AMERICAN MORTGAGE ACCEPTANCE CO
Form 424B3
April 01, 2003
Table of Contents

The information in this Preliminary Prospectus Supplement and the accompanying Prospectus is not complete and may be changed. This Preliminary Prospectus Supplement and the accompanying Prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated April 1, 2003

PRELIMINARY PROSPECTUS SUPPLEMENT (To Prospectus Dated October 3, 2002)

1,600,000 Shares

American Mortgage Acceptance Company

Common Shares of Beneficial Interest

American Mortgage Acceptance Company is offering 1,600,000 shares of common shares of beneficial interest.

Our common shares are listed on the American Stock Exchange under the symbol AMC . The last reported sale price of our common shares as reported on the American Stock Exchange on , 2003 was $ per share.

Investing in our common shares involves risks that are described in the Risk Factors section beginning on page S-12 of this prospectus supplement.

PRICE $ PER SHARE

	Per Share	Total

Public offering price	$	$
Underwriter discounts	$	$
Proceeds, before expenses, to American Mortgage Acceptance Company	$	$

The underwriters may also purchase up to an additional 240,000 common shares from American Mortgage Acceptance Company at the public offering price, less the underwriting discounts, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The common shares will be ready for delivery in New York, New York on or about April , 2003.

RBC CAPITAL MARKETS **JMP SECURITIES**

April , 2003

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus supplement is current as of the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date.

DOCUMENTS INCORPORATED BY REFERENCE

In addition to the documents incorporated by reference or deemed incorporated by reference in the accompanying prospectus, our Annual Report on Form 10-K for the year ended December 31, 2002, which has been filed with the Securities and Exchange Commission pursuant to the

Securities Exchange Act of 1934, is hereby incorporated into this prospectus supplement and specifically made a part of this prospectus supplement.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information in this prospectus supplement. The summary is not complete and does not contain all of the information you should consider before investing in our common shares. We urge you to carefully read this entire prospectus supplement and the accompanying prospectus, along with the information that is incorporated by reference. You should carefully consider the information discussed under Risk Factors before you decide to purchase our common shares. All references to we, us or the Company mean American Mortgage Acceptance Company and our wholly-owned subsidiaries. Unless otherwise indicated, the information contained in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option to purchase an additional 240,000 common shares within 30 days of the date of this prospectus supplement.

Our Business

We are a real estate investment trust (REIT) specializing in multifamily finance that seeks asset diversification, capital appreciation and income for distributions to our shareholders. We originate and acquire bridge loans, mezzanine loans and government-insured first mortgage loans or mortgage-backed securities secured by multifamily housing properties throughout the United States. We may also invest in other real estate assets, including commercial mortgage-backed securities (CMBS). We generally seek to maintain 40% of our assets in government-insured or guaranteed investments.

At December 31, 2002, our diversified and actively managed portfolio consisted of Government National Mortgage Association (Ginnie Mae) certificates with a fair value of $114.0 million, bridge loans with a carrying value of $26.0 million, mezzanine loans with a carrying value of $12.4 million, first mortgage loans with a carrying value of $9.9 million, and our indirect investment in CMBS through our $20.2 million investment in ARCap Investors, L.L.C. (ARCap).

The following chart depicts our portfolio of investments as of December 31, 2002:

* The Stony Brook Village II first mortgage loan, in the amount of $8.3 million, was repaid on January 31, 2003.
** The carrying values of the bridge loans and the mezzanine loans are net of unamortized origination costs and fees and loan discounts.

Table of Contents

We finance the acquisition of our assets primarily through borrowing at short-term rates using a demand repurchase facility with Nomura Securities International, Inc. (the Nomura Facility) and our $40 million line of credit with Fleet National Bank (the Fleet Line of Credit). Under our declaration of trust, we may incur permanent indebtedness of up to 50% of our total market value calculated at the time the debt is incurred. Permanent indebtedness and working capital indebtedness may not exceed 100% of our total market value. Our declaration of trust provides that we may not change our policy regarding indebtedness without the consent of a majority in interest of our shareholders.

