

SCHNATTER CHARLES W
 Form 4
 June 03, 2005

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 SCHNATTER CHARLES W

2. Issuer Name and Ticker or Trading Symbol
 PAPA JOHNS INTERNATIONAL INC [PZZA]

5. Relationship of Reporting Person(s) to Issuer
 (Check all applicable)

(Last) (First) (Middle)
 P. O. BOX 99900
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)
 06/01/2005

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
 Sr. VP Pres and Chief Dev. Off

LOUISVILLE, KY 40269

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock	06/01/2005		M ⁽¹⁾	1,789 A \$ 29.2	141,579	D	
Common Stock	06/01/2005		S ⁽¹⁾	1,789 D \$ 39	139,790	D	
Common Stock	06/02/2005		M ⁽¹⁾	3,888 A \$ 29.2	143,678	D	
Common Stock	06/02/2005		S ⁽¹⁾	3,888 D \$ 39	139,790	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Option to Buy (2)	\$ 29.2	06/01/2005		M(1)	1,789	12/10/2004 06/10/2006	Common Stock	1,789
Option to Buy (2)	\$ 29.2	06/02/2005		M(1)	3,888	12/10/2004 06/10/2006	Common Stock	3,888

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHNATTER CHARLES W P. O. BOX 99900 LOUISVILLE, KY 40269			Sr. VP Pres and Chief Dev. Off	

Signatures

/s/ Kenneth M. Cox, by power of attorney
Date: 06/03/2005

**Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) All transactions effected through a Rule 10b5-1 trading plan adopted by Mr. Schnatter.

(2) Option to buy under Papa John's International, Inc. 1999 Team Member Stock Ownership Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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	1,252
	56,484
	72,138
	154,914
Total revenue	
	3,099
	1,133,230
	2,006,178
	3,324,718
Expenses:	
Operating	
	2,202
	282,868
	520,320
	863,902
Maintenance	
	87
	136,217
	280,428
	372,924
Real estate taxes	
	3,580
	90,984
	163,834

	257,461
General and administrative	(511)
	18,209
	40,003
	59,029
Management fees	(2,928)
	53,215
	78,928
	139,174
Depreciation	-
	270,581
	528,908
	819,439
Loss on early extinguishment of debt	-
	-
	566,290
	-
Interest	-
	340,256
	622,772
	997,520
Amortization of acquired in-place leases and tenant relationships	-
Explanation of Responses:	4

	7,679
	-
	23,037
Total expenses	
	2,430
	1,200,009
	2,801,483
	3,532,486
Gain (loss) from discontinued operations	
\$	669
\$(66,779) \$(795,305) \$(207,768)	

3. INVESTMENT IN MULTIFAMILY VENTURE

Effective May 1, 2004, the Company consummated the Limited Liability Company Agreement of JV Marina Mile (“Multifamily Venture”) with a partner, whereby each of the parties to the agreement agreed to participate, on a pro rata basis, in the economic benefits of the ownership of The Berkshires at Marina Mile Apartments (“Marina Mile”). Under the terms of the Multifamily Venture agreement governing the entity, the partner contributed, in cash, 65% of the total venture equity in exchange for a 65% interest in the Multifamily Venture. The Operating Partnership contributed its interest in Marina Mile, L.L.C., the fee simple owner of the property, in exchange for a 35% interest in the Multifamily Venture and a cash distribution of approximately \$3,594,693 net of \$387,236 of additional capital invested by the Operating Partnership. Both parties are entitled to proportional distributions of available cash up to the effective 10% Preferred Return. After payment of the Preferred Return and the return of each party’s capital contribution, the Operating Partnership is entitled to additional distributions equal to approximately 30% of the distributions otherwise payable to the venture partner. The Operating Partnership is the managing member of the Multifamily Venture. The Company evaluated its investment in the Multifamily Venture and concluded that the investment did not fall under the requirements of FIN 46R as the Multifamily Venture partner retains a majority control over the Multifamily Venture through the decision-making authority granted in the Limited Liability Company Agreement consistent with its economic interests; therefore, the Company accounted for the investment under Statement of Position 78-9, Accounting for Investments in Real Estate (“SOP “78-9”), as an equity method investment.

On April 18, 2006, Marina Mile was sold to an unrelated party. According to the provisions of the Limited Liability Company Agreement, the Company's overall ownership interest in the proceeds from the sale of Marina Mile increased from 35.00% to 45.52% and pursuant to additional agreements executed in relation to the sale, this increase was effective as of February 1, 2006. The Company evaluated the change in the ownership interests in the Multifamily Venture and has determined that the increased ownership interests do not materially change the economic interests of the Multifamily Venture partners and would not result in the Company controlling the Multifamily Venture as promulgated in EITF 04-05, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.

Pursuant to the Operating Partnership's completion of the sale of 100% of the interest in the Marina Mile property, the net proceeds from the sale in the amount of \$11,073,818 were held in an escrow account at a qualified institution pursuant to a transaction structured to comply with a Section 1031 tax deferred exchange under the Code, as amended. As of December 31, 2006, the Company had reinvested the total proceeds from the sale of interests in Marina Mile of \$11,073,818 in the acquisition of Chisholm Place Apartments and Briarwood Village Apartments, which were completed on June 28, 2006 and August 30, 2006, respectively. The Company believes the acquisitions of Chisholm Place and Briarwood Village fulfill the purchase requirement under the 1031 exchange. The Company received the final distribution of \$141,802 from the Multifamily Venture on September 7, 2007.

The summarized balance sheets of the Multifamily Venture are as follows:

	September 30, 2007	December 31, 2006
ASSETS		
Multifamily apartment communities, net	\$ -	\$ -
Cash and cash equivalents	-	321,887
Other assets	-	-
Total assets	\$ -	\$ 321,887
LIABILITIES AND OWNERS' EQUITY		
Mortgage note payable	\$ -	\$ -
Other liabilities	-	-
Owners' equity	-	321,887
Total liabilities and owners' equity	\$ -	\$ 321,887
Company's share of equity (1)	\$ -	\$ 146,522

- (1) As of September 30, 2007, the Multifamily Venture has made final distributions of cash, and as a result, there are no assets remaining at September 30, 2007. At December 31, 2006 the Company's carrying value of its share of equity in the Multifamily Venture was equal to its ownership interest if computed using the Company's 45.52% ownership percentage applied to the Multifamily Venture owner's equity as presented in the table above.

The summarized statement of operations of the Multifamily Venture for the three and nine months ended September 30, 2007 and 2006 is as follows:

	Three months ended		Nine	
	months ended		September	
	30,		September 30,	
	2007	2006	2007	2006
Revenue	\$ -	\$ 46,915	\$ -	\$ 1,143,145
Expenses	13,256	4,059	13,256	1,527,488
Operating income (loss)	(13,256)	42,856	(13,256)	(384,343)
Gain on sale of real estate assets	-	(26,396)	-	19,806,859
Net income	\$ (13,256)	\$ 16,460	\$ (13,256)	\$ 19,422,516
Equity in income (loss) of Multifamily Venture	\$ (6,034)	\$ 7,492	\$ (6,034)	\$ 8,841,129
Adjustment of carrying value	1,313	-	1,313	1,088,210
Adjusted equity in income of Multifamily Venture (1)	\$ (4,721)	\$ 7,492	\$ (4,721)	\$ 9,929,339

(1)– As of September 30, 2007, this amount represented the Company’s share of the net income of the Multifamily Venture if computed using the Company’s 45.52% ownership percentage, pursuant to the increase in ownership interest related to the sale of the property. As of September 30, 2006, this amount represents the Company’s share of the net loss of the Multifamily Venture if computed using the Company’s 35.00% ownership percentage for the month of January 2006 and the 45.52% ownership percentage, pursuant to the increase in ownership interest related to the sale of the property, for the months of February through June of 2006 as presented in the table above

4. INVESTMENT IN MULTIFAMILY LIMITED PARTNERSHIP VENTURE

On August 12, 2005, the Company, together with affiliates and other unaffiliated parties, entered into a subscription agreement to invest in the Berkshire Multifamily Value Fund, L.P. (“BVF”), an affiliate of Berkshire Property Advisors, L.L.C. (“Berkshire Advisor” or the “Advisor”). Under the terms of the agreement and the related limited partnership agreement, the Company and its affiliates agreed to invest up to \$25,000,000, or approximately 7%, of the total capital of the partnership. The Company’s final commitment under the subscription agreement with BVF totals \$23,400,000. BVF’s investment strategy is to acquire middle-market properties where there is an opportunity to add value through repositioning or rehabilitation. Under the terms of the BVF partnership agreement, the Company’s ability to acquire additional properties is restricted to the two following conditions: (1) the Company can invest up to \$8,000,000 per year in new properties from available cash or cash generated from the refinancing of existing properties, for a period of up to thirty-nine months, at which time such restriction will lapse, and (2) the Company is authorized to sell existing properties and reinvest those proceeds through transactions structured to comply with Section 1031 tax deferred exchanges under the Internal Revenue Code of 1986, as amended (“1031 Exchanges”),

without limit.

The managing partner of BVF is an affiliate of the Company. The Company has evaluated its investment in BVF and concluded that the investment, although subject to the requirements of FIN 46R, will not require the Company to consolidate the activity of BVF as the Company has determined that it is not the primary beneficiary of the venture as defined in FIN 46R.

In relation to its investment in BVF, the Company has elected to adopt a three-month lag period in which it recognizes its share of the equity earnings of BVF in arrears. The lag period is allowed under the provisions of Accounting Principles Board Opinion No. 18 (As Amended) – The Equity Method of Accounting for Investments in Common Stock Statement of Position 78-9 and is necessary in order for the Company to consistently meet its regulatory filing deadlines. As of September 30, 2007 and December 31, 2006, the Company has accounted for its share of the equity in BVF operating activity through June 30, 2007 and September 30, 2006, respectively.

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On March 14, 2007, the Company received notice of the sixth capital call by BVF, an affiliate of the Company. The capital call represented 7.5%, or \$1,750,187, of the total \$23,400,000 capital committed to BVF by the Company. The contribution was paid to BVF on March 27, 2007 and brought the total direct investment by the Company to \$13,931,488 or 59.5% of the total committed capital amount of \$23,400,000.

On June 15, 2007, the Company received notice of the seventh capital call by BVF, an affiliate of the Company. The capital call represented 4.8%, or \$1,120,120, of the total \$23,400,000 capital committed to BVF by the Company. The contribution was paid to BVF on June 29, 2007 and brought the total direct investment by the Company to \$15,051,608, or 64.3% of the total committed capital amount of \$23,400,000.

