accounting. As discussed above, the St. Rose BHMP CO-JV was consolidated effective December 1, 2011. In that consolidation, we recognized its investment in SW 130 St. Rose Limited Partnership (the "St. Rose Property Entity") on the equity method of accounting.

(c) As of December 31, 2011, the $23.4 million balance includes an investment in the Behringer Harvard St. Rose Venture, LLC of $3.5 million and a note receivable to the SW 130 St. Rose Property Entity of $19.9 million, net of unamortized discount of $1.1 million. The note receivable

6. Investments in and Advances to Unconsolidated Real Estate Joint Ventures (Continued)

bears interest at an annual fixed rate of 13% and matures in December 2013. For the year ended December 31, 2011, we recognized interest income of approximately $0.3 million related to this note receivable.

Unconsolidated Real Estate Joint Venture Structures

As of December 31, 2011 and December 31, 2010, we had investments in and advances to unconsolidated real estate joint ventures of $23.4 million and $349.4 million, respectively. Prior to the sale of the Master Sale Properties to the MW Co-Investment Partner, all of these investments were BHMP CO-JVs. Each of these individual joint ventures is made through a separate entity that owns 100% of the voting equity interests and approximately 99% of the economic interests in one subsidiary REIT, through which substantially all of the joint venture's business is conducted. Each BHMP CO-JV is a separate legal entity formed for the sole purpose of holding its respective investment and obtaining legally separated debt and equity financing. In certain circumstances the governing documents of the BHMP CO-JV may require the subsidiary REIT to be disposed of via a sale of its capital stock rather than as an asset sale by that subsidiary REIT. Distributions of net cash flow from the BHMP CO-JVs will be distributed to the members no less than quarterly in accordance with the members' ownership interests. BHMP CO-JV capital contributions and distributions are made pro rata in accordance with ownership interests.

As discussed above, in December 2011, we and the BHMP CO-Investment Partner sold partial joint venture interests to the MW Co-Investment Partner, and the operating agreements for all of the BHMP CO-JVs were modified whereby we obtained a controlling financial interest in each of the Co-Investment Ventures, and we consolidated all of the BHMP CO-JVs and MW CO-JVs effective December 1, 2011.

Pre-Consolidation Significant Transactions of the BHMP CO-JVs

The following section describes significant transactions in 2011 and 2010 of the BHMP CO-JVs prior to their consolidation in December 2011.

During the period in 2011, we formed one new BHMP CO-JV. During the year ended December 31, 2010, we formed six new BHMP CO-JVs.

In December 2011, our investment in the Satori Property Entity was restructured such that the BHMP CO-JV became the general partner of the Satori Property Entity. Additionally, the operating agreement was modified whereby the Satori BHMP CO-JV acquired the controlling financial interest of the Satori Property Entity, and accordingly consolidated the Satori Property Entity effective December 1, 2011. As the restructuring effectively occurred simultaneously with our consolidation of the Satori BHMP CO-JV, we recognized our gain of $0.7 million in revaluation of equity in a business combination.

In April 2011, The Cameron BHMP CO-JV and the other partners in The Cameron Property Entity recapitalized their respective investments in The Cameron Property Entity. In connection with the recapitalization, The Cameron BHMP CO-JV converted its mezzanine loan, with outstanding principal and interest of approximately $20.8 million, to an equity ownership interest in The Cameron Property Entity. The Cameron BHMP CO-JV also contributed approximately $3.8 million of additional capital. The Cameron BHMP CO-JV's capital contribution along with a capital contribution from an

6. Investments in and Advances to Unconsolidated Real Estate Joint Ventures (Continued)

unaffiliated third party partner was used by The Cameron Property Entity to restructure and extend the maturity of the $72.7 million senior loan, to redeem a partner's equity ownership interest and to pay other closing costs. Our portion of The Cameron BHMP CO-JV capital contribution was approximately $2.1 million and was funded with proceeds from the primary portion of our Initial Public Offering.

As a result of this recapitalization, The Cameron BHMP CO-JV acquired an effective 64.1% ownership interest and became the managing member of the general partner of The Cameron Property Entity, with certain major decisions subject to the approval of an unaffiliated third-party partner. The Cameron BHMP CO-JV then reported its investment in The Cameron Property Entity on a consolidated basis.

Also during the year ended December 31, 2011, the BHMP CO-JVs related to Cyan/PDX, The District Universal Boulevard and The Venue obtained new mortgage financing aggregating $81.0 million. Substantially all of the net proceeds related to these financings were distributed to us and the BHMP Co-Investment Partner. Our share of the distributions was approximately $49.5 million and is classified as a return of investment in unconsolidated real estate joint ventures on the consolidated statement of cash flows for the year ended December 31, 2011.

The Skye 2905 BHMP CO-JV obtained permanent financing of $56.1 million and repaid its $47.0 million bridge loan. Additionally, the 55 Hundred BHMP CO-JV obtained permanent financing of $41.8 million and repaid its $51.1 million construction loan. Our net share of the distributions from the Skye2905 loan proceeds was approximately $5.0 million and is classified as returns of investments in unconsolidated real estate joint ventures on the consolidated statement of cash flows for the year ended December 31, 2011.

Summarized Financial Information of Unconsolidated Joint Ventures

The summarized financial data shown below presents the combined accounts of each of the (i) BHMP CO-JVs and (ii) Property Entities where there is a corresponding BHMP CO-JV equity investment. The Property Entities include 100% of their accounts, where the noncontrolling interest amounts represent the portion owned by unaffiliated third parties. The Waterford Place BHMP CO-JV, which we report on a consolidated basis effective April 1, 2011, is excluded from the December 31, 2011 balance sheet data. Additionally the BHMP CO-JVs and MW CO-JVs consolidated on December 1, 2011, are excluded from the December 31, 2011 balance sheet data. The balance sheet data for December 31, 2011, only includes the balances for the Veritas Property Entity as this is our only remaining unconsolidated entity. The operating data includes operations only for periods where the investment is classified as an unconsolidated joint venture. Accordingly, the MW CO-JVs and BHMP CO-JVs are included in operating data through November 30, 2011. All inter-entity

6. Investments in and Advances to Unconsolidated Real Estate Joint Ventures (Continued)

transactions, balances and profits have been eliminated in the combined financial data (amounts in millions):

Balance Sheet Data:	December 31, 2011	December 31, 2010
Land, buildings and improvements	$62.5	$1,181.8
Less: accumulated depreciation and amortization	(3.1)	(37.6)
Land, buildings and improvements, net	59.4	1,144.2
Notes receivable, net	—	26.3
Cash and cash equivalents	0.2	13.4
Intangible assets, net of accumulated amortization of $12.7 million as of December 31, 2010	—	5.0
Other assets, including restricted cash	1.1	18.3
Total assets	$60.7	$1,207.2
BHMP CO-JV level mortgage loans payable	$ —	$ 337.7
Property Entity level construction and mortgage loans payable	58.2	253.2
Accounts payable, interest payable and other liabilities	0.8	18.5
Total liabilities	59.0	609.4
Redeemable, noncontrolling interests	—	7.8
Our members' equity	0.7	333.9
BHMP CO-JV Partner's equity	0.6	250.3
Non-redeemable, noncontrolling interests	0.4	5.8
Total equity	1.7	590.0
Total liabilities and equity	$60.7	$1,207.2