We have engaged Related AMI Associates, Inc., which we refer to as our Advisor, to manage our day-to-day affairs. Our Advisor has subcontracted its management obligations to its affiliate, Related Capital Company (Related Capital), the nation s largest non-agency financier of affordable multifamily housing. The management team responsible for our day-to-day affairs has an average of ten years of experience with Related Capital and an average of 18 years experience in the real estate industry. On December 18, 2002, Charter Municipal Mortgage Acceptance Company (CharterMac), a public company also managed by an affiliate of Related Capital, announced that it entered into an agreement to acquire 100% of the ownership interests of Related Capital and substantially all of the businesses operated by Related Capital. See Our Advisor beginning on page S-6 of this prospectus supplement.

Our Industry

We focus our origination and acquisition efforts on providing financing for multifamily housing development, acquisition and rehabilitation. Commercial mortgage lenders originated multifamily housing loans totaling $41.0 billion in 2002, almost half of which were insured or guaranteed by an agency of the United States government. We believe that the total amount of multifamily mezzanine loan originations was approximately $6.4 billion in 2002.

Over the past 20 years the multifamily sector has delivered one of the highest average total investment returns of all real estate property types according to the National Council of Real Estate Investment Fiduciaries. We believe there will continue to be a strong demand for multifamily housing due to factors such as population growth and household formations. The National Association of Home Builders, in its most recent report on this subject released in February 2001, has estimated that this demand will support production of more than 3.4 million new multifamily units from 2001 to 2010.

Within the multifamily sector, we focus a portion of our originations on bridge loans that are secured by interests in affordable multifamily housing. We believe there is a significant demand for affordable multifamily housing. According to the most recent report of the United States Department of Housing and Urban Development on this subject dated January 2001, 4.9 million households are in need of quality affordable housing. We believe that affordable multifamily housing provides an excellent form of collateral, which is further described under Our Investment Strategy Bridge Loans beginning on page S-4 of this prospectus supplement.

Our Investment Strategy

Our goal is to increase the return on our asset base by investing in higher yielding assets while balancing our risk by maintaining a portion of our investments in government agency-guaranteed or insured assets and maintaining a conservative capital structure.

Table of Contents

We invest in the following types of assets:

Government-Insured and Guaranteed Investments. We generally seek to maintain a minimum of 40% of our assets in government-insured or guaranteed investments. We do this primarily through the acquisition or origination of mortgage loans on multifamily properties, the principal of which is insured by FHA, and the acquisition of Ginnie Mae mortgage-backed securities and pass-through certificates. Government agency-insured lending offers us safety, liquidity and moderate yields, while also providing us with a strong asset base for collateralized borrowing on favorable terms. We may also acquire mortgage-backed securities insured by Fannie Mae or the Federal Home Loan Mortgage Corporation (Freddie Mac). Both Fannie Mae and Freddie Mac are federally-chartered public corporations which, pursuant to their charters, are required to invest in both single-family and multifamily housing. They are frequently referred to as Government Sponsored Entities, although they are not owned by, and their securities are not guaranteed by, federal or state government agencies.

Bridge Loans. We currently originate and invest in two types of bridge loans:

- Bridge loans funded in connection with the development of multifamily properties which benefit from the Low-Income Housing Tax Credit (LIHTC) program under Section 42 of the Internal Revenue Code (LIHTC Bridge Loans); and
- Bridge loans funded in connection with providing multifamily developers with short-term capital to acquire and/or rehabilitate existing multifamily properties with the goal of refinancing or selling the properties (Acquisition/Rehabilitation Bridge Loans).

LIHTC Bridge Loans. We believe that since 1989, on average, nearly one-quarter of each year s new multifamily property construction contains an affordable component that produces LIHTCs (from 1989 through 2001, the number of affordable units producing LIHTCs ranged from 60,000 to 126,000 annually). Due to the equity payment schedule typically associated with LIHTC investment programs, there can be periods in a construction cycle when a developer needs short-term capital. To capitalize on this demand, we offer bridge loans to developers with typical terms of approximately 12 to 18 months and which are collateralized by the equity interests of the property owner.