On September 10, 2007, the Company received notice of the eighth capital call by BVF, an affiliate of the Company. The capital call represented 15.0%, or \$3,500,374, of the total \$23,400,000 capital committed to BVF by the Company. The contribution was paid to BVF on September 24, 2007 and brought the total direct investment by the Company to \$18,551,982, or 79.3% of the total committed capital amount of \$23,400,000

The summarized statements of assets, liabilities and partners' capital of BVF is as follows:

ASSETS	June 30, 2007	September 30, 2006
Multifamily apartment communities, net	\$ 700,017,430	\$ 483,237,759
Cash and cash equivalents	14,765,525	4,307,036
Other assets	24,593,809	22,300,247
Total assets	\$ 739,376,764	\$ 509,845,042
LIABILITIES AND PARTNERS' CAPITAL		
Mortgage notes payable	\$ 488,868,099	\$ 320,417,900
Revolving credit facility	58,400,000	62,400,000
Other liabilities	19,489,467	19,025,264
Minority interest	14,237,544	14,588,442
Partners' capital	158,381,654	93,413,436
Total liabilities and partners' capital	\$ 739,376,764	\$ 509,845,042
Company's share of partners' capital	\$ 11,087,898	\$ 6,539,638
Basis differential (1)	4,104,767	4,314,789
Carrying value of the Company's investment in Multifamily Limited Partnership	\$ 15,192,665	\$ 10,854,427

(1) - This amount represents the difference between the Company's investment in BVF and its share of the underlying equity in the net assets of BVF (adjusted to conform with GAAP) including the timing of the lag period, as described above. At June 30, 2007 and September 30, 2006, the differential related mainly to the contribution of capital made by the Operating Partnership, in the amount of \$3,500,374 and \$3,710,396, to BVF during the third quarter of 2007 and the fourth quarter of 2006, respectively. Additionally, \$583,240 represents the Company's share of syndication

costs incurred by BVF of which the Company was not required to fund via a separate capital call.

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The summarized statement of operations of BVF for the three and nine months ended June 30, 2007 and 2006 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 20,728,213	\$ 10,290,617	\$ 57,905,757	\$ 18,880,143
Expenses	(32,332,729)	(16,515,969)	(90,276,721)	(31,354,852)
Minority interest	1,110,268	1,025,576	3,339,178	1,025,576
Net loss attributable to investment	\$ (10,494,248)	\$ (5,199,776)	\$ (29,031,786)	\$ (11,449,133)
Equity in loss of Multifamily Limited Partnership	\$ (734,676)	\$ (363,680)	\$ (2,032,442)	\$ (801,181)

5. MORTGAGE NOTES PAYABLE

On March 30, 2007, the Company, through its wholly owned subsidiary BIR Yorktowne, L.L.C., executed a non-recourse second mortgage note payable on Yorktowne Apartments for \$7,050,000, which is collateralized by the related property. The interest rate on the note is fixed at 6.12% and is coterminous with the existing first mortgage note, which matures on February 1, 2015.

On April 26, 2007, the Company, through its wholly owned subsidiary, BIR Hampton, LLC., executed a non-recourse mortgage note payable on the Hampton House Apartments for \$20,000,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.77% for a term of 10 years. The note requires interest payments for 60 months and matures on April 1, 2017, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On May 10, 2007, the Company, through its wholly owned subsidiary, BIR Westchester Limited Partnership, executed a non-recourse second mortgage note payable on the Westchester West Apartments for \$8,000,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.89% and is coterminous with the existing first mortgage note, which matures on March 1, 2015.

On August 15, 2007, the Company, through its wholly owned subsidiary, BIR Sunfield, LLC., executed a non-recourse mortgage note payable on the Sunfield Lakes Apartments for \$19,440,000, which is collateralized by the related property. The interest rate on the note is fixed at 6.29% for a term of 10 years. The note requires interest only payments for 60 months and matures on September 1, 2017, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice.

On September 20, 2007, the Company, through its wholly owned subsidiary, BIR Brompton Limited Partnership, executed a non-recourse mortgage note payable on the Berkshires on Brompton Apartments for \$18,600,000, which is collateralized by the related property. The interest rate on the note is fixed at 5.71% for a term of 7 years. The note requires interest payments for 84 months and matures on November 1, 2014, at which time the remaining principal

and accrued interest is due. The note may be prepaid, subject to a prepayment penalty, at anytime with 30 days of notice. The new mortgage debt was a refinancing of then outstanding debt of \$6,393,374. The Company incurred a prepayment penalty of \$240,644 in connection with the pay-off of the refinanced debt.

The combined aggregate principal maturities of mortgage notes payable at September 30, 2007 are as follows:

2007	\$ 1,097,037
2008	12,821,362
2009	20,257,150
2010	4,779,543
2011	5,088,624
Thereafter	464,086,756
	\$ 508,130,472

6. REVOLVING CREDIT FACILITY - AFFILIATE

On June 30, 2005, the Company obtained new financing in the form of a revolving credit facility. The revolving credit facility in the amount of \$20,000,000, was provided by an affiliate of the Company. The facility provides for interest on borrowings at a rate of 5% above the 30 day LIBOR rate, as announced by Reuter's, and fees based on borrowings under the facility and various operational and financial covenants, including a maximum leverage ratio and a maximum debt service ratio. The revolving credit agreement (the "Agreement") had a maturity date of December 31, 2006, with a one-time six-month extension available at the option of the Company. The terms of the facility were agreed upon through negotiations and were approved by the Audit Committee of the Board of Directors of the Company (the "Board"), which is comprised solely of directors who are independent under applicable rules and regulations of the SEC and the American Stock Exchange. On October 30, 2006, the Company exercised its contractual option to extend the maturity date on the revolving credit facility available from the affiliate. The Company sent notice to the affiliate of its intent, pursuant to the credit agreement, to extend the maturity date of the revolving credit facility by six months, until June 30, 2007.

On May 31, 2007, the Company executed an amendment to the Agreement. The amendment provides for an extension of the maturity date by replacing the current maturity date of June 30, 2007 with a 60-day notice of termination provision by which the lender can affect a termination of the commitment under the Agreement and render all outstanding amounts due and payable. The amendment also adds a clean-up requirement to the Agreement, which requires the borrower to repay in full all outstanding loans and have no outstanding obligations under the Agreement for a 14 consecutive day period during each 365-day period.

During the nine months ended September 30, 2007 and 2006, the Company borrowed \$37,500,000 and \$7,000,000, respectively, related to the acquisition activities of the Company and repaid advances of \$37,500,000 and \$7,000,000, respectively, during the same periods. There were no borrowings outstanding as of September 30, 2007 and December 31, 2006, respectively. The Company incurred interest and fees of \$676,400 and \$3,860 related to the facility during the nine months ended September 30, 2007 and 2006, respectively.

7. STOCKHOLDERS' EQUITY

On March 25, 2003, the Board declared a dividend at an annual rate of 9%, on the stated liquidation preference of \$25 per share of the outstanding Preferred Shares which is payable quarterly in arrears, on February 15, May 15, August 15, and November 15 of each year to shareholders of record in the amount of \$0.5625 per share per quarter. The first quarterly dividend paid on May 15, 2003 was prorated to reflect the issue date of the Preferred Shares. For the nine months ended September 30, 2007 and 2006, the Company's aggregate dividends totaled \$5,025,595 and \$5,025,595, respectively, of which \$837,607 was payable and included on the balance sheet in Dividends and Distributions Payable as of September 30, 2007 and December 31, 2006.

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

On May 16, 2007, the Board authorized the general partner of the Operating Partnership to distribute two quarterly distributions of \$1,000,000 each, in the aggregate, from its operating cash flows to common general and common limited partners, payable on August 15, 2007 and November 15, 2007. On the same day, the Board also declared a common dividend of \$0.016996 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distributions.

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

8. EARNINGS PER SHARE

Net income (loss) per common share, basic and diluted, is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding during the applicable period, basic and diluted. For the nine months ended September 30, 2007 and 2006, the Company did not have any common stock equivalents therefore basic and diluted earnings per share were the same.

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The reconciliation of the basic and diluted earnings per common share for the three and nine months ended September 30, 2007 and 2006 follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income (loss) from continuing operations	\$ (7,096,817)	\$ (15,375,491)	\$ (22,211,815)	\$ (14,768,568)
Less: Preferred dividends	(1,675,197)	(1,675,198)	(5,025,595)	(5,025,595)
Net income (loss) from continuing operations available to common shareholders	\$ (8,722,014)	\$ (17,050,689)	\$ (27,237,410)	\$ (19,794,163)
Net income (loss) from discontinued operations	\$ (10,698)	\$ (66,779)	\$ 31,315,934	\$ (207,768)
Net income (loss) available to common shareholders	\$ (8,782,712)	\$ (17,117,468)	\$ 4,078,524	\$ (20,001,931)
Weighted average number of common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196	1,406,196
Net income (loss) from continuing operations per common share available to common shareholders, basic and diluted	\$ (6.24)	\$ (12.12)	\$ (19.37)	\$ (14.08)
Net income (loss) from discontinued operations per common share available to common shareholders, basic and diluted	\$ (0.01)	\$ (0.05)	\$ 22.27	\$ (0.14)
Net income (loss) per common share available to common shareholders, basic and diluted	\$ (6.25)	\$ (12.17)	\$ 2.90	\$ (14.22)

9. COMMITMENTS AND CONTINGENCIES

The Company is party to certain legal actions arising in the ordinary course of its business, such as those relating to tenant issues. All such proceedings taken together are not expected to have a material adverse effect on the Company. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material adverse effect on the Company's liquidity, financial position or results of operations.

10. MINORITY INTERESTS

Minority Interest in Properties

Two of the Company's properties, Hannibal Grove Apartments and Century II Apartments, are owned with a third party. A third property, Dorsey's Forge Apartments, was sold on June 22, 2007. The Company's interest in Hannibal Grove Apartments is 91.382% and its interest in Century II Apartments is 75.82%.

Effective September 24, 2004, the Company consummated the JV BIR/ERI, L.L.C. multifamily venture agreement ("JV BIR/ERI") with Equity Resources Investments, L.L.C. ("ERI"), an unrelated third party, whereby each of the parties to the agreement agreed to participate, on a pro rata basis, in the economic benefits of the venture. Under the terms of the limited liability company agreement, the Company owns a 58% interest as the managing member and ERI owns the remaining 42% interest. The Company evaluated its investment in JV BIR/ERI and concluded that the investment did not fall under the requirements of FIN 46R because it did not meet the conditions set forth in the FASB interpretation. Therefore the Company accounted for the investment under Accounting Research Bulletin 51, Consolidated Financial Statements based on its controlling interest in the subsidiary.