6. Investments in and Advances to Unconsolidated Real Estate Joint Ventures (Continued)

Operating Data:	For the Year Ended December 31, 2011	2010	2009
Revenues:			
Rental revenues	$ 92.0	$ 61.4	$10.8
Interest income	4.5	9.8	14.3
	96.5	71.2	25.1
Expenses:			
Property operating expenses	28.2	24.8	7.3
Real estate taxes	12.1	8.8	1.7
Interest expense	24.9	19.0	5.0
Acquisition expenses	0.6	1.9	2.6
Depreciation and amortization	49.0	40.2	7.1
	114.8	94.7	23.7
Gain on early extinguishment of debt	—	0.2	—
Gain on revaluation of equity on a business combination	2.8	4.9	—
Gain on excess of fair value over purchase price	—	3.3	—
Loss from continuing operations	(15.5)	(15.1)	1.4
Loss from discontinued operations	(0.2)	(1.4)	(2.0)
Net loss	(15.7)	(16.5)	(0.6)
Net loss attributable to noncontrolling interests	4.8	4.9	0.4
Net loss attributable to consolidated BHMP CO-JV	$(10.9)	$(11.6)	$(0.2)
Our share of equity in loss of investments in unconsolidated real estate joint ventures	$ (7.9)	$ (6.9)	$(0.2)

Loss from discontinued operations is comprised of rental revenue and property operating expenses of the Waterford Place BHMP-CO-JV with respect to the Waterford Place community through the

6. Investments in and Advances to Unconsolidated Real Estate Joint Ventures (Continued)

periods ended April 1, 2011, the date which we consolidated the real estate joint venture. The table below shows operating results included in discontinued operations (in millions):

	For the Year Ended December 31,		
	2011	2010	2009
Rental revenue	$ 2.0	$ 8.0	$ 2.5
Expenses			
Property operating expenses	0.4	1.8	0.7
Real estate taxes	0.3	0.9	0.3
Interest expense	0.7	2.9	0.9
Acquisition expenses	—	—	0.2
Depreciation and amortization	0.8	3.8	2.4
Total expenses	2.2	9.4	4.5
Loss from discontinued operations	$(0.2)	$(1.4)	$(2.0)

The following presents the reconciliation between our member's equity interest in the combined Co-Investment Ventures and our total investments in unconsolidated real estate joint ventures (amounts in millions):

	December 31, 2011	December 31, 2010
Balance of our member's equity in the BHMP CO-JVs	$ 0.7	$333.9
Notes receivable to unconsolidated Property Entity	19.9	—
Other capitalized costs, net of amortization	2.8	15.5
Investments in and advances to unconsolidated real estate joint ventures	$23.4	$349.4

Included in the 2010 combined financial data are notes receivable from Property Entities to BHMP CO-JVs. As of December 31, 2011, the notes receivable have been retired or are reported in our consolidated financial statements. Below are the BHMP CO-JVs' notes receivable from the Property Entities that are included in the combined financial data (amounts in millions):

Name of Underlying Property	December 31, 2010	Fixed Interest Rate	Maturity Date
Grand Reserve[a]	$ 7.4	10.0%	April 2012
The Cameron[a][b]	18.9	9.5%	December 2012
Total BHMP CO-JV Notes Receivable, net	$26.3		

(a) In December 2011, the Grand Reserve and the Cameron BHMP CO-JVs were consolidated due to change in control. See further discussion in Note 4, Business Combinations—"Consolidation of Previously Unconsolidated Multifamily Communities."

(b) In April 2011, the Cameron BHMP CO-JV converted its note receivable into an equity investment in The Cameron. See further discussion above.

6. Investments in and Advances to Unconsolidated Real Estate Joint Ventures (Continued)

In the 2010 combined financial data, a note receivable and note payable between the BHMP CO-JV and the Veritas Property Entity in which the BHMP CO-JV has an equity interest was eliminated. Below is the eliminated BHMP CO-JV's note receivable as of December 31, 2010 (amounts in millions):

Name of Underlying Property	December 31, 2010	Fixed Interest Rate	Maturity Date
Veritas	$21.0	13.0%	December 2013
Total BHMP CO-JV Notes Receivable eliminated in combination	$21.0		

As of December 31, 2011, the note receivable is reported in our consolidated financial statements.

7. Other Assets

The components of other assets are as follows (in millions):

	December 31, 2011	December 31, 2010
Restricted cash	$ 5.5	$ 1.6
Notes receivable, net	24.3	2.7
Deferred financing costs, net	7.7	3.7
Prepaid assets and deposits	4.0	2.4
Resident, tenant and other receivables	5.8	2.4
Less: other assets included in assets held for sale	(0.5)	—
Total other assets	$46.8	$12.8

8. Leasing Activity

In addition to multifamily resident units, certain of our consolidated multifamily communities have retail areas, representing approximately 2% of total rentable area of our consolidated multifamily communities. Future minimum base rental payments due to us under these non-cancelable retail leases in effect as of December 31, 2011 are as follows (in millions):

Year	Future Minimum Lease Payments
2012	$ 3.4
2013	3.6
2014	3.6
2015	3.5
2016	3.4
Thereafter	33.2
Total	$50.7

9. Mortgage Loans Payable

The following table summarizes the carrying amounts of the mortgage loans payable classified by whether the obligation is of the parent company or the consolidated Co-Investment Venture as of December 31, 2011 and 2010 (amounts in millions):

			As of December 31, 2011	
	December 31, 2011	December 31, 2010	Wtd. Average Interest Rates	Maturity Dates
Fixed rate mortgage notes payable	$ 46.1	$93.4	4.32%	2017 to 2018
Variable rate mortgage notes payable	24.0	—	Monthly LIBOR + 2.45%	2014
	70.1	93.4		
Less: fixed rate mortgage notes payable included in liabilities related to assets held for sale	(15.8)	—		
Total Parent Level	54.3	93.4		
Fixed rate mortgage notes payable	683.5	—	4.18%	2013 to 2019
Variable rate mortgage notes payable	163.0	—	Monthy LIBOR + 3.26%	2013
	846.5	—		
Plus: unamortized adjustments from business combinations	13.7	—		
Total Consolidated Co-Investment Venture Level	860.2	—		
Total Consolidated Mortgage Notes Payable	$914.5	$93.4		

In December 2011, the Satori Co-Investment Venture variable rate note payable with a par amount of $71.0 million was paid off at its net carrying value of $65.3 million. No gain or loss was recognized on the retirement of the note payable. Simultaneous with the pay off, the Satori Co-Investment Venture obtained new permanent financing of $51.0 million, which is included in the table above as of December 31, 2011.

As of December 31, 2011, $2.0 billion of the net consolidated carrying value of real estate collateralized the mortgage loans payable. We believe we are in compliance with all financial covenants as of December 31, 2011.

9. Mortgage Loans Payable (Continued)

As of December 31, 2011, contractual principal payments for the five subsequent years and thereafter are as follows (in millions):

Year	Parent Level	Co-Investment Venture Level	Total Consolidated
2012	$ —	$ 3.3	$ 3.3
2013	—	211.9	211.9
2014	24.0	3.3	27.3
2015	0.2	80.6	80.8
2016	0.6	164.7	165.3
Thereafter	45.3	382.7	428.0
Total	$70.1	$846.5	916.6
Add: unamortized premium adjustments from business combinations			13.7
Less: fixed rate mortgage note payable maturing in 2017 included in liabilities related to assets held for sale			(15.8)
			$914.5

10. Credit Facility Payable

On March 26, 2010, we closed on a $150.0 million credit facility. The credit facility matures on April 1, 2017, when all unpaid principal and interest is due. Borrowing tranches under the credit facility bear interest at a "base rate" based on either the one-month or three-month LIBOR rate, selected at our option, plus an applicable margin which adjusts based on the facility's debt service requirements. As of December 31, 2011, the applicable margin was 2.08% and the base rate was 0.27% based on one-month LIBOR. The credit facility also provides for fees based on unutilized amounts and minimum usage. The unused facility fee is equal to 1% per annum of the total commitment less the greater of 75% of the total commitment or the actual amount outstanding. The minimum usage fee is equal to 75% of the total credit facility times the lowest applicable margin less the margin portion of interest paid during the calculation period. The loan requires minimum borrowing of $10 million and monthly interest-only payments and monthly or annual payment of fees. We may prepay borrowing tranches at the expiration of the LIBOR interest rate period without any penalty. Prepayments during a LIBOR interest rate period are subject to a prepayment penalty generally equal to the interest due for the remaining term of the LIBOR interest rate period.