This portion of our bridge lending focuses on LIHTC properties because we believe that default risks ordinarily associated with bridge lending are substantially reduced by the presence of LIHTCs, the value of which typically averages two to four times the principal amount of the bridge loan. The beneficial owners of these LIHTC properties are typically Fortune 500 companies that have invested in order to receive the tax benefits of the LIHTC, which are received ratably over an 11-year period. In the event that these properties cannot support their debt service, the beneficial owners have an incentive to maintain the debt service so that they can avoid foreclosure of their equity interests and the loss of the tax benefits associated with the LIHTCs. According to a May 2002 Ernst & Young study, Understanding the Dynamics; A Comprehensive Look at Affordable Housing Tax Credit Properties, the foreclosure rate on LIHTC properties from 1987 to 2001 has been 0.14%.

Acquisition/Rehabilitation Bridge Loans. In October 2002, we introduced a new Acquisition/Rehabilitation Bridge Loan program targeting two-to-three year bridge loan investments on existing multifamily housing complexes nationwide. The bridge loans provide multifamily developers with short-term capital to acquire and/or rehabilitate existing properties with the goal of either refinancing with long-term debt provided by Fannie Mae or Freddie Mac or selling the property. Typically, the long-term debt is arranged by our affiliate, PW Funding Inc. PW Funding, a Fannie Mae Delegated Underwriting and

Table of Contents

Servicing lender and a Freddie Mac Program Plus® Seller/Servicer, was acquired in December 2001 by a subsidiary of CharterMac. Under this loan program, one of our wholly-owned subsidiaries provides individual loans ranging from $2 million to $20 million over a term of up to 24 months (generally with a one-year extension option). The interest rate on each loan is based on the 30-day London Inter-Bank Offer Rate (LIBOR), providing the borrower with low-cost interim financing. We lend an amount equal to between 80% and 90% of the value of the particular property, funding approximately 80% of such amount through the Fleet Line of Credit and providing the balance of the loan from our own funds. With respect to any loan we make utilizing the Fleet Line of Credit, the underlying property is pledged as collateral under the Fleet Line of Credit. In addition to the assignment of collateral in such instances, we have guaranteed repayment of the Fleet Line of Credit. There may be instances when we will not finance certain Acquisition/ Rehabilitation Bridge Loans through the Fleet Line of Credit.

We have found from our multifamily developer clients that there are very few options in the market for this type of short-term capital. Responding to our developers needs, we have structured a highly useful product that provides us with favorable returns and enables us to underwrite to a reliable exit strategy utilizing PW Funding. In addition, this product line minimizes our interest rate risk for these loans because the loans and the Fleet Line of Credit that we use to fund the loans float off of the same index.

Mezzanine Loans. Mezzanine loans are subordinate to senior mortgages and may include a participating component, such as a right to a portion of the cash flow and refinancing and sale proceeds from the underlying properties.

We seek to capitalize on attractive yields available through the funding of mezzanine debt in combination with our origination of government-insured multifamily first mortgages. We believe that we are one of the few lenders in the country who offers mezzanine loans in conjunction with agency-insured first mortgage loans.

Our mezzanine loans typically finance newly constructed or rehabilitated market-rate multifamily properties and generally have terms of 40 years with an option to call the loan on 12 months notice at any time after the tenth anniversary of the mezzanine loan closing. These loans are typically in a subordinated mortgage position, are secured by equity interests in the borrower and have limited recourse to the guarantor for the three years from the date of the permanent loan. We seek properties in growing real estate markets with well capitalized developers or guarantors. We leverage the expertise of our Advisor and its affiliates in the initial underwriting of the property, as well as in the ongoing monitoring of the property through construction, lease-up and stabilization.

Commercial Mortgage-Backed Securities. We may invest in subordinated CMBS, which offer the advantage of significantly higher yields than government-insured and guaranteed investments. The market values of subordinated interests in CMBS and other subordinated securities tend to be more sensitive to changes in economic conditions than senior, rated classes. As a result of these and other factors, subordinated interests generally are not actively traded and may not provide holders with liquidity of investment.

We currently invest indirectly in CMBS through our convertible preferred equity investment in ARCap. ARCap is a recognized industry leader specializing in investing in non-investment grade and unrated subordinated CMBS. The CMBS which comprise ARCap s portfolio are collateralized by a diverse range of underlying properties, including multifamily, retail, office and hotel.

Table of Contents

Supplemental Products. We offer supplemental products that enhance our other programs while offering us attractive risk-adjusted returns.