Minority interest in the properties is carried at zero on the balance sheet due to the minority interest having no obligation to fund accumulated losses/deficits.

Minority Common Interest in Operating Partnership

The following table sets forth the calculation of minority common interest in the Operating Partnership for the nine months ended September 30:

	2007	2006
Net income (loss)	\$ 9,104,119	\$(14,976,336)
Add:		
Minority common interest in Operating Partnership	2,928,300	10,737,100
Net income (loss) before minority interest in Operating Partnership	12,032,419	(4,239,236)
Preferred dividend	(5,025,595)	(5,025,595)
Income (loss) available to common equity	7,006,824	(9,264,831)
Common Operating Partnership units of minority interest	97.61%	97.61%
Minority common interest in Operating Partnership	\$ 6,839,361	\$(9,043,401)

In the nine months ended September 30, 2007, the Operating Partnership recognized net income. The net income was not sufficient to create positive basis in the Operating Partnership and therefore no allocation was made to the minority common interest in Operating Partnership at September 30, 2007, except to the extent distributions were paid or accrued. In the nine months ended September 30, 2006, the Operating Partnership incurred a net loss and therefore no allocation was made to the minority common interest in Operating Partnership at September 30, 2006, except to the extent distributions were paid or accrued.

The following table sets forth a summary of the items affecting the minority common interest in the Operating Partnership:

	Minority Common Interest in Operating Partnership	Company's Interest in Operating Partnership	Total Common Owners' Deficit
Balance at December 31, 2006	\$ (64,701,866)	\$ 250,546	\$ (64,451,320)
Minority common interest in Operating Partnership	6,839,361	167,463	7,006,824
Distributions to common interest in Operating Partnership	(2,928,300)	(71,700)	(3,000,000)
Balance at September 30, 2007 (1)	\$ (60,790,805)	\$ 346,309	\$ (60,444,496)

(1) Minority common interest in Operating Partnership is carried at zero on the balance sheet due to the minority interest having no obligation to fund losses/deficits.

As of September 30, 2007 and December 31, 2006, respectively, the minority interest in the Operating Partnership consisted of 5,242,223 Operating Partnership units held by parties other than the Company.

11. RELATED PARTY TRANSACTIONS

Amounts accrued or paid to the Company's affiliates are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Property management fees	\$ 848,434	\$ 775,715	\$ 2,526,575	\$ 2,201,497
Expense reimbursements	62,739	78,974	188,217	237,110
Salary reimbursements	2,306,373	2,104,843	7,106,483	6,131,553
Asset management fees	418,360	418,360	1,255,079	1,255,088
Construction management fees	229,030	248,251	545,693	644,007
Acquisition fees	-	138,167	447,500	234,417
Interest on revolving credit facility	116,100	-	676,400	3,860
Total	\$ 3,981,036	\$ 3,764,310	\$ 12,745,947	\$ 10,707,532

Amounts due to affiliates of \$2,768,784 and \$1,916,315 are included in Due to affiliates at September 30, 2007 and December 31, 2006, respectively, in the accompanying Consolidated Balance Sheets.

Amounts due from affiliates of \$581,032 and \$535,843 are included in Due to affiliates at September 30, 2007 and December 31, 2006, respectively, in the accompanying Consolidated Balance Sheets.

Amounts due to affiliates of \$2,187,752 and \$1,380,472 at September 30, 2007 and December 31, 2006, respectively, represent intercompany development fees and related party reimbursements.

Of the \$12,745,947 related party fees and interest incurred in the nine months ended September 30, 2007, \$8,043,619 remained outstanding of which \$874,397 is included in accrued expenses and other liabilities and \$7,169,222 is included in due to affiliates in the accompanying Consolidated Balance Sheets.

The Company pays property management fees to an affiliate for property management services. The fees are payable at a rate of 4% of gross income.

The Company pays asset management fees to an affiliate for asset management services. These fees are payable quarterly, in arrears, and may be paid only after all distributions currently payable on the Company's Preferred Shares have been paid. Effective April 4, 2003, under the advisory services agreement, the Company will pay Berkshire Advisor an annual asset management fee equal to 0.40%, up to a maximum of \$1,600,000 in any calendar year, as per an amendment to the management agreement, of the purchase price of real estate properties owned by the Company, as adjusted from time to time to reflect the then current fair market value of the properties. The purchase price is defined as the capitalized basis of an asset under GAAP, including renovation or new construction costs, costs of acquisition or other items paid or received that would be considered an adjustment to basis. Annual asset management

fees earned by the affiliate in excess of the \$1,600,000 annual maximum payable by the Company represent fees incurred and paid by the minority partners in the properties. The Company also reimburses affiliates for certain expenses incurred in connection with the operation of the properties, including administrative expenses and salary reimbursements.

The Company pays acquisition fees to an affiliate for acquisition services. These fees are payable upon the closing of an acquisition of real property. The fee is equal to 1% of the purchase price of any new property acquired directly and indirectly by the Company. The purchase price is defined as the capitalized basis of an asset under GAAP, including renovations or new construction costs, cost of acquisition or other items paid or received that would be considered an adjustment to basis. The purchase price does not include acquisition fees and capital costs of a recurring nature. During the three and nine months ended September 30, 2007 and 2006, the Company incurred fees on the following acquisitions:

	Three months ended		September 30,	
	Nine months ended		September 30,	
	2007	2006	2007	2006
Hampton House	\$ -	\$ -	\$ 205,000	\$ -
Sunfield Lakes	-	-	242,250	-
Briarwood Village	-	138,167	-	138,167
Chisholm Place	-	-	-	96,250
Total	\$ -	\$ 138,167	\$ 447,250	\$ 234,417

During the nine months ended September 30, 2007 and 2006, the Company borrowed \$37,500,000 and \$7,000,000, respectively, from the revolving credit facility available from an affiliate related to the acquisition activities of the Company and repaid advances of \$37,500,000 and \$7,000,000 respectively, during the same periods. There were no borrowings outstanding as of September 30, 2007 and December 31, 2006, respectively. The Company incurred interest and fees of \$676,400 and \$3,860 related to the facility during the nine months ended September 30, 2007 and 2006, respectively.

On March 14, 2007, the Company received notice of the sixth capital call by BVF, an affiliate of the Company. The capital call represented 7.5%, or \$1,750,187, of the total \$23,400,000 capital committed to BVF by the Company. The contribution was paid to BVF on March 27, 2007 and brought the total direct investment by the Company to \$13,931,488 or 59.5% of the total committed capital amount of \$23,400,000.

On June 15, 2007, the Company received notice of the seventh capital call by BVF, an affiliate of the Company. The capital call represented 4.8%, or \$1,120,120, of the total \$23,400,000 capital committed to BVF by the Company. The contribution was paid to BVF on June 29, 2007 and brought the total direct investment by the Company to \$15,051,608 or 64.3% of the total committed capital amount of \$23,400,000.

On September 10, 2007, the Company received notice of the eighth capital call by BVF, an affiliate of the Company. The capital call represented 15.0%, or \$3,500,374, of the total \$23,400,000 capital committed to BVF by the Company. The contribution was paid to BVF on September 24, 2007 and brought the total direct investment by the Company to \$18,551,982, or 79.3% of the total committed capital amount of \$23,400,000.

12. LEGAL PROCEEDINGS

The Company is currently party to a legal proceeding initiated by a seller/developer from whom the Company acquired a property in 2005. The dispute involves the interpretation of certain provisions of the purchase and sales

agreement related to post acquisition construction activities. Specifically, the purchase and sales agreement provided that if certain conditions were met, the seller/developer would develop a vacant parcel of land contiguous to the acquired property with 18 new residential apartment units (the "New Units") for the benefit of the Company at an agreed upon price. The purchase and sales agreement also provided the opportunity for the seller/developer to build a limited number of garages (the "Garages") for the existing apartment units, for the benefit of the Company at an agreed upon price.

In 2006, the Company accrued \$190,000 with respect to this matter based on a settlement offer extended to the plaintiff. On November 9, 2007, the judge issued a summary judgment with respect to the construction of the New Units. The judgment was against the Company, but did not specify damages, which the plaintiff will be required to demonstrate at trial. The Company believes that there are reasonable grounds for appeal of this ruling and intends to vigorously defend against this claim. No ruling has been made with respect to the claim on the Garages and the Company also intends to vigorously defend against this claim.

As of September 30, 2007, the Company believes it is probable that it will incur \$190,000 in losses with respect to the New Units and as of September 30, 2007, the Company has accrued \$190,000 with respect to this matter.

The Company believes that it is reasonably possible that additional losses of up to \$800,000 could be incurred, but the actual amount is not estimable at September 30, 2007, and therefore the Company has not recorded any amounts for these losses.

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

13. SUBSEQUENT EVENTS

On October 14, 2007 the Walden Pond property located in Texas sustained a fire in one of its buildings. The fire was extensive, to the single building and resulted in substantial damage to most of the units in the building. The Company is in the process of obtaining estimates to renovate the building, which may require complete reconstruction.

On November 1, 2007, the Company commenced construction on the development of vacant land adjacent to the Arboretum property. The development plans include the construction of five buildings, containing 143 units, and a clubhouse. The project cost is currently estimated at \$17,000,000 and is expected to be completed in late 2008.

Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF BERKSHIRE INCOME REALTY, INC.

You should read the following discussion in conjunction with Berkshire Income Realty, Inc.'s (the "Company") consolidated financial statements and their related notes and other financial information included in this report. For further information please refer to the Company's consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Forward Looking Statements

Certain statements contained in this report, including information with respect to our future business plans, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements, subject to a number of risks and uncertainties that could cause actual results to differ significantly from those described in this report. These forward-looking statements include statements regarding, among other things, our business strategy and operations, future expansion plans, future prospects, financial position, anticipated revenues or losses and projected costs, and objectives of management. Without limiting the foregoing, the words "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms and other comparable terminology are intended to identify forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, changes in economic conditions generally and the real estate and bond markets specifically, legislative/regulatory changes (including changes to laws governing the taxation of real estate investment trusts ("REITs")), possible sales of assets, the acquisition restrictions placed on the Company by its investment in Berkshire Multifamily Value Fund, LP, ("BVF" or the "Fund") availability of capital, interest rates and interest rate spreads, changes in generally accepted accounting principles and policies and guidelines applicable to REITs, those factors set forth herein in Part I, Item 1A. entitled "Risk Factors" to the Company's Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission (the "SEC") on March 27, 2007 and other risks and uncertainties as may be detailed from time to time in our public announcements and our reports filed with the SEC. The risks herein are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risks factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, undue reliance should not be placed on forward-looking statements as a prediction of actual results.