Draws under the credit facility are secured by a pool of certain indirectly wholly owned multifamily communities where we may add and remove multifamily communities from the collateral pool in compliance with the requirements under the credit facility agreement. As of December 31, 2011, $205.3 million of the net carrying value of real estate collateralized the credit facility. The aggregate borrowings under the credit facility are limited to 70% of the value of the collateral pool, which may be different than the carrying value for financial statement reporting. As of December 31, 2011, available but undrawn amounts under the credit facility are approximately $118.0 million.

The credit facility agreement contains customary provisions with respect to events of default, covenants and borrowing conditions. In particular, the credit facility agreement requires us to maintain consolidated net worth of at least $150.0 million, liquidity of at least $15.0 million and net operating

10. Credit Facility Payable (Continued)

income of the collateral pool to be no less than 155% of the facility debt service cost. Certain prepayments may be required upon a breech of covenants or borrowing conditions. We believe we are in compliance with all provisions as of December 31, 2011.

11. Noncontrolling Interests

Non-redeemable, noncontrolling interests

As of December 31, 2011, non-redeemable, noncontrolling interests consisted of the following (in millions):

Behringer Harvard Master Partnership I, LLC—BHMP Co-Investment Partner	$166.7
Milky Way Partners, L.P.—MW Co-Investment Partner	227.0
Other Co-Investment Venture partners	18.0
Preferred units	1.4
Total non-redeemable, noncontrolling interests	$413.1

There were no non-redeemable, noncontrolling interests at December 31, 2010.

Non-redeemable, noncontrolling interest for the Co-Investment Partners represents their proportionate share of the equity in consolidated real estate ventures. Income and losses are allocated to the noncontrolling interest holders based on their effective ownership percentage. The noncontrolling interest is not redeemable by the holder and, accordingly, is reported as equity. As further discussed in Note 4, Business Combinations, we consolidated the BHMP CO-JVs and MW CO-JVs effective December 1, 2011.

As of December 31, 2011 we have entered into 13 and 14 BHMP CO-JVs and MW CO-JVs, respectively. Each BHMP CO-JV and MW CO-JV is a separate legal entity formed for the sole purpose of holding its respective investment(s) and obtaining legally separated debt and equity financing. Each BHMP CO-JV and MW CO-JV is managed by us or a subsidiary of ours. As the manager, we have substantial operational control rights and accordingly, as of December 1, 2011 report the BHMP CO-JVs and MW CO-JVs on the consolidated method of accounting. Distributions of net cash flow from the BHMP CO-JVs and MW CO-JVs are distributed to the members no less than quarterly pro rata in accordance with the members' ownership interests. BHMP CO-JV and MW CO-JV capital contributions and distributions are also made pro rata in accordance with these ownership interests. Neither of the Co-Investment Venture partners have any rights to put or redeem their ownership interests.

Noncontrolling interests also include between 121 to 125 preferred units issued by a subsidiary of each the BHMP CO-JVs and the MW CO-JVs in order for such subsidiaries to qualify as a REIT for federal income tax purposes. The preferred units pay an annual distribution of 12.5% on their face value of $500 and are senior in priority to all other members' equity. The BHMP CO-JVs and MW CO-JVs may cause the subsidiary REIT, at their option, to redeem the preferred units in whole or in part, at any time for cash at a redemption price of $500 per unit, plus all accrued and unpaid distributions thereon to and including the date fixed for redemption, plus a premium per unit generally of $50 to $100 for the first year which declines in value between $—0- and $25 each year until there is

11. Noncontrolling Interests (Continued)

no redemption premium remaining. The preferred units are not redeemable by the unit holders and we have no current intent to exercise our redemption option. Accordingly, these noncontrolling interests are reported as equity.

Redeemable, noncontrolling interest

As of December 31, 2011, we have one Co-Investment Venture that contains conversion rights at the option of the third-party, redeemable at fair value for a one-year period commencing on November 2011 and one Co-Investment Venture that contains provisions where it is probable that the noncontrolling interest will be redeemed at its stated amount of $0.4 million. As of December 31, 2011, the carrying amount of these noncontrolling interests were approximately $8.5 million. We had no redeemable, non-controlling interests at December 31, 2010.

12. Stockholders' Equity

Capitalization

As of December 31, 2011 and 2010, we had 165,086,701 and 102,859,791 shares of common stock outstanding, respectively, including 6,000 shares of stock issued to our independent directors for no cash, and 24,969 shares owned by Behringer Harvard Holdings, LLC, an affiliate of our Advisor, for cash of approximately $0.2 million.

As of December 31, 2011 and 2010, we had 1,000 shares of convertible stock owned by our Advisor issued for cash of $1,000. The convertible stock has no voting rights, other than for certain limited exceptions, and prior to conversion, does not participate in any earnings or distributions. The convertible stock generally is convertible into shares of common stock with a value equal to 15% of the amount by which (1) our enterprise value at the time of conversion, including the total amount of distributions paid to our stockholders, exceeds (2) the sum of the aggregate capital invested by our stockholders plus a 7% cumulative, non-compounded, annual return on such capital at the time of conversion, on a cash-on-cash basis. The convertible stock can be converted when the excess value described above is achieved and distributed to stockholders or our common stock is listed on a national securities exchange. The conversion may also be prorated in the event of a termination or non-renewal of the Advisory Management Agreement (defined below) other than for cause. Management has determined that the requirements for conversion have not been met as of December 31, 2011. Management reviewed the terms of the underlying convertible stock and determined the fair value approximated the nominal value paid for the shares at issuance.

As of December 31, 2011 and 2010, we had no shares of preferred stock issued and outstanding. Our board of directors has no present plans to issue preferred stock but may do so with terms established at its discretion and at any time in the future without stockholder approval.

Share Redemption Program

Our board of directors has authorized a share redemption program for stockholders who have held their shares for more than one year, subject to the significant conditions and limitations of the program. Under the share redemption program, the per share redemption price will generally equal 90% of the most recently disclosed estimated value per share as determined in accordance with our valuation policy. Redemptions are limited to no more than 5% of the weighted average of shares

12. Stockholders' Equity (Continued)

outstanding during the preceding twelve month period immediately prior to the date of redemption. In addition, redemptions are generally limited to the proceeds from our DRIP during the period consisting of the preceding four fiscal quarters for which financial statements are available, less any cash already used for redemptions during the same period, plus, if we had positive cash flows from operating activities during such preceding four fiscal quarters, 1% of all such cash flows during such preceding four fiscal quarters.

As of December 31, 2011 and 2010, we did not have any unpaid redemptions.