As used herein, the terms "we", "us" or the "Company" refer to Berkshire Income Realty, Inc. (the "Company"), a Maryland corporation, incorporated on July 19, 2002. The Company is in the business of acquiring, owning, operating and renovating multifamily apartment communities. Berkshire Property Advisors, L.L.C. ("Berkshire Advisor" or "Advisor") is an affiliated entity we have contracted with to make decisions relating to the day-to-day management and operation of our business, subject to the Board of Directors ("Board") oversight. Refer to the Notes to the Consolidated Financial Statements, *Note 11 –Related Party Transactions of this Form 10-Q* for additional information about the Advisor.

Overview

The Company is engaged primarily in the ownership, acquisition, operation and rehabilitation of multifamily apartment communities in the Baltimore/Washington D.C., Southeast, Southwest, Northwest and Midwest areas of the United States. We conduct substantially all of our business and own, either directly or through subsidiaries,

substantially all of our assets through Berkshire Income Realty – OP, L.P. (the “Operating Partnership”), a Delaware limited partnership. The Company’s wholly owned subsidiary, BIR GP, L.L.C., a Delaware limited liability company, is the sole general partner of the Operating Partnership. As of November 13, 2007, the Company is the owner of 100% of the preferred limited partner units of the Operating Partnership, whose terms mirror the terms of the Company’s Series A 9% Cumulative Redeemable Preferred Stock and, through BIR GP, L.L.C., owns 100% of the general partner interest of the Operating Partnership, which represents approximately 2.39% of the common economic interest of the Operating Partnership.

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

Our highlights of the nine months ended September 30, 2007 included the following:

- On March 2, 2007, the Company acquired Hampton House Apartments for \$20,500,000, from an unaffiliated seller. The high rise mixed use property is located in the Baltimore suburb of Towson, Maryland and has 222 units, 196 residential and 26 commercial units. The purchase price was paid with a combination of proceeds from the advance of \$20,000,000 on the revolving credit facility available from an affiliate, and cash from available working capital. The property has been designated as a qualified replacement property in a transaction structured to comply with a Section 1031 tax deferred reverse exchange under the Internal Revenue Code of 1986, as amended.
- On March 30, 2007, the Company closed on \$7,050,000 of supplemental fixed rate financing on the Yorktowne property. The loan is a non-recourse mortgage note with a fixed interest rate of 6.12%. The loan is coterminous with the existing first mortgage on the property.
- On April 26, 2007, the Company closed on \$20,000,000 of fixed rate financing on the Hampton House property. The loan is a non-recourse mortgage note with a fixed interest rate of 5.77% and a term of 10 years. The loan was used to repay the \$20,000,000 of revolving credit used to purchase the property initially.
- On June 1, 2007, the Company acquired Sunfield Lakes Apartments for \$24,250,000, from an unaffiliated seller. The 200 unit multifamily apartment community is located in the City of Sherwood, Oregon. The purchase price was paid with a combination of proceeds from the advance of \$17,500,000 on the revolving credit facility available from an affiliate, and cash from available working capital. The property has been designated as a qualified replacement property in a transaction structured to comply with a Section 1031 tax deferred reverse exchange under the Internal Revenue Code of 1986, as amended.
- On May 10, 2007, the Company closed on \$8,000,000 of supplemental fixed rate financing on the Westchester West property. The loan is a non-recourse mortgage note with a fixed interest rate of 5.89%. The loan is coterminous with the existing first mortgage on the property.
- On May 30, 2007, the Company completed the sale of Trellis at Lee's Mill ("Trellis"), a 176-unit multifamily apartment community located in Newport News, Virginia, to an unaffiliated buyer. The sale price of the property was \$12,200,000 and was subject to normal operating prorations and adjustments as provided for in the purchase and sale agreement. The Company has structured the transaction to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The Company has reinvested its entire share of the proceeds from the sale of Trellis at Lee's Mill and the proceeds from sale of Dorsey's Forge in the purchase of two qualified replacement properties, Hampton House and Sunfield Lakes Apartments.
- On June 22, 2007, the Company completed the sale of Dorsey's Forge ("Dorsey's"), a 251-unit multifamily apartment community located in Columbia, Maryland, to an unaffiliated buyer. The

sale price of the property was \$33,250,000 and was subject to normal operating proration and adjustments as provided for in the purchase and sale agreement. The Company has structured the transaction to comply with the requirements of a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended. The Company has reinvested its entire share of the proceeds from the sale of Dorsey's Forge and the proceeds from sale of Trellis at Lee's Mill in the purchase of two qualified replacement properties, Hampton House and Sunfield Lakes Apartments. Dorsey's Forge was one of the three properties owned with a third party. The Company's interest in Dorsey's Forge was 91.382%.

- On August 15, 2007, the Company, through its wholly owned subsidiary, BIR Sunfield, LLC., executed a non-recourse mortgage note payable on the Sunfield Lakes Apartments for \$19,400,000, which collateralized by the related property. The interest rate on the note is fixed at 6.29% for a term of 10 years. The note requires interest only payments for 60 months and matures on September 1, 2017, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to prepayment penalty, at anytime with 30 days of notice.
- On September 20, 2007, the Company closed on refinancing of \$18,600,000 fixed rate first mortgage debt secured by the Berkshire on Brompton property. The loan is a non-recourse mortgage note with a fixed interest rate of 5.71% and a term of 7 years. The note requires interest only payments for 60 months and matures on October 1, 2014, at which time the remaining principal and accrued interest is due. The note may be prepaid, subject to prepayments penalty, at anytime with 30 days of notice.

General

The Company detailed a number of significant trends and specific factors affecting the real estate industry in general and the Company's business in particular in "Management's Discussion and Analysis of Financial Condition and Results of Operations" Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2006. The Company believes those trends and factors continue to be relevant to the Company's performance and financial condition.

Recent Accounting Pronouncements

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

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

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that SFAS No. 159 may have on the financial position, operating results and related disclosures of the Company.

On June 19, 2007 the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1"). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide *Investment Companies* (the Guide). For those entities that are investment companies under SOP 07-1, it also addresses whether the specialized industry accounting principles of the Guide (referred to as investment company accounting) should be retained by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity (referred to as an equity method investor). In addition, this SOP includes certain disclosure requirements for parent companies and equity method investors in investment companies that retain Investment Company accounting in the parent company's consolidated financial statements or the financial statements of an equity method investor. SOP 07-1 was to be effective for the Company's 2008 fiscal year, however, in October 2007, the FASB agreed to propose an indefinite delay of the effective date of SOP 07-1.

Liquidity and Capital Resources

Explanation of Responses:

Cash and Cash Flows

As of September 30, 2007 and December 31, 2006, the Company had \$30,854,850 and \$15,393,249 of cash and cash equivalents, respectively. Cash provided and used by the Company for the three and nine month periods ended September 30, 2007 and 2006 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Cash provided by operating activities	\$ 1,931,437	\$ 4,712,093	\$ 8,385,763	9,632,944
Cash used in investing activities	10,393,924	(10,605,980)	(45,762,236)	(22,134,994)
Cash provided by financing activities	10,435,761	33,600,980	52,838,074	35,592,601

During the nine months ended September 30, 2007, cash increased by \$15,461,601. The main component of the overall increase was due to \$52,838,074 of cash provided by the Company's financing activities, which include proceeds from new first, second and refinanced mortgage debt on various properties totaling \$73,090,000. The increases from the credit activities were offset by payments of principal on existing mortgage loans repayment of refinanced loan, distributions to common and preferred shareholders and distributions to minority owners in the properties. The increase was partially offset by \$45,762,236 used in the investing activities of the Company. The activities relate mainly to the acquisition of the Hampton House and Sunfield Lakes properties for \$21,097,783 and \$24,654,747, respectively, capital expenditures related to the rehabilitation of the Company's properties of \$12,562,119 and additional investments of capital in BVF of \$6,370,681, which was partially offset by the release of section 1031 related transaction funds of \$18,651,058. Additionally, the net cash used by the investing and financing activities of the Company was further offset by an increase in cash of \$8,385,763 provided by the operating activities of the Company.

During the nine months ended September 30, 2007, the Company sold two properties but did not recognize the \$18,393,796 in cash these sales generated as the funds were held in restricted escrow accounts pending the settlement of the related 1031 exchange transaction in the second quarter of 2007. The transaction was completed on July 13, 2007 and the Company recognized those cash flows in the third quarter of 2007.

The Company's principal liquidity demands are expected to be distributions to our preferred and common shareholders and Operating Partnership unitholders, capital improvements, rehabilitation projects and repairs and maintenance for the properties, acquisition of additional properties within the investment restrictions placed on it by BVF, debt repayment and investment in the affiliated BVF. (See footnote 4 to the consolidated financial statements in Part I, Item I herein for additional information).

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

The Company intends to meet its long-term liquidity requirements through property debt financing and refinancing. The Company may seek to expand its purchasing power through the use of venture relationships with other companies.

As of September 30, 2007, the Company has obtained fixed interest rate mortgage financing on all of the properties in the portfolio with the exception of the Arboretum Land, a parcel of vacant land adjacent to the Arboretum Place Apartments. First mortgage fixed interest rate debt on Hampton House and Sunfield Lakes was completed during the nine months ended September 30, 2007. The financing provided \$39,440,000 and was used primarily to pay down advances on the revolving credit facility used to acquire the property. The Company also refinanced the outstanding debt on the Berkshire on Brompton property. The refinancing provided additional liquidity of \$12,200,000. Supplemental fixed interest rate mortgage financing on the Yorktowne and Westchester West properties was completed during the nine months ended September 30, 2007 and provided \$15,050,000 of additional liquidity during the period.

The Company has a \$20,000,000 revolving credit facility in place with an affiliate of the Company. During the nine months ended September 30, 2007, the Company borrowed \$20,000,000, which it later repaid and borrowed an additional \$17,500,000 from the credit facility for the acquisition of properties that were acquired prior to obtaining financing. The Company used the proceeds of the borrowing to acquire the Hampton House and Sunfield Lakes properties. The additional \$17,500,000 revolving credit facility balance was paid off during the third quarter of 2007,

and there were no borrowings outstanding on the credit facility as of September 30, 2007.

Capital Expenditures

The Company incurred \$3,691,597 and \$2,937,957 in recurring capital expenditures during the nine months ended September 30, 2007 and 2006, respectively. Recurring capital expenditures typically include items such as appliances, carpeting, flooring, HVAC equipment, kitchen and bath cabinets, site improvements and various exterior building improvements.

The Company incurred \$8,896,502 and \$10,404,856 in renovation-related capital expenditures during the nine months ended September 30, 2007 and 2006, respectively. Renovation related capital expenditures generally include capital expenditures of a significant non-recurring nature, including construction management fees payable to an affiliate of the Company, where the Company expects to see a financial return on the expenditure or where the Company believes the expenditure preserves the status of a property within its sub-market.

In January 2004, the Company authorized the renovation of 252 apartment units at its Berkshires of Columbia (formerly Hannibal Grove property ("Columbia")) to provide for in-unit washer and dryer hookups. The total cost of the project was estimated to be approximately \$1,455,000, or \$5,775 per apartment unit. The Company believes the renovations are necessary to maintain the property's competitiveness in its sub-market and that the property will also achieve significant growth in rental rates as a result of the renovations. In September 2005, in addition to the washer and dryer program, the Company approved, after a successful trial project on a limited number of units, the interior renovation of all 252 units at Columbia, including the in-unit washer and dryer hookups in units not yet converted, at an anticipated total cost of \$5,292,000, or \$21,000 per unit. As of September 30, 2007, 218 units, or 87%, of 252 apartment units at Columbia have been renovated, of which 213 units, or 98%, of those completed units have been leased. The Company currently anticipates spending, and has budgeted in 2007, approximately \$2,600,000 for continued renovations at Hannibal and currently anticipates completing the project in the fourth quarter of 2007. Total costs committed to date are below original estimates and are anticipated to remain under budget through the remainder of the project.

In May 2005, the Company authorized the renovation of its Berkshires on Brompton property. The renovations at the 362-unit property include significant rehabilitation to the interior and exterior common areas as well as individual interior unit renovations. The total cost of the project, including interior and exterior renovations, is currently estimated at approximately \$6,800,000. The Company initially tested the interior rehabilitation plan on 100 units, at a cost of approximately \$6,300 per unit or \$630,000, and has determined that the financial returns estimated in the plan are achievable. Based on the successful financial returns of the 100-unit test, the Company decided to move forward with the renovation of the remaining 262 units. The costs associated with the renovation of the remaining 262 units were approved as part of the 2006 capital budget, which included a per-unit estimated cost of \$7,300 or \$1,912,600. As of September 30, 2007, all 362 units, or 100%, including the 100 test units, have been renovated, of which 343 units, or 95%, of those completed units have been leased.

In December 2006, the Company, as part of the decision to acquire the Standard at Lenox Park property, approved a rehabilitation project at the 375-unit property of approximately \$5,000,000 for interior and exterior improvements. As of September 30, 2007, the project, which includes rehabilitation of the kitchens, bathrooms, lighting and fixtures, was 57% complete as 212 of the 375 units had been completed, of which 197 units, or 93% have been leased.

Other properties are undergoing limited-scope interior renovation projects during 2007. The decision to undertake these renovations was also made as part of the decision to acquire the respective properties. The projects include rehabilitation of the kitchens; bathrooms, lighting and fixtures included exterior renovations of the Chisholm Place and Briarwood Apartments properties. Both projects were complete as of September 30, 2007.

The Company owns two parcels of vacant land, which are contiguous with other properties the Company currently owns. The Company continues to assess the viability of developing additional apartment units on those parcels. On November 1, 2007, the Company commenced construction on the development of vacant land adjacent to the

Arboretum property. The development plans include the construction of five buildings, containing 143 units, and a clubhouse. The project cost is currently estimated at \$17,000,000 and is expected to be completed in late 2008. No decision to proceed nor have any funds been committed to the development of the other parcel of vacant land as of September 30, 2007.

The Company's capital budgets for 2007 anticipate spending approximately \$20,092,718 for ongoing rehabilitation and development of current portfolio properties during the year. As of September 30, 2007, the Company has not committed to any new significant rehabilitation projects.

Acquisitions

On March 2, 2007, the Operating Partnership, through a newly formed and wholly owned subsidiary, BIR Hampton Manager, LLC. , completed the acquisition of 100% of the fee simple interest of Hampton House Apartments, a 222 unit mixed use high-rise apartment building located in Towson, Maryland, from an unaffiliated third party. The purchase price was \$20,500,000 subject to normal operating pro rations. The purchase price and related closing costs were funded through a \$20,000,000 advance from the revolving credit facility available from an affiliate and available cash. The Company obtained first mortgage financing, which is collateralized by the property, in the amount of \$20,000,000 on April 26, 2007 and subsequently used a portion of the proceeds and the 1031 net proceeds to repay the outstanding advance on the revolving credit facility. The acquisition of Hampton House is intended to be the qualified replacement property in connection with the sale of properties identified for replacement pursuant to a transaction structured to comply with the requirements of a reverse Section 1031 tax exchange under the Internal Revenue Code of 1986, as amended. As required by the tax code, a qualified 1031 intermediary was retained to execute the Hampton House acquisition and relinquished properties transactions. As of September 30, 2007, the purchase price allocation is final and no further adjustment is contemplated.

On June 1, 2007, the Operating Partnership, through a newly and wholly owned subsidiary, BIR Sunfield, LLC. , completed the acquisition of 100% of the fee simple interest of Sunfield Lakes Apartments, a 200 unit multifamily apartment community is located in the City of Sherwood, County of Washington, Oregon, from an unaffiliated third party. The purchase price was \$24,250,000 subject to normal operating pro rations. The purchase price and related closing costs were funded through a \$17,500,000 advance from the revolving credit facility available from an affiliate and available cash. On August 15, 2007, the Company closed on first mortgage financing, which is collateralized by the property, in the amount of \$19,440,000. A portion of the financing and 1031 net proceeds were used to repay the outstanding balance on the revolving credit facility. The acquisition of Sunfield Lakes is intended to be the qualified replacement property in connection with the sale of properties identified for replacement pursuant to a transaction structured to comply with the requirements of a reverse Section 1031 tax exchange under the Internal Revenue Code of 1986, as amended.

The Company identified the Dorsey's Forge ("Dorsey's") and Trellis at Lee's Mill ("Trellis") as the properties it relinquished as part of the 1031 tax-free exchange transaction. As required by the tax code, qualified 1031 intermediaries were retained to execute the Hampton House and Sunfield Lakes acquisitions, and the two relinquished properties transactions. The sale of Dorsey's and Trellis occurred in the second quarter, and the 1031 tax-free exchange transaction was subsequently settled on July 13, 2007.

Discussion of dispositions for the nine months ended September 30, 2007

On May 30, 2007, the Operating Partnership completed the sale of 100% of its interest in Trellis in Newport News, Virginia. The proceeds from the sale of Trellis at Lee's Mill were deposited in an escrow account with qualified institution pursuant to a transaction structured to comply with a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended, and intends to reinvest its share of proceeds from sale of Trellis in the purchase of qualified replacement property. The operating results of Trellis have been presented in the consolidated statement of operations as discontinued operations in accordance with FAS 144 "Accounting for the Impairment or Disposal of Long Lived Assets" as those results were previously reported as part of continuing operations.

On June 22, 2007, the Operating Partnership completed the sale of 100% of its interest in Dorsey's in Columbia, Maryland. The proceeds from the sale of Dorsey's Forge were deposited in an escrow account with qualified institution pursuant to a transaction structured to comply with a Section 1031 tax deferred exchange under the Internal Revenue Code of 1986, as amended, and intends to reinvests its share of proceeds from sale of Dorsey's Forge in the

purchase of qualified replacement property. The operating results of Dorsey's Forge have been presented in the consolidated statement of operations as discontinued operations in accordance with FAS 144 "Accounting for the Impairment or Disposal of Long Lived Assets" as those results were previously reported as part of continuing operations.

The gain from the sale of Dorsey's and Trellis is reflected, on a combined basis, as gain on disposition on real estate assets in the discontinued operations section of the Consolidated Statements of Operations.

Declaration of Dividends and Distributions

On March 25, 2003, the Board declared a dividend at an annual rate of 9% on the stated liquidation preference of \$25 per share of the outstanding shares of the Company's 9% Cumulative Redeemable Preferred Stock, which is payable quarterly in arrears, on February 15, May 15, August 15, and November 15 of each year to shareholders of record in the amount of \$0.5625 per share per quarter.

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

On May 16, 2007, the Board authorized the general partner of the Operating Partnership to distribute quarterly distributions of \$1,000,000 each, in the aggregate, from its operating cash flows to common general and common limited partners, payable on August 15, 2007 and November 15, 2007. On the same day, the Board also declared a common dividend of \$0.016996 per share on the Company's Class B common stock payable concurrently with the Operating Partnership distributions.

Results of Operations and Financial Condition

During the nine months ended September 30, 2007, the Company's portfolio (the "Total Property Portfolio"), which consists of all properties acquired or placed in service and owned through September 30, 2007, remains the same in total number as two properties were acquired and two properties were sold during the period. As a result of changes in property holdings in the Total Portfolio over the nine-month period ended September 30, 2007, the consolidated financial statements show considerable changes in revenue and expenses from period to period. The Company does not believe that its period-to-period financial data are comparable. Therefore, the comparison of operating results for the nine months ended September 30, 2007 and 2006 reflects the changes attributable to the properties owned by the Company throughout each period presented (the "Same Property Portfolio").

"Net Operating Income ("NOI") falls within the definition of a "non-GAAP financial measure" as stated in Item 10(e) of Regulation S-K promulgated by the SEC and should not be considered as an alternative to net income (loss), the most directly comparable financial measure of our performance calculated and presented in accordance with GAAP. The Company believes NOI is a measure of operating results that is useful to investors to analyze the performance of a real estate company because it provides a direct measure of the operating results of the Company's multifamily apartment communities. The Company also believes it is a useful measure to facilitate the comparison of operating performance among competitors. The calculation of NOI requires classification of income statement items between operating and non-operating expenses, where operating items include only those items of revenue and expense which are directly relate to the income producing activities of the properties. We believe that to achieve a more complete understanding of the Company's performance, NOI should be compared with our reported net income (loss). Management uses NOI to evaluate the operating results of properties without reflecting the effect of capital decisions such as the issuance of mortgage debt and investments in capital items, in turn these capital decisions have an impact of interest expense and depreciation and amortization.

The most directly comparable financial measure of our NOI, calculated and presented in accordance with GAAP, is net income, shown on the statement of operations. For the three month period ended September 30, 2007 and 2006, net income (loss) was \$(7,107,515) and \$(15,442,272), respectively. For the nine month period ended September 30,

2007 and 2006, net income (loss) was \$9,104,119 and \$(14,976,336), respectively. A reconciliation of our NOI to net income (loss) for the three and nine month periods ended September 30, 2007 and 2006 are presented as part of the following tables on page 29 and 30, and 33 and 34.