Distributions

Distributions, including those paid by issuing shares under the DRIP, for the years ended December 31, 2011, 2010 and 2009 were as follows (amounts in millions):

	For the Year Ended December 31,					
	2011		2010		2009	
	Declared	Paid	Declared	Paid	Declared	Paid
Fourth Quarter	$24.9	$24.6	$15.0	$14.4	$ 8.7	$ 7.8
Third Quarter	23.7	22.0	15.3	15.6	6.5	5.9
Second Quarter	18.5	17.7	13.9	13.1	4.6	4.1
First Quarter	15.9	15.4	11.1	10.2	2.9	2.5
Total	$83.0	$79.7	$55.3	$53.3	$22.7	$20.3

Our board of directors has declared distributions at a daily amount of $0.0016438 per share of common stock, an annualized rate of 6%, beginning in the month of September 2010 through the first quarter of 2012. We calculate the annualized rate as if the shares were outstanding for a full year based on a $10 per share price.

13. Commitments and Contingencies

Substantially all of our Co-Investment Ventures include buy/sell provisions. These provisions apply to all BHMP CO-JVs and MW CO-JVs as well as our 7 Rio Co-Investment Venture. They also apply to most BHMP CO-JV Property Entities. Under these provisions and during specific periods, a partner could make an offer to purchase the interest of the other partner and the other partner would have the option to accept the offer or purchase the offering partner's interest at that price. As of December 31, 2011, no such offers are outstanding.

In the ordinary course of business, the multifamily communities in which we have investments may have commitments to provide affordable housing. Under these arrangements, we generally receive from the resident a below market rent, which is determined by a local or national authority. In certain arrangements, a local or national housing authority makes payments covering some or substantially all of the difference between the restricted rent paid by residents and market rents. In connection with our acquisition of The Gallery at NoHo Commons, we assumed an obligation to provide affordable housing through 2048. As partial reimbursement for this obligation, the housing authority will make level annual payments of approximately $2.0 million through 2028 and no reimbursement for the remaining 20-year period. We may also be required to reimburse the housing authority if certain operating results are achieved on a cumulative basis during the term of the agreement. At the acquisition, we recorded a

13. Commitments and Contingencies (Continued)

liability of $14.0 million based on the fair value of the terms over the life of the agreement. In addition, we will record rental revenue from the housing authority on a straight line basis, deferring a portion of the collections as deferred lease revenues and other related liabilities. As of December 31, 2011 and 2010, we have approximately $16.7 million and $15.9 million, respectively, of carrying value for deferred lease revenues and other related liabilities. Effective February 1, 2012, the California legislature terminated the State's redevelopment agencies. We believe our obligation to provide the affordable housing for The Gallery at NoHo Commons and our other California communities is not affected; however, we are still reviewing our status with the local authorities.

Subsequent to December 31, 2011, we have entered into a $12.0 million construction contract with a general contractor to construct Allegro II. These construction costs are expected to be paid beginning in 2012 through the completion of the development.

14. Related Party Arrangements

We have no employees and are supported by related party service agreements. We are dependent on our Advisor, Behringer Harvard Multifamily Management Services, LLC ("BHM Management"), and their affiliates for certain services that are essential to us, including, but not limited to, investment and disposition decisions, asset management, financing, property management and leasing services and other general administrative responsibilities. In the event that these companies become unable to provide us with the respective services, we would be required to obtain such services from other sources, potentially incurring one time transition costs and different recurring administrative expenses.

Certain of these services are provided through our advisory management agreement (the "Advisory Management Agreement"), as it has been amended and restated. The Advisory Management Agreement may be renewed for an unlimited number of successive one-year terms. The current term of the Advisory Management Agreement expires on July 1, 2012. The board of directors has a duty to evaluate the performance of our Advisor annually before the parties can agree to renew the agreement.

We were required to reimburse the Advisor for organization and offering expenses related to our Initial Public Offering of shares (other than pursuant to a distribution reinvestment plan) and any organization and offering expenses previously advanced by the Advisor related to a prior offering of shares to the extent not previously reimbursed by us out of proceeds from the prior offering ("O&O Reimbursement"). Our obligation to reimburse the Advisor was capped at 1.5% of the gross proceeds of the completed Initial Public Offering exclusive of proceeds from the DRIP. In connection with an amendment to the Advisory Management Agreement, a payment of $6.9 million was made to the Advisor for prior O&O Reimbursement incurred but not previously paid. For the years ended December 31, 2010 and 2009, we incurred O&O Reimbursement of approximately $6.5 million and $8.9 million, respectively. For the year ended December 31, 2011, we reduced our O&O Reimbursement by $0.6 million to adjust the O&O Reimbursement to the actual amount to be disbursed to our Advisor. As of December 31, 2011, our Advisor has incurred expenses related to the Initial Public Offering totaling approximately $30.8 million, of which approximately $8.9 million has not been recognized by us as offering costs in accordance with the Advisory Management Agreement.

Behringer Securities LP ("Behringer Securities"), an affiliate of our Advisor, served as the dealer manager for the Initial Public Offering and received selling commissions of up to 7% of gross offering proceeds. Behringer Securities reallowed all selling commissions to participating broker-dealers. In connection with the Initial Public Offering, up to 2.5% of gross proceeds were paid to Behringer

14. Related Party Arrangements (Continued)

Securities as a dealer manager fee. Behringer Securities reallowed a portion of its dealer manager fee to certain broker-dealers that participated in the Initial Public Offering. No selling commissions or dealer manager fees are payable on shares sold under our DRIP, and any DRIP offering expenses are nominal.

The following presents the components of our sale of common stock, net related to our Initial Public Offering (amounts in millions):

	For the Year Ended December 31,		
Sale of common stock	**2011**	**2010**	**2009**
Gross proceeds	$593.8	$444.7	$410.7
Less offering costs:			
O&O Reimbursement[(a)]	0.6	(6.5)	(8.9)
Dealer manager fees	(14.8)	(11.1)	(10.3)
Selling commissions	(40.0)	(29.7)	(28.2)
Total offering costs	(54.2)	(47.3)	(47.4)
Sale of common stock, net	$539.6	$397.4	$363.3

(a) During the year ended December 31, 2011, we reduced our estimate of O&O reimbursement by $0.6 million to adjust the O&O Reimbursement to the actual amount due to our Advisor.

Our Advisor and its affiliates receive acquisition and advisory fees of 1.75% of (1) the contract purchase price paid or allocated in respect of the development, construction or improvement of each asset acquired directly by us, including any debt attributable to these assets, or (2) when we make an investment indirectly through another entity, our pro rata share, based on our stated or back-end ownership percentage, of the gross asset value of real estate investments held by that entity. Fees due in connection with a development or improvements are based on amounts approved by our board of directors and reconciled to actual amounts at the completion of the development or improvement. Our Advisor and its affiliates also receive 1.75% of the funds advanced in respect of a loan or other investment.