Comparison of the three months ended September 30, 2007 to the three months ended September 30, 2006.

The tables below reflect selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of the 23 properties acquired or placed in service on or prior to January 1, 2006 and owned through September 30 2007. The Total Property Portfolio includes the effect of the additional rental properties acquired after January 1, 2005. (The 2007 and 2006 activity for the Dorsey's and Trellis properties have been removed from the presentation as the results have been reflected as discontinued operations in the consolidated statements of operations.)

	Same Property Portfolio			
	Three months ended September 30,		Increase /	%
	2007	2006	(Decrease)	Change
Revenue:				
Rental	\$ 17,540,993	\$ 16,730,032	\$ 810,961	4.85%
Interest, utility reimbursement and other	1,161,619	984,108	177,511	18.04%
Total revenue	18,702,612	17,714,140	988,472	5.58%
Operating Expenses:				
Operating	4,263,585	4,568,816	(305,231)	(6.68)%
Maintenance	1,398,536	1,524,241	(125,705)	(8.25)%
Real estate taxes	1,899,605	2,020,923	(121,318)	(6.00)%
General and administrative	229,069	306,822	(77,753)	(25.34)%
Management fees	731,043	697,363	33,680	4.83%
Total operating expenses	8,521,838	9,118,165	(596,327)	(6.54)%
Net Operating Income	10,180,774	8,595,975	1,584,799	18.44%
Non-operating expenses:				
Depreciation	6,574,366	6,268,504	305,862	4.88%
Interest	5,947,973	5,063,518	884,455	17.47%
Loss on extinguishment of debt	-	1,540,851	(1,540,851)	(100.00)%
Amortization of acquired in-place leases and tenant relationships	(18)	209,924	(209,942)	(100.01)%
Total non-operating expenses	12,522,321	13,082,797	(560,476)	(4.28)%
Loss before minority interest in properties, equity in income (loss) of Multifamily Venture and Limited Partnership venture, minority common interest in Operating Partnership and income	(2,341,547)	(4,486,822)	2,145,275	46.38%

(loss) from discontinued operations				
Minority interest in properties	-	-		
Equity in income (loss) of Multifamily Venture and Limited Partnership Venture	-	-		
Minority common interest in Operating Partnership	-	-		
Discontinued operations	-	-		
Net income (loss)	\$ (2,341,547)	\$ (4,486,822)	\$ 2,145,275	46.38%

	Total Property Portfolio Three months ended September 30,			
	2007	2006	Increase / (Decrease)	% Change
Revenue:				
Rental	\$ 20,300,312	\$ 17,184,796	\$ 3,115,516	18.13%
Interest, utility reimbursement and other	1,581,250	1,216,481	364,769	29.99%
Total revenue	21,881,562	18,401,277	3,480,285	18.91%
Operating Expenses:				
Operating	5,306,184	4,818,857	487,327	10.11%
Maintenance	1,671,047	1,568,864	102,183	6.51%
Real estate taxes	2,267,516	2,022,345	245,171	12.12%
General and administrative	749,187	828,562	(79,375)	(9.58)%
Management fees	1,269,722	1,140,860	128,862	11.30%
Total operating expenses	11,263,656	10,379,488	884,168	8.52%
Net Operating Income	10,617,906	8,021,789	2,596,117	32.36%
Non-operating expenses:				
Depreciation	8,187,780	6,474,742	1,713,038	26.46%
Interest	7,361,574	6,577,133	784,442	11.93%
Amortization of acquired in-place leases and tenant relationships	281,872	258,357	23,515	9.10%
Total non-operating expenses	15,831,226	13,310,232	2,520,995	18.94%
Loss before minority interest in properties, equity in income (loss) of Multifamily Venture and Limited Partnership venture, minority common interest in Operating Partnership and income (loss) from discontinued operations	(5,213,320)	(5,288,443)	75,122	(1.42)%
Minority interest in properties	(168,000)	30,140	(198,140)	(657.40)%
Equity in income (loss) of Multifamily Venture and Limited Partnership Venture	(739,397)	(356,188)	(383,209)	(107.59)%
	(976,100)	(9,761,000)	8,784,900	(90.00)%

Minority common interest in Operating Partnership				
Gain (loss) on discontinued operations	-	-	-	-%
Net income (loss)	\$ (7,096,817)	\$ (15,375,491)	\$ 8,278,673	(53.84)%

***Comparison of the three months ended September 30, 2007 to the three months ended September 30, 2006.
(Same Property Portfolio)***

Revenue

Rental Revenue

Rental revenue of the Same Property Portfolio increased for the three-month period ended September 30, 2007 in comparison to the similar period of 2006. The majority of the increase is attributable mainly to properties that have completed major renovations in late 2006 and early 2007 and are leasing the newly renovated units at premium rent levels and are raising the occupancy levels at the properties following the completion of the rehabilitation projects. Properties experiencing increased post rehabilitation rent levels include the Seasons property in Maryland and the Berkshires on Brompton property in Texas. Market conditions remain favorable in the majority of the sub-markets in which the Company operates. The Company continues to benefit from ongoing property rehabilitation projects at various properties in the Same Property Portfolio where successful results benefit the Company by yielding enhanced rental revenues as rehabilitated units are placed back into service with incrementally higher rental rates than pre-rehabilitation levels.

Interest, utility reimbursement and other revenue

Same Property Portfolio interest, utility reimbursement and other revenues increased for the three-month period ended September 30, 2007 as compared to the three-month period ended September 30, 2006. Utility reimbursements increased, mainly due to increased usage of utility bill back programs to tenants designed to recoup individual unit utility expenses for electric, gas and water and sewer charges, period over period and were partially offset by decreases in interest and other miscellaneous revenues. Miscellaneous revenues consist primarily of the fees charged to tenants and potential tenants, including late fees, parking fees, pet fees, laundry fees, application fees and other similar items.

Operating Expenses

Operating

Overall operating expenses decreased slightly in the quarter ended September 30, 2007 as compared to the same period of 2006. Property insurance expense saw the largest decrease in costs during the current quarter as compared to the year earlier comparative period. The Company has renewed its property insurance coverage for the portfolio for the upcoming policy period as of May 1, 2007, and was able to achieve modest cost reductions in premiums for its property insurance coverage. Decreases in payroll and related benefits, due to position vacancies at various properties, and some utilities, including gas, were the main contributors in offsetting the increase in insurance premiums. The Seasons of Laurel property contributes significantly to the Company's overall utility expense as the electricity charges at the property are paid by the Company and are not currently billed directly to tenants for usage of their apartment unit. The Company is currently undertaking steps necessary to modify the utility infrastructure to allow for the passing of the individual apartment unit utility costs directly to its tenants and expects to implement system changes to allow for direct billing by unit.

Maintenance

Maintenance expense decreased slightly in the three-month period ended September 30, 2007 as compared to the same period of 2006 and is due mainly to normal operating fluctuations including normal maintenance activities including cleaning, interior painting and landscaping. Management continues to employ a proactive maintenance plan at its multifamily apartment communities within its portfolio and considers it an effective program that contributes to

preserving, and in some cases increasing, its occupancy levels.

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Real Estate Taxes

Real estate taxes decreased for the three-month period ended September 30, 2007 from the comparable period of 2006. The decrease is due mainly to an adjustment of assessments on various properties in the portfolio, including properties located in Texas which have seen a reduced real estate tax due to newly enacted tax legislation creating a new business excise tax designed to offset the property tax burden in the state of Texas. The savings were partially offset by the continued escalation of assessed property valuations for other properties in the Same Property Portfolio. The Company scrutinizes the assessed values of its properties and avails itself of arbitration or similar forums made available by the taxing authority for increases in assessed value that it considers to be unreasonable. The Company has been successful in achieving tax abatements for certain of its properties based on challenges made to the assessed values. The Company anticipates a continued upward trend in real estate tax expense as local and state taxing agencies continue to place significant reliance on property tax revenue.

General and Administrative

General and administrative expenses decreased in the three-month period ended September 30, 2007 compared to 2006. The overall decrease is due mainly to normal operating expense fluctuations experienced throughout the properties of the Same Property Portfolio including decreases in legal fees related to ongoing property related issues and projects at certain properties in the portfolio as well as legal fees related to tenant issues including those related to rent collection at various properties in the portfolio. Additionally, expenses related to the updating of computer software decreased in the current three-month period.

Management Fees

Management fees of the Same Property Portfolio increased in the three-month period ended September 30, 2007 compared to the same period of 2006 based on increased levels of revenue of the Same Property Portfolio. Property management fees are assessed on the revenue stream of the properties managed by an affiliate of the Company.

Non Operating Expenses

Depreciation

Depreciation expense of the Same Property Portfolio increased for the three months ended September 30, 2007 as compared to the same period of the prior year. The increased expense is related to the additions to the basis of fixed assets in the portfolio driven by substantial rehabilitation projects ongoing at the Yorktowne, Seasons of Laurel and Hannibal Grove properties and to a lesser degree, normal recurring capital spending activities over the remaining properties in the Same Property Portfolio.

Interest

Interest expense for the three months ended September 30, 2007 increased significantly over the comparable period of 2006. The increase is attributable to the refinancing of mortgages on properties at an incrementally higher principal level than the related paid-off loan, with the majority of the additional debt obtained on the Seasons of Laurel property, which was partially offset by the reduced interest rate obtained on the new debt and new second mortgage debt on seven other properties that was not in place in the comparative period of 2006. Additionally, during the three-month period ended June 30, 2007, supplemental debt in the form of two second mortgages were obtained and contributed to the increased interest expense.

Amortization of acquired in-place leases and tenant relationships

Amortization of acquired in-place-leases and tenant relationships decreased significantly in the three months ended September 30, 2007 as compared to the same three-month period of 2006. The decrease is related mainly to the completion of amortization of the acquired-in-place lease intangible assets booked at acquisition and amortized over a 12 month period which did not extend into the three month period ended September 30, 2007.

Comparison of the nine months ended September 30, 2007 to the nine months ended September 30, 2006.

	Same Property Portfolio Nine months ended September 30,			
	2007	2006	Increase / (Decrease)	% Change
Revenue:				
Rental	\$ 51,843,102	\$ 48,925,900	\$ 2,917,202	5.96%
Interest, utility reimbursement and other	3,083,180	2,821,803	261,377	9.26%
Total revenue	54,926,282	51,747,703	3,178,579	6.14%
Operating Expenses:				
Operating	13,414,420	13,485,919	(71,499)	(0.53)%
Maintenance	3,800,229	3,904,588	(104,359)	(2.67)%
Real estate taxes	5,545,915	5,878,967	(333,052)	(5.67)%
General and administrative	915,128	877,615	37,513	4.27%
Management fees	2,151,590	2,022,572	129,018	6.38%
Total operating expenses	25,827,282	26,169,661	(342,378)	(1.31)%
Net Operating Income	29,099,000	25,578,042	3,520,957	13.77%
Non-operating expenses:				
Depreciation	19,756,054	18,623,123	1,132,931	6.08%
Interest	16,544,576	14,100,011	2,444,565	17.34%
Loss on Extinguishment of Debt	318,789	1,822,615	(1,503,826)	(82.51)%
Amortization of acquired in-place leases and tenant relationships	78,816	751,509	(672,693)	(89.51)%
Total non-operating expenses	36,698,235	35,297,258	1,400,977	3.97%
Loss before minority interest in properties, equity in income (loss) of Multifamily Venture and Limited Partnership venture, minority common interest in Operating Partnership and income (loss) from discontinued operations	(7,599,235)	(9,719,216)	2,119,980	(21.81)%
Minority interest in properties	-	-	-	

Equity in income (loss) of Multifamily Venture and Limited Partnership Venture	-	-	-	
Minority common interest in Operating Partnership	-	-	-	
Discontinued operations	-	-	-	
Net income (loss)	\$ (7,599,235)	\$ (9,719,216)	\$ 2,119,980	(21.81)%

	Total Property Portfolio Nine months ended September 30,			
	2007	2006	Increase / (Decrease)	% Change
Revenue:				
Rental	\$ 58,960,212	\$ 49,597,152	\$ 9,363,060	18.88%
Interest, utility reimbursement and other	4,146,464	3,441,936	704,528	20.47%
Total revenue	63,106,676	53,039,088	10,067,588	18.98%
Operating Expenses:				
Operating	16,195,302	14,022,744	2,172,558	15.49%
Maintenance	4,381,686	3,951,061	430,625	10.90%
Real estate taxes	6,527,961	5,881,306	646,655	11.00%
General and administrative	2,290,073	2,015,283	274,790	13.64%
Management fees	3,702,726	3,317,409	385,317	11.61%
Total operating expenses	33,097,748	29,187,803	3,909,945	13.40%
Net Operating Income	30,008,928	23,851,285	6,157,643	25.82%
Non-operating expenses:				
Depreciation	23,737,678	19,128,308	4,609,370	24.10%
Interest	20,620,724	15,899,423	4,721,301	29.69%
Amortization of acquired in-place leases and tenant relationships	1,033,683	799,942	233,741	29.22%
Total non-operating expenses	45,392,085	35,827,673	9,564,412	26.70%
Loss before minority interest in properties, equity in income (loss) of Multifamily Venture and Limited Partnership venture, minority common interest in Operating Partnership and income (loss) from discontinued operations	(15,383,157)	(11,976,388)	(3,406,768)	28.45%
	(1,863,195)	(1,183,238)	(679,957)	57.47%

Minority interest in properties				
Equity in income (loss) of Multifamily Venture and Limited Partnership Venture	(2,037,163)	9,128,158	(11,165,321)	(122.32)%
Minority common interest in Operating Partnership	(2,928,300)	(10,737,100)	7,808,800	(72.73)%
Discontinued operations	31,315,934	(207,768)	31,315,934	15,072.55%
Net income (loss)	\$ 9,104,119	\$ (14,976,336)	\$ 23,872,688	(161.65)%

***Comparison of the nine months ended September 30, 2007 to the nine months ended September 30, 2006.
(Same Property Portfolio)***

Revenue

Rental Revenue

Rental revenue of the Same Property Portfolio increased for the nine-month period ended September 30, 2007 in comparison to the similar period of 2006. The majority of the increase is attributable mainly to properties that have completed major renovations in late 2006 and early 2007 and are leasing the newly renovated units at premium rent levels and are raising the occupancy levels at the properties following the completion of the rehabilitation projects. Properties experiencing increased post rehabilitation rent levels include the Seasons property in Maryland and the Berkshires on Brompton property in Texas. Market conditions remain favorable in the majority of the sub-markets in which the Company operates. The Company continues to benefit from ongoing property rehabilitation projects at various properties in the Same Property Portfolio where successful results benefit the Company by yielding enhanced rental revenues as rehabilitated units are placed back into service with incrementally higher rental rates than pre-rehabilitation levels.

Interest, utility reimbursement and other revenue

Same Property Portfolio interest, utility reimbursement and other revenues increased for the nine-month period ended September 30, 2007 as compared to the nine-month period ended September 30, 2006. Utility reimbursements increased, mainly due to increased usage of bill back programs to tenants, period over period and were partially offset by decreases in interest and other miscellaneous revenues. Miscellaneous revenues consist primarily of the fees charged to tenants and potential tenants, including late fees, parking fees, pet fees, laundry fees, application fees and other similar items.

Operating Expenses

Operating

Overall operating expenses decreased slightly in the nine-months ended September 30, 2007 as compared to the same period of 2006. Property insurance expense saw the largest increase in costs during the current period as compared to the year earlier comparative period. As anticipated, increases in premium levels for property insurance coverage, which was effective on July 1, 2006, continues to exceed costs incurred in the comparative period of the prior year, with the largest increases realized in the Florida and Texas markets. The Company has renewed its property insurance coverage for the portfolio for the upcoming policy period as of May 1, 2007, and was able to achieve modest cost reductions in premiums for its property insurance coverage. Decreases in payroll and related benefits, due to position vacancies at various properties, and some utilities, including gas, were the main contributors in offsetting the increase in insurance premiums. The Seasons of Laurel property contributes significantly to the Company's overall utility expense as the electricity charges at the property are paid by the Company and are not currently billed directly to tenants for usage of their apartment unit. The Company is currently undertaking steps necessary to modify the utility infrastructure to allow for the passing of the individual apartment unit utility costs directly to its tenants and expects to implement system changes to allow for direct billing by unit.

Maintenance

Maintenance expense decreased slightly in the nine-month period ended September 30, 2007 as compared to the same period of 2006 and is due mainly to normal operating fluctuations including normal maintenance activities including

cleaning, interior painting and landscaping. Management continues to employ a proactive maintenance plan at its multifamily apartment communities within its portfolio and considers it an effective program that contributes to preserving, and in some cases increasing, its occupancy levels.

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Real Estate Taxes

Real estate taxes decreased for the nine-month period ended September 30, 2007 from the comparable period of 2006. The decrease is due mainly to an adjustment of prior year taxes assessed on two properties and recognized in the current period. The savings were partially offset by the continued escalation of assessed property valuations for other properties in the Same Property Portfolio. The Company scrutinizes the assessed values of its properties and avails itself of arbitration or similar forums made available by the taxing authority for increases in assessed value that it considers to be unreasonable. The Company has been successful in achieving tax abatements for certain of its properties based on challenges made to the assessed values. The Company anticipates a continued upward trend in real estate tax expense as local and state taxing agencies continue to place significant reliance on property tax revenue. Additionally, during the six months ended June 30, 2007, the Company received a refund of approximately \$88,500 of real estate taxes paid in a prior period on the Country Place I and II properties related to an exemption initiated by the tax authority.

General and Administrative

General and administrative expenses increased in the nine-month period ended September 30, 2007 compared to 2006. The overall increase is due mainly to normal operating expense fluctuations experienced throughout the properties of the Same Property Portfolio including increases in legal fees related to ongoing property related issues and projects at certain properties in the portfolio as well as legal fees related to tenant issues including those related to rent collection at various properties in the portfolio. Additionally, expenses related to the updating of computer software increased in the current six-month period.

Management Fees

Management fees of the Same Property Portfolio increased in the nine-month period ended September 30, 2007 compared to the same period of 2006 based on increased levels of revenue of the Same Property Portfolio. Property management fees are assessed on the revenue stream of the properties managed by an affiliate of the Company.

Non Operating Expenses

Depreciation

Depreciation expense of the Same Property Portfolio increased for the nine months ended September 30, 2007 as compared to the same period of the prior year. The increased expense is related to the additions to the basis of fixed assets in the portfolio driven by substantial rehabilitation projects ongoing at the Yorktowne, Seasons of Laurel and Hannibal Grove properties and to a lesser degree, normal recurring capital spending activities over the remaining properties in the Same Property Portfolio.

Interest

Interest expense for the nine months ended September 30, 2007 increased significantly over the comparable period of 2006. The increase is attributable to the refinancing of mortgages on properties at an incrementally higher principal level than the related paid-off loan, with the majority of the additional debt obtained on the Seasons of Laurel property, which was partially offset by the reduced interest rate obtained on the new debt and new second mortgage debt on seven other properties that was not in place in the comparative period of 2006. Additionally, during the nine-month period ended September 30, 2007, supplemental debt in the form of two second mortgages were obtained and contributed to the increased interest expense.

Amortization of acquired in-place leases and tenant relationships

Amortization of acquired in-place-leases and tenant relationships decreased significantly in the nine-months ended September 30, 2007 as compared to the same nine-month period of 2006. The decrease is related mainly to the completion of amortization of the acquired-in-place lease intangible assets booked at acquisition and amortized over a 12 month period which did not extend into the nine-month period ended September 30, 2007.

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Comparison of the nine months ended September 30, 2007 to the nine months ended September 30, 2006. (Total Property Portfolio)

In general, increases in revenues, operating expenses, non-operating expenses and the related losses of the Total Property Portfolio for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 are due mainly to the fluctuations in the number of properties owned by the Company in the comparative periods presented and to the increase in the level of mortgage and revolving credit debt outstanding during the comparative periods.

Debt to Fair Value of Real Estate Assets

The Company's total debt summary and debt maturity schedule, as of September 30, 2007, is as follows:

	Debt Summary	
	Balance	Weighted Average Rate
Total - Collateralized - Fixed Rate Debt	\$ 508,130,472	5.53%

Debt Maturity Summary		
Year	Balance	% of Total
2007	\$ 1,097,037	0.22%
2008	12,821,362	2.52%
2009	20,257,150	3.99%
2010	4,779,543	0.94%
2011	5,088,624	1.00%
Thereafter	464,086,756	91.33%
Total	\$ 508,130,472	100.00%

The Company's "Debt-to-Fair Value of Real Estate Assets" as of September 30, 2007 is presented in the following table. Fair value of real estate assets is based on management's best estimate of fair value for properties purchased in prior years or purchase price for properties acquired within the current year. As with any estimate, management's estimate of the fair value of properties purchased in prior years represents only its good faith opinion as to that value, and there can be no assurance that the actual value that might, in fact, be realized for any such property would approximate that fair value. The following information is presented in lieu of information regarding the Company's "Debt-to-Total Market Capitalization Ratio", which is a commonly used measure in our industry, because the Company's market capitalization is not readily determinable since there was no public market for its common equity during the periods presented in this report.