Our Advisor receives a non-accountable acquisition expense reimbursement in the amount of 0.25% of (1) the funds paid for purchasing an asset, including any debt attributable to the asset, plus the funds budgeted for development, construction or improvement in the case of assets that we acquire and intend to develop, construct or improve, and (2) funds advanced in respect of a loan or other investment. We will also pay third parties, or reimburse the Advisor, for any investment-related expenses due to third parties in the case of a completed investment, including, but not limited to, legal fees and expenses, travel and communication expenses, costs of appraisals, accounting fees and expenses, third-party brokerage or finder's fees, title insurance, premium expenses and other closing costs. In addition, to the extent our Advisor or its affiliates directly provide services formerly provided or usually provided by third parties, including, without limitation, accounting services related to the preparation of audits required by the SEC, property condition reports, title services, title insurance, insurance brokerage or environmental services related to the preparation of environmental assessments in connection with a completed investment, the direct employee costs and burden to our Advisor of providing these services are acquisition expenses for which we reimburse our Advisor. In addition,

14. Related Party Arrangements (Continued)

acquisition expenses for which we reimburse our Advisor include any payments made to (1) a prospective seller of an asset, (2) an agent of a prospective seller of an asset, or (3) a party that has the right to control the sale of an asset intended for investment by us that are not refundable and that are not ultimately applied against the purchase price for such asset. Except as described above with respect to services customarily or previously provided by third parties, our Advisor is responsible for paying all of the expenses it incurs associated with persons employed by the Advisor to the extent dedicated to making investments for us, such as wages and benefits of the investment personnel. Our Advisor is also responsible for paying all of the investment-related expenses that we or our Advisor incurs that are due to third parties or related to the additional services provided by our Advisor as described above with respect to investments we do not make, other than certain non-refundable payments made in connection with any acquisition.

For the years ended December 31, 2011, 2010 and 2009, our Advisor earned acquisition and advisory fees, including the acquisition expense reimbursement, of approximately $4.8 million, $11.2 million and $8.1 million, respectively. For the years ended December 31, 2011, 2010 and 2009, approximately $1.1 million, $3.2 million and $5.1 million of these amounts, respectively, were capitalized to investments in unconsolidated real estate joint ventures.

Our Advisor receives debt financing fees of 1% of the amount available to us under debt financing which was originated, assumed or refinanced by or for us. Our Advisor may pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for us. For the years ended December 31, 2011, 2010 and 2009, our Advisor has earned debt financing fees of approximately $2.3 million, $2.6 million and $1.1 million, respectively.

Our Advisor receives a monthly asset management fee for each real estate related asset held by us. From September 2, 2008 through July 1, 2010, the asset management fee was equal to one-twelfth of 0.75% of the sum of the higher of the cost or value of each asset as of the last day of the preceding month.

Effective July 1, 2010, the asset management fee was modified so that the amount of the fee is dependent upon our performance with respect to reaching a modified funds from operations or MFFO coverage amount per quarter of $0.15 per share of our common stock (equivalent to an annualized $0.60 per share). As modified, the asset management fee will be a monthly fee equal to one-twelfth of the Applicable Asset Management Fee Percentage ("the AAMF Percentage") of the sum of the higher of the cost or value of our assets. Effective July 1, 2010, the AAMF Percentage was 0.50% (reduced from 0.75% prior to July 1, 2010). The percentage will increase to 0.75% following two consecutive fiscal quarters during which our MFFO for each such fiscal quarter equals or exceeds 80% of the MFFO coverage amount described above. Once the AAMF Percentage has increased to 0.75%, it will not decrease during the term of the agreement, regardless of our MFFO in any subsequent period. The percentage will increase further to 1.0% following two consecutive fiscal quarters during which our MFFO for each such fiscal quarter equals or exceeds 100% of such MFFO coverage amount. Finally, the percentage will return to 0.75% upon the first day following the fiscal quarter during which our Advisor has, since July 1, 2010, earned asset management fees equal to the amount of asset management fees our Advisor would have earned if the AAMF Percentage had been 0.75% every day since July 1, 2010. In no event will our Advisor receive more than the asset management fee at the annual 0.75% rate originally contracted for, but will be at risk for up to one-third of those fees and incentivized to grow our MFFO. Since July 1, 2010, the AAMF Percentage has been 0.50%.

14. Related Party Arrangements (Continued)

For the years ended December 31, 2011, 2010 and 2009, our Advisor earned asset management fees of approximately $6.3 million, $5.2 million and $1.9 million, respectively.

We will pay a development fee to our Advisor in an amount that is usual and customary for comparable services rendered to similar projects in the geographic market of the project; provided, however, we will not pay a development fee to an affiliate of our Advisor if our Advisor or any of its affiliates elects to receive an acquisition and advisory fee based on the cost of such development. Our Advisor has earned no development fees since our inception.

Property management services are provided by BHM Management and its affiliates through a property management agreement (the "Property Management Agreement"). The Property Management Agreement expires on November 21, 2012, but if neither us nor BHM Management give written notice of termination at least 30 days prior to the expiration date, then it will automatically continue for consecutive two-year periods. The Property Management Agreement also provides that, in the event we terminate the Advisory Management Agreement with our Advisor, BHM Management will have the right to terminate the agreement upon at least thirty days' prior written notice. Further, the Property Management Agreement applies where we have control over the selection of property management. As of December 31, 2011, 33 multifamily communities, including BHMP CO-JVs and MW CO-JVs, were subject to the Property Management Agreement. For all other multifamily communities, an unaffiliated third party owner has selected the property manager.

Property management fees are equal to 3.75% of gross revenues. In the event that we contract directly with a non-affiliated third party property manager in respect to a property, we pay BHM Management or its affiliates an oversight fee equal to 0.5% of gross rental revenues of the property managed. In no event will we pay both a property management fee and an oversight fee to BHM Management or its affiliates with respect to a particular property. We reimburse the costs and expenses incurred by BHM Management on our behalf, including the wages and salaries and other employee-related expenses of all on-site employees of BHM Management and other out-of-pocket expenses that are directly related to the management of specific properties.

For the years ended December 31, 2011 and 2010, BHM Management or its affiliates earned property management fees, net of expenses to third party property managers but including reimbursements to BHM Management, of $8.5 million and $0.9 million, respectively. For the year ended December 31, 2009, BHM Management or its affiliates earned minimal property management fees.

As part of our reimbursement of administrative expenses, we reimburse our Advisor for any direct expenses and costs of salaries and benefits of persons employed by our Advisor performing advisory services for us, provided, however, that we will not reimburse our Advisor for personnel employment costs incurred by our Advisor in performing services under the Advisory Management Agreement to the extent that the employees perform services for which the Advisor receives a separate fee other than with respect to acquisition services formerly provided or usually provided by third parties. We also do not reimburse our Advisor for the salary or other compensation of our executive officers.

Included in general and administrative expenses are accounting and legal personnel costs incurred on our behalf by our Advisor for the years ended December 31, 2011, 2010 and 2009 of approximately $1.9 million, $2.2 million and $1.4 million, respectively.

14. Related Party Arrangements (Continued)

As of December 31, 2011, our receivables from the Advisor and its affiliates were $0.2 million. We had no payable to affiliates as of December 31, 2011. As of December 31, 2010, our receivables from the Advisors and its affiliates were $0.3 million and our payables to affiliates were $2.9 million.

15. Supplemental Disclosures of Cash Flow Information

Supplemental cash flow information is summarized below (amounts in millions):

	For the Year Ended December 31,		
	2011	2010	2009
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized of $0.1 million, $1.1 million and $0.3 million in 2011, 2010, and 2009, respectively	$ 10.2	$ 4.2	$0.1
Non-cash investing and financing activities:			
Acquisition of controlling interests in business combinations with no consideration paid:			
Assets acquired	$(1,511.6)	$ —	$ —
Liabilities assumed	$ 746.7	$ —	$ —
Noncontrolling interests	$ 359.0	$ —	$ —
Mortgage note payable assumed by purchaser of asset held for sale	$ (58.4)	$ —	$ —
Conversion of debt investment into an equity investment	$ (4.6)	$ —	$ —
Assumption of mortgage note payable	$ 21.5	$26.8	$ —
Stock issued pursuant to our DRIP	$ 41.4	$26.6	$8.6
Distributions payable	$ 8.4	$ 5.2	$3.2
Accrued offering costs and dealer manager fees	$ (0.6)	$ 2.8	$1.6

16. Subsequent Events

We have reviewed subsequent events through March 28, 2012 and noted no subsequent events, other than the ones disclosed below.

In February 2012, the Grand Reserve BHMP CO-JV settled a dispute concerning the enforceability of an option agreement with the Grand Reserve Property Entity to acquire the Grand Reserve multifamily community. In the settlement, the BHMP CO-JV agreed to acquire the Grand Reserve multifamily community by assuming the existing construction loan of $26.2 million and other standard operating liabilities and receiving $0.3 million in cash and all other standard operating assets of the multifamily community. Simultaneous with the settlement closing, the BHMP CO-JV paid off the construction loan. We contributed the full amount of the payoff in exchange for an additional 32.5% interest in the BHMP CO-JV.

Sale of a Multifamily Community

On March 28, 2012, we sold the Mariposa Lofts Apartments for $40 million. The purchaser assumed $16 million mortgage note payable. As of December 31, 2011, the net carrying value of the multifamily community is $26 million. We received cash of approximately $24 million and reported a gain on sale of approximately $14 million.

16. Subsequent Events (Continued)

Distributions Paid

On January 5, 2012, we paid total distributions of approximately $8.4 million, of which $3.6 million was cash distributions and $4.8 million was funded by issuing shares pursuant to our DRIP, relating to distributions declared each day in the month of December 2011.

On February 1, 2012, we paid total distributions of approximately $8.4 million, of which $3.7 million was cash distributions and $4.7 million was funded by issuing shares pursuant to our DRIP, relating to distributions declared each day in the month of January 2012.

On March 1, 2012, we paid total distributions of approximately $7.9 million, of which $3.5 million was cash distributions and $4.4 million was funded by issuing shares pursuant to our DRIP, relating to distributions declared each day in the month of February 2011.

Distributions Declared

On March 19, 2012, our board of directors authorized distributions payable to the stockholders of record each day during the months of April, May and June 2012 equal to a daily amount of $0.000958904 per share of common stock. If the rate we are paying was paid for each day for a 365-day period, it would equal a 3.5% annualized rate based on a purchase price of $10.00 per share which is a reduction from the previous annualized rate of 6.0%.

17. Quarterly Results (unaudited)

Presented below is a summary of the unaudited quarterly consolidated financial information for the years ended December 31, 2011 and 2010 (amounts in thousands, except per share data):

	2011 Quarters Ended (Recast for Discontinued Operations)			
	March 31	June 30	September 30	December 31
Rental revenues	$ 11,439	$ 13,987	$ 16,549	$ 25,473
Income (loss) from continuing operations	$ (5,827)	$ 6,093	$ (6,807)	$100,460
Net income (loss) attributable to common stockholders	$ (5,757)	$ 6,628	$ (6,064)	$103,825
Basic and diluted weighted average shares outstanding	107,486	123,397	155,931	164,806
Basic and diluted income (loss) per share	$ (0.05)	$ 0.05	$ (0.04)	$ 0.63

	2010 Quarters Ended (Recast for Discontinued Operations)			
	March 31	June 30	September 30	December 31
Rental revenues	$ 4,243	$ 5,708	$ 8,447	$ 10,470
Net loss attributable to common stockholders	$ (8,945)	$ (8,805)	$(10,423)	$ (6,347)
Net loss attributable to common stockholders	$ (9,019)	$ (8,802)	$(10,377)	$ (6,372)
Basic and diluted weighted average shares outstanding	64,222	79,706	91,300	98,881
Basic and diluted loss per share	$ (0.14)	$ (0.11)	$ (0.11)	$ (0.05)

17. Quarterly Results (unaudited) (Continued)

In April 2011, we consolidated our 55% ownership interest in the Waterford Place BHMP CO-JV and recognized a gain on revaluation of equity on a business combination of $18.1 million. For further discussion, see Note 4, "Business Combinations."

In December 2011, we sold joint venture interests in six multifamily communities and recognized a gain on the sale of partial interests of $5.7 million. Additionally, we consolidated all of our ownership interests in the BHMP CO-JVs and MW CO-JVs and recognized a gain on revaluation of equity on business combinations of $103.8 million. For further discussion, see Note 4, "Business Combinations."

Behringer Harvard Multifamily REIT I, Inc.

Valuation and Qualifying Accounts

Schedule II

December 31, 2011

(in thousands)

Year ended	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
December 31, 2011	$152	$368	$—	$336	$184
December 31, 2010	$ 54	$487	$—	$389	$152
December 31, 2009	$ —	$169	$—	$115	$ 54

Behringer Harvard Multifamily REIT I, Inc.
Real Estate and Accumulated Depreciation
Schedule III
December 31, 2011
(in thousands)

Property Name	Location	Initial Cost: Land	Initial Cost: Buildings and Improvements	Costs Subsequent to Acquisition/ Construction	Gross Amount Carried at December 31, 2011	Accumulated Depreciation[(a)]	Year of Completion/ Acquisition	Encumbrances[(b)]
4550 Cherry Creek[(c)]	Denver, CO	$ 7,910	$ 70,184	$ 27	$ 78,121	$ 282	2004/2011	$ 28,600
55 Hundred[(c)]	Arlington, VA	13,196	67,515	(33)	80,678	266	2010/2011	41,750
7166 at Belmar[(c)]	Lakewood, CO	3,385	52,298	21	55,704	204	2008/2011	22,825
Acacia on Santa Rosa Creek	Santa Rosa, CA	8,100	29,512	620	38,232	2,742	2003/2010	25,631
Acappella	San Bruno, CA	8,000	46,973	189	55,162	2,869	2010/2010	30,250
Allegro	Addison, TX	3,000	40,658	784	44,442	1,949	2010/2010	24,000
Argenta	San Franciso, CA	11,100	81,624	566	93,290	2,398	2008/2011	51,000
Bailey's Crossing[(c)]	Alexandria, VA	22,214	108,145	14	130,373	426	2010/2011	69,159
Briar Forest Lofts[(c)]	Houston, TX	4,623	40,155	22	44,800	160	2008/2011	21,000
Burnham Pointe	Chicago, IL	10,400	75,960	1,056	87,416	4,048	2008/2010	4,046
Burrough's Mill[(c)]	Cherry Hill, NJ	10,075	51,869	25	61,969	235	2003/2011	25,944
Calypso Apartments and Lofts[(c)]	Irvine, CA	13,902	42,730	6	56,638	169	2008/2011	24,000
The Cameron[(c)]	Silver Spring, MD	25,191	77,737	4	102,932	295	2010/2011	72,675
Cyan/PDX[(c)]	Portland, OR	6,164	74,832	141	81,137	303	2009/2011	33,000
The District Universal Boulevard[(c)]	Orlando, FL	5,161	57,448	251	62,860	219	2009/2011	37,500
Eclipse[(c)]	Houston, TX	6,927	44,078	9	51,014	189	2009/2011	20,845
Fitzhugh Urban Flats[(c)]	Dallas, TX	9,394	48,884	15	58,293	203	2009/2011	28,000
Forty55 Lofts[(c)]	Marina del Rey, CA	11,382	68,966	20	80,368	274	2010/2011	25,500
The Gallery at NoHo Commons	Los Angeles, CA	28,700	78,309	641	107,650	8,201	2006/2009	51,300
Grand Reserve Orange	Orange, CT	4,600	20,602	285	25,487	2,077	2005/2009	1,180
Halstead[(c)]	Houston, TX	6,913	26,223	8	33,144	120	2004/2011	15,675
The Lofts at Park Crest	McLean, VA	—	49,737	78	49,815	3,767	2008/2011	34,365
Renaissance[(c)]	Concord, CA	5,786	33,660	191	39,637	118	2008/2011	—
The Reserve at John's Creek Walk[(c)]	Johns Creek, GA	3,139	26,279	17	29,435	115	2006/2011	23,000
The Reserve at LaVista Walk	Atlanta, GA	4,530	34,159	532	39,221	1,918	2008/2010	1,815
San Sebastian[(c)]	Laguna Woods, CA	7,841	29,037	2	36,880	137	2010/2011	—
Satori[(c)]	Fort Lauderdale, FL	8,223	75,126	53	83,402	302	2010/2011	51,000
Skye 2905[(c)]	Denver, CO	13,831	87,491	(404)	100,918	332	2010/2011	56,100
Stone Gate	Marlborough, MA	8,300	54,634	471	63,405	1,301	2007/2011	36,743
Tupelo Alley[(c)]	Portland, OR	6,348	33,317	6	39,671	131	2009/2011	19,250
Uptown Post Oak	Houston, TX	23,340	40,010	611	63,961	2,739	2008/2010	2,959
The Venue[(c)]	Clark County, NV	1,520	24,249	3	25,772	100	2009/2011	10,500
West Village	Mansfield, MA	5,300	30,068	165	35,533	862	2011/2011	21,190
		308,495	1,722,469	6,396	2,037,360	39,451		910,802
Real Estate Held for Sale								
Mariposa Loft Apartments	Atlanta, GA	5,800	22,452	487	28,739	2,672	2004/2011	15,820
		$314,295	$1,744,921	$6,883	$2,066,099	$42,123		$926,622