The Board has established investment guidelines under which management may not incur indebtedness such that at the time we incur the indebtedness our ratio of debt to total assets exceeds 75%. This measure is calculated based on the fair value of the assets determined by management as described above.

The information regarding “Debt-to-Fair Value of Real Estate Assets” is presented to allow investors to calculate our loan-to-value ratios in a manner consistent with those used by management and others in our industry, including those used by our current and potential lenders. Management uses this information when making decisions about financing or refinancing properties. Management also uses fair value information when making decisions about selling assets as well as evaluating acquisition opportunities within markets where we have assets.

Fair value of real estate assets is a non-GAAP financial measure and should not be considered as an alternative to net book value of real estate assets, the most directly comparable financial measure calculated and presented in accordance with GAAP. The net book value of our real estate assets was \$466,127,312 at September 30, 2007 and \$445,597,599 at December 31, 2006 and is presented on the balance sheet as multifamily apartment communities, net of accumulated depreciation. The following table reconciles the fair value of our real estate assets to the net book value of real estate assets as of September 30, 2007.

Debt-to-Fair Value of Real Estate Assets as of

	September 30, 2007	December 31, 2006
Net book value of multifamily apartment communities	\$ 466,127,312	\$ 445,597,599
Accumulated depreciation	162,620,331	148,670,523
Historical cost	628,747,643	594,268,122
Increase in fair value over historical cost	153,794,232	180,440,878
Fair Value – estimated	\$ 782,541,875	\$ 774,709,000
Mortgage Debt	\$ 508,130,472	\$ 469,378,510
Revolving Credit Agreement	-	-
Total Debt Outstanding	\$ 508,130,472	\$ 469,378,510
Debt-to-Fair Value of Real Estate Assets	64.93%	60.59%

The debt-to-fair value of real estate assets includes the outstanding borrowings under the revolving credit facility, which was \$0 at September 30, 2007 and December 31, 2006, respectively. The revolving credit facility contains covenants that require the Company to maintain certain financial ratios, including an indebtedness to value ratio not to exceed 75%. If the Company were to be in violation of this covenant, we would be unable to draw advances from our line, which could have a material impact on our ability to meet our short-term liquidity requirements. Further, if we were unable to draw on the line, we may have to slow or temporarily stop our rehabilitation projects, which could have a negative impact on our results of operations and cash flows. As of September 30, 2007 and December 31, 2006, the Company was in compliance with the covenants of the revolving credit facility. Fair value of the real estate assets is based on the management most current valuation of properties, which was made for all properties owned at December 31, 2006, and acquisition cost of properties acquired subsequent to December 31, 2006.

Funds From Operations

The Company has adopted the revised definition of Funds from Operations (“FFO”) adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). Management considers FFO to be an appropriate measure of performance of an equity REIT. We calculate FFO by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items), for gains (or losses) from sales of properties, real estate related depreciation and amortization, and adjustment for unconsolidated partnerships and ventures. Management believes that in order to facilitate a clear understanding of the historical operating results of the Company, FFO should be considered in conjunction with net income (loss) as presented in the consolidated financial statements included elsewhere herein. Management considers FFO to be a useful measure for reviewing the comparative operating and financial performance of the Company because, by excluding gains and losses related to sales of previously

depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies.

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

The following table presents a reconciliation of net income (loss) to FFO for the three and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income (loss)	\$ (7,107,515)	\$ (15,442,272)	\$ 9,104,119	\$ (14,976,335)
Add				
Depreciation of real property	6,950,930	5,540,388	19,952,878	15,863,482
Minority common interest in Operating Partnership	976,100	9,761,000	2,928,300	10,737,100
Minority interest in properties	168,000	-	1,863,195	1,183,238
Amortization of acquired in-place leases and tenant relationships	281,872	266,036	1,033,683	822,978
Equity in loss of Multifamily Venture and Limited Partnership Venture	734,676	-	2,032,442	-
Equity in loss of Multifamily Venture	4,721	363,679	4,721	801,181
Funds from operations of Multifamily Venture	6,034	-	6,034	-
Funds from operations of Multifamily	495,094	-	59,982	-

Venture and Limited Partnership Venture				
Less				
Minority interest in properties	-	(30,140)	-	-
Minority interest in properties share of funds from operations	(261,572)	(186,318)	(638,346)	(661,206)
Equity in income of Multifamily Venture	-	(7,492)	-	(9,929,339)
Funds from operations of Multifamily Venture	-	(5,942)	-	(174,932)
Gain /Loss on disposition of real estate asset	11,367	-	(32,111,239)	-
Funds from Operations	\$ 2,259,707	\$ 258,939	\$ 4,235,769	\$ 3,666,167

FFO for the three and nine months ended September 30, 2007 increased as compared to FFO for the three and nine month periods ended September 30, 2006. The increases are due mainly to improved operating results of the properties in the portfolio, net of depreciation and amortization, which were slightly offset by the increased interest expense related to higher levels of debt, specifically at the Seasons of Laurel property, in the comparative nine-month periods ended September 30, 2007 and 2006.

Environmental Issues

There are no recorded amounts resulting from environmental liabilities because there are no known contingencies with respect to environmental liabilities. The Company obtains environmental audits through various sources, including lender evaluations and acquisition due diligence, for each of its properties at various intervals throughout a property's useful life. The Company has not been advised by any third party as to the existence of, nor has it identified on its own, any material liability for site restoration or other costs that may be incurred with respect to any of its properties.

Inflation and Economic Conditions

Substantially all of the leases at the Company's properties are for a term of one year or less, which enables the Company to seek increased rents for new leases or upon renewal of existing leases. These short-term leases minimize the potential adverse effect of inflation on rental income, although residents may leave without penalty at the end of their lease terms and may do so if rents are increased significantly. Certain properties are subject to regulations that require lease periods of two years, which management deems as having minimal effect on the overall inflation risk to the Company.

The Company believes the multifamily sector will benefit from the ongoing economic recovery and favorable current demographic trends. While the apartment sector has experienced slower growth over the past four years due to rising unemployment and a significant renter migration to single family homes, a reversal of both trends is now expected to spur an apartment recovery. The economic recovery is generating increased job growth, which typically translates into household formation and rising apartment occupancy. The Company feels, for single family homebuyers over the next several years, increasing housing costs and potentially higher interest rates may make purchases increasingly expensive and out of reach. In addition, we believe the projected demographic trends strongly favor the multifamily sector, driven primarily by the initial wave of echo boomers (age 28 to 29), the fastest growing segment of the population, and an increasing number of immigrants who are typically renters by necessity.

Item 3. **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's mortgage notes are fixed rate instruments; therefore, the Company's outstanding mortgage debt is not sensitive to changes in the capital market except upon maturity. The Company's revolving credit facility is a variable rate arrangement tied to LIBOR and is therefore sensitive to changes in the capital market. The table below provides information about the Company's financial instruments, specifically debt obligations.

The table presents principal cash flows and related weighted average interest rates by expected maturity dates for the mortgage notes payable as of September 30, 2007.

	2007	2008	2009	2010	2011	Thereafter	Total
Fixed Rate Debt	\$ 1,097,037	\$ 12,821,362	\$ 20,257,150	\$ 4,779,543	\$ 5,088,624	\$ 464,086,756	\$ 508,130,472
Average Interest Rate	5.17%	5.63%	5.24%	5.15%	5.16%	5.48%	5.53%
Variable Rate Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Average Interest Rate	-	-	-	-	-	-	-

The level of market interest rate risk remained relatively consistent from December 31, 2006 to September 30, 2007.

As of September 30, 2007, \$0 of the Company's outstanding debt is outstanding subject to variable interest rates. The Company estimates that the effect of a 1% increase or decrease in interest rates would not have a material impact on

interest expense.

Item 4. **CONTROLS AND PROCEDURES**

Based on its evaluation, required by the Exchange Act Rules 13a-15(e) and 15d-15(e), the Company's management, including its principal executive officer and principal financial officer, concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of September 30, 2007 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and were effective as of September 30, 2007 to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II.

OTHER INFORMATION

Item 1. **LEGAL PROCEEDINGS**

The Company is currently party to a legal proceeding initiated by a seller/developer from whom the Company acquired a property in 2005. The dispute involves the interpretation of certain provisions of the purchase and sales agreement related to post acquisition construction activities. Specifically, the purchase and sales agreement provided that if certain conditions were met, the seller/developer would develop a vacant parcel of land contiguous to the acquired property with 18 new residential apartment units (the "New Units") for the benefit of the Company at an agreed upon price. The purchase and sales agreement also provided the opportunity for the seller/developer to build a limited number of garages (the "Garages") for the existing apartment units, for the benefit of the Company at an agreed upon price.

In 2006, the Company accrued \$190,000 with respect to this matter based on a settlement offer extended to the plaintiff. On November 9, 2007, the judge issued a summary judgment with respect to the construction of the New Units. The judgment was against the Company, but did not specify damages, which the plaintiff will be required to demonstrate at trial. The Company believes that there are reasonable grounds for appeal of this ruling and intends to vigorously defend against this claim. No ruling has been made with respect to the claim on the Garages and the Company also intends to vigorously defend against this claim.

As of September 30, 2007, the Company believes it is probable that it will incur \$190,000 in losses with respect to the New Units and as of September 30, 2007, the Company has accrued \$190,000 with respect to this matter.

The Company believes that it is reasonably possible that additional losses of up to \$800,000 could be incurred, but the actual amount is not estimable at September 30, 2007, and therefore the Company has not recorded any amounts for these losses.

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

Item 1A. **RISK FACTORS**

Please read the risk factors disclosed in our Annual Report on Form 10K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission on March 28, 2007. As of September 30, 2007 there have been no material changes to the risk factors as presented therein. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our financial condition and/or operating results.

Item 2. **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

- None

Item 3. **DEFAULTS UPON SENIOR SECURITIES**

Explanation of Responses:

- None

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

- None

Item 5. OTHER INFORMATION

- None

Item 6. EXHIBITS

31.1 Certification of Principal Executive Officer Pursuant of 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer Pursuant of 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

32.2 Certification of Principal Financial Officer Pursuant of 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

*Certification is not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification is not deemed to be 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.

SIGNATURES

Pursuant to the requirements 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.

BERKSHIRE INCOME REALTY, INC.

November 14, 2007

/s/ David C. Quade
David C. Quade
President, Chief Financial Officer and
Principal Executive Officer

November 14, 2007

/s/ Christopher M. Nichols
Christopher M. Nichols
Vice President and Principal Accounting
Officer