(a) Each of our properties has a depreciable life of 25 to 35 years.

(b) Encumbrances include mortgage loans and our credit facility which had an outstanding balance of $10.0 million as of December 31, 2011. The credit facility is collateralized by the following properties: Burnham Pointe, The Reserve at La Vista Walk, Grand Reserve Orange, and Uptown Post Oak. The credit facility balance was allocated to each property based upon its relative gross real estate amount carried at December 31, 2011.

(c) Property is owned through a co-investment venture and was consolidated in December 2011. Initial cost is the initial cost recorded at time of consolidation. Year acquired is reflected as 2011, the year the property was consolidated.

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2011, 2010 and 2009 is as follows (in thousands):

	For the Year Ended December 31,		
	2011	2010	2009
Real Estate:			
Balance at beginning of year	$ 537,026	$160,463	$ —
Additions:			
Acquisitions or consolidation of joint ventures	1,637,647	376,563	160,463
Deductions:			
Sale of real estate property	(108,574)	—	—
Balance at end of year	$2,066,099	$537,026	$160,463
Accumulated Depreciation:			
Balance at beginning of year	$ 13,941	$ 1,484	$ —
Depreciation expense	28,182	12,457	1,484
Deductions	—	—	—
Balance at end of year	$ 42,123	$ 13,941	$ 1,484

Mortgage Loans on Real Estate

Schedule IV

December 31, 2011

(in thousands)

Description	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Note	Carrying Amount of Note[(a)]	Principal Amount of Loans Subject to Delinquent Principal or Interest
Mezzanine notes	10%	April 2012	Principal and interest at maturity	N/A	$ 9,671	$ 5,926[(b)]	$—
Land loan	10%	August 2012	Principal and interest at maturity	N/A	4,160	4,250	—
Land loan	10%	October 2012	Principal and interest at maturity	N/A	4,880	4,958	—
Mezzanine note	14%	April 2014	Principal and interest at maturity	N/A	10,525	9,217	—
					$29,236	$24,351	$—

(a) Differences between the face amount and the carrying amount of the notes are discounts recorded in connection with the business combination and capitalized issuance costs.

(b) In conjunction with the business combination effective December 1, 2011, this mezzanine note was recorded with a discount of $4.5 million.

Reconciliation of the Carrying Amount of Mortgage Loans:

Balance at January 1, 2009	$ —
Additions during 2009:	
New mortgage loans	2,227
Accrued interest	185
Deductions during 2009:	
Collections of principal	—
Balance at December 31, 2009	2,412
Additions during 2010:	
Accrued interest	221
Deductions during 2010:	
Collections of principal	—
Balance at December 31, 2010	2,633
Additions during 2011:	
New mortgage loans[(a)]	22,148
Mortgage loan from business combination	3,000
Accrued interest	333
Capitalized acquisition costs	384
Deductions during 2011:	
Note receivable converted into equity investment[(a)]	(3,960)
Amortization of acquisition costs	(187)
Balance at December 31, 2011	$24,351

(a) Includes a $3.96 million note receivable issued in July 2011 which was converted into an equity investment in December 2011. The note receivable accrued interest at an annual rate of 12%.

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Restatement, incorporated by reference to Exhibit 3.1.2 to the Company's Form 8-K filed on September 8, 2008
3.2	Fourth Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed on March 1, 2010
4.1	Second Amended and Restated Distribution Reinvestment Plan, incorporated by reference to Exhibit 4.6 of the Company's Form 10-Q filed on August 12, 2011
4.2	Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 4.4 to the Company's Form 10-Q filed on November 13, 2009, Commission File No. 333-148414
4.3	Statement regarding Restrictions on Transferability of Shares of Common Stock, incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-11/A filed on May 9, 2008
4.4*	Third Amended and Restated Distribution Reinvestment Plan
4.5*	Second Amended and Restated Share Redemption Program
10.1	Letter Agreement, dated March 22, 2011, between Behringer Harvard Multifamily REIT I, Inc. and Behringer Harvard Multifamily Advisors I, LLC , incorporated by reference to Exhibit 10.52 of the Company's Form 10-K filed on March 25, 2011
10.2	Letter Agreement, dated May 12, 2011, between Behringer Harvard Multifamily REIT I, Inc. and Behringer Harvard Multifamily Advisors I, LLC, incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on May 13, 2011
10.3	Letter Agreement, dated May 12, 2011, between Behringer Harvard Multifamily REIT I, Inc. and Behringer Harvard Multifamily Management Services, LLC, incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on May 13, 2011
10.4	Letter Agreement, dated August 11, 2011, between Behringer Harvard Multifamily REIT I, Inc. and Behringer Harvard Multifamily Advisors I, LLC, incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 12, 2011
10.5	Letter Agreement, dated August 11, 2011, between Behringer Harvard Multifamily REIT I, Inc., Behringer Harvard Multifamily OP I LP and Behringer Harvard Multifamily Management Services, LLC, incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q filed on August 12, 2011
10.6	Letter Agreement, dated November 10, 2011, between Behringer Harvard Multifamily REIT I, Inc. and Behringer Harvard Multifamily Advisors I, LLC, incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on November 14, 2011
10.7	Letter Agreement, dated November 10, 2011, between Behringer Harvard Multifamily REIT I, Inc., Behringer Harvard Multifamily OP I LP and Behringer Harvard Multifamily Management Services, LLC, incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q filed on November 14, 2011
10.8*	Membership Interest Purchase and Sale Agreement from Behringer Harvard Multifamily OP I LP to Milky Way Partners, L.P., dated November 29, 2011
10.9*	Letter Agreement, dated March 19, 2012, between Behringer Harvard Multifamily REIT I, Inc. and Behringer Harvard Multifamily Advisors I, LLC
21.1*	Subsidiaries of the Company

Exhibit Number	Description
23.1*	Consent of Deloitte & Touche LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002**
99.1*	Second Amended and Restated Policy for Estimation of Common Stock Value
101*	The following information from the Company's Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Stockholders' Equity and (iv) Consolidated Statements of Cash Flows

* Filed or furnished herewith

** In accordance with Item 601(b)(32) of Regulation S-K, this Exhibit is not deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

Annual Report Disclosures Required by Charter

Total Operating Expenses

In accordance with the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Associations, also known as the NASAA REIT Guidelines, our charter requires that we monitor our "total operating expenses" quarterly on a trailing twelve-month basis and report to our stockholders annually our total operating expenses stated as a percentage of "average invested assets" and "net income," as such terms are defined in our charter. For the year ended December 31, 2011, our total operating expenses stated as a percentage of average invested assets was approximately 1.4% and the ratio of our total operating expenses to net income was approximately 7%.

Cost of Raising Capital

In accordance with the NASAA REIT Guidelines, our charter requires that we report to our stockholders annually the ratio of costs of raising capital during the year to the capital raised. For the year ended December 31, 2011, we raised total capital of approximately $638.0 million, including $593.8 million in equity capital through the initial public offering of our common stock, and approximately $44.1 million in equity capital through our distribution reinvestment plan. We paid costs of approximately $54.2 million, or 8.5%, in connection with raising this capital.

Report of Independent Directors

As Independent Directors of Behringer Harvard Multifamily REIT I, Inc. (the "Company"), we have reviewed the policies being followed by the Company and believe they are in the best interests of its stockholders. These policies include policies with respect to investments, borrowings, dispositions, distributions and raising capital.

Investment Policies. Our investment policies are designed in order that the Company may make investments that are suitable for it. The Company seeks to make equity and debt investments in existing or to be built high quality multifamily communities, whether through equity or loan investments, though it reserves the right to acquire other types of properties and real estate-related assets. When making investment determinations, the Company follows a rigorous set of acquisition criteria and closing conditions and reviews other required documentation. These criteria are designed to assess and manage investment risks and support the Company's bases for making investment decisions in the best interests of the Company's stockholders.

Borrowing Policies. There is no limitation on the amount the Company may invest in any single property or other asset or on the amount the Company can borrow for the purchase of any individual property or other investment. Under the Company's charter, the maximum amount of its indebtedness shall not exceed 300% of the Company's "net assets" (as defined by the NASAA REIT Guidelines) as of the date of any borrowing; however, the Company may exceed that limit if approved by a majority of us. In addition to the Company's charter limitation and indebtedness target, the Company's board has adopted a policy to limit the Company's aggregate borrowings to approximately 75% of the aggregate value of its assets, unless substantial justification exists that borrowing a greater amount is in the Company's best interests. The Company's policy limitation, however, does not apply to individual real estate assets and will only apply once the Company has ceased raising capital and invested substantially all of its capital. As a result, the Company expects to borrow more than 75% of the contract purchase price of a particular real estate asset the Company may acquire, to the extent the board of directors determines that borrowing these amounts is prudent. Following the investment of the proceeds raised in the Company's primary offering terminated in September 2011 and the completion of the financing of the Company's assets, we will seek a long-term leverage ratio of approximately 50% to 60% of the aggregate value of our assets. The Company's board of directors reviews the Company's aggregate borrowings at least quarterly. We believe that these borrowing limitations reduce risk of loss and are in the best interests of the Company's stockholders.

Disposition Policies. As each of the Company's investments reaches what the Company believes to be the asset's optimum value during the expected life of the program, the Company will consider disposing of the investment and may do so for the purpose of either distributing the net sale proceeds to the Company's stockholders or investing the proceeds in other assets that the Company believes may produce a higher overall future return to the Company's investors. The Company anticipates that any such investment disposition typically would occur during the period from four to six years after termination of the Company's initial public primary offering, which termination occurred on September 2, 2011. However, the Company may sell a particular property or other asset before or after this anticipated holding period if, in the judgment of the Company's advisor and its board of directors, selling the asset is in the Company's best interest. We believe that this anticipated hold period is in keeping with our stockholders' expectations with respect to the targeted life of the program; however, it is in the best interests of the stockholders to preserve flexibility in the timing of dispositions in order to maximize stockholder returns.

Distribution Policies. Distributions are authorized at the discretion of the Company's board of directors, based on the Company's analysis of its earnings, cash flow, anticipated cash flow, capital expenditure requirements and general financial condition. The board's discretion will be influenced, in substantial part, by its obligation to cause the Company to comply with the REIT requirements. Because the Company receives income from interest or rents at various times during its fiscal year, distributions may not reflect the Company's income earned in that particular distribution period, but may be paid in anticipation of cash flow that the Company expects to receive during a later period or of receiving funds in an attempt to make distributions relatively uniform. Moreover, distributions may exceed (as they have to date) net cash flow from operating activities if the board believes that the distributions will be covered by future net cash flow. Many of the factors that can affect the availability and timing of cash distributions to stockholders are beyond the Company's control, and a change in any one factor could adversely affect the Company's ability to pay future distributions. There can be no assurance that future cash flow will support distributions at the rate that such distributions have previously been paid or at all. We believe that our distribution policies are in the best interests of our stockholders because they are in keeping with investors' desire for current income.

Related Party Transactions. We have reviewed the material transactions between the Company's advisor, its affiliates and the Company during 2011 and outlined in Note 14 to the Consolidated Financial Statements. In our opinion, the related party transactions are fair and reasonable to the Company and its stockholders.

Officers and Directors

Our Management Team

Behringer Harvard Multifamily REIT I, Inc. is managed by a seasoned, cohesive team of real estate and investment professionals with expertise in deal structure, finance, acquisition, management, and disposition.

Board of Directors and Executive Officers

Robert M. Behringer
Chairman of the Board of Directors

Robert S. Aisner
Chief Executive Officer

Robert J. Chapman
President

Mark T. Alfieri
Chief Operating Officer

Gerald J. Reihsen, III
Executive Vice President–Corporate Development & Legal

Gary S. Bresky
Executive Vice President

Daniel J. Rosenberg
Senior Vice President–Legal, General Counsel and Secretary

Howard S. Garfield
Chief Financial Officer, Chief Accounting Officer and Treasurer

M. Jason Mattox
Executive Vice President

Independent Directors

Sami S. Abbasi
Chief Executive Officer–American Pathology Partners, Inc.

Roger D. Bowler
Former Executive Vice President–Embrey Partners, Ltd.

Jonathan L. Kempner
President–Tiger 21, LLC

E. Alan Patton
Senior Vice President–Hines Interests Limited Partnership

Other Key Personnel

Andrew J. Bruce*†
Senior Vice President–Capital Markets

Robert T. Poynter*†
Senior Vice President

Ross P. Odland*†
Senior Vice President–Portfolio Management

James A. Fadley*†
Senior Vice President

Margaret M. "Peggy" Daly†
Senior Vice President–Property Management

**Behringer Harvard Multifamily Advisors I, LLC*
†Behringer Harvard Multifamily Management Services, LLC

E-Communications

Go paperless with electronic delivery. Sign up at **behringerharvard.com** to switch from paper mailings and view your quarterly statements, tax forms, and other investor communications online.

Safe Harbor

This report contains forward-looking statements. Please refer to the enclosed Annual Report on Form 10-K for additional information and qualifications regarding forward-looking statements.

BEHRINGERHARVARD

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Investor Information

For additional information about
Behringer Harvard and its real estate programs,
please contact us at 866.655.3650

Independent Registered Public Accounting Firm

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Registrar & Transfer Agent

DST Systems, Inc.
333 W. 7th Street
Kansas City, Missouri 64105

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