Standby and Permanent Loan Commitments. In January 2002, we began issuing standby bridge and permanent loan commitments for transactions involved with the construction or rehabilitation of multifamily apartment complexes in various locations throughout the United States in return for a commitment fee. These commitments, which are generally offered to clients of affiliates of our Advisor, are obligations to fund construction or permanent loans at a future date at an agreed upon interest rate if the borrower cannot structure and close an alternative financing arrangement. The standby loan commitments expire, on average, 12 to 18 months from issuance. As of December 31, 2002, our outstanding commitments under this program were approximately $5.1 million.

Stabilization Guarantees with Wachovia Bank, N.A. We have entered into agreements with Wachovia Bank, N.A. (Wachovia) to provide guarantees, for the benefit of Wachovia, for the period following construction completion until property stabilization on loans for the new construction of multifamily properties under the LIHTC program in exchange for a guarantee fee. We guarantee that properties which have completed construction will stabilize and the underlying construction loans will convert to permanent Fannie Mae or Freddie Mac loans by a specified date. These permanent loans are typically originated by PW Funding for the Fannie Mae or Freddie Mac forward commitment loan program. We provide these guarantees for loans that secure properties that are outside of the geographic areas in which Wachovia makes commercial real estate construction loans. As of December 31, 2002, our outstanding commitments under this guarantee program were approximately $19.2 million.

Our Capital Structure

We seek to maintain a conservative capital structure, which we believe distinguishes us from other, more highly leveraged mortgage REITs. In this regard, our declaration of trust limits our use of debt financing. Our permanent indebtedness may not exceed 50% of our total market value calculated at the time the debt is incurred. Furthermore, our permanent indebtedness, when combined with our working capital indebtedness, may not exceed 100% of our total market value calculated at the time the debt is incurred. As of December 31, 2002, our indebtedness, a substantial portion of which was working capital indebtedness, was approximately $96.7 million, and our ratio of indebtedness to total market value was approximately 51.9%. Our ratio of permanent indebtedness to total market value, as of December 31, 2002, was approximately 4.7%.

Our Advisor

General. Related Capital, a privately held general partnership, is one of the nation s leading financial services providers for the multifamily housing industry, with a strong core focus on affordable housing. Related Capital, through investment programs it sponsors, has an indirect ownership interest in the second largest portfolio of multifamily units in the country. Formed in 1972 through a predecessor entity, Related Capital has amassed a superior track record with investors and multifamily developers, having provided debt and equity financing for over 1,300 properties located throughout the United States. Related Capital provides asset management and loan servicing to a portfolio of real estate and loans (including our loans) valued at cost at over $18.7 billion. Since 1972, Related Capital has increased assets and loans under its management at a compounded annual growth rate of 23%. Related Capital and its affiliates have sponsored more than 260 public and private real estate investment programs in the form of REITs, business trusts, limited liability companies and limited partnerships, which have raised in excess of $6.0 billion in equity from over 107,000 institutional and retail investors.

Table of Contents

We believe that we benefit from our relationship with Related Capital because, as a small-capitalization company, it is unlikely that we could afford the scope and quality of resources Related Capital and its affiliates are able to provide. We are able to utilize Related Capital s real estate and investment expertise to advise us and provide us with experienced risk management, underwriting, asset management, loan servicing, finance, accounting, tax and administrative personnel and other services necessary to operate our business. We benefit from the marketing efforts of Related Capital s origination groups, which offer our bridge loan program in connection with LIHTC equity investments to developers nationally. We have access to Related Capital s proprietary client base, which includes some of the nation s most active and respected developers of affordable multifamily housing.

An affiliate of Related Capital manages CharterMac, an American Stock Exchange listed company. CharterMac predominately invests in tax-exempt revenue bonds that secure affordable multifamily housing properties. A subsidiary of CharterMac acquired 80% of the capital stock of PW Funding Inc., a national mortgage banking firm specializing in agency lending to multifamily housing properties. PW Funding is a Fannie Mae Delegated Underwriting and Servicing lender and a Freddie Mac Program Plus® Seller/Servicer. We believe that we benefit from our affiliation with PW Funding, as they provide us with a pipeline of product for our bridge lending, our mezzanine lending and our government-insured products.

CharterMac Acquisition of Related Capital. On December 18, 2002, CharterMac announced that it entered into an agreement to acquire 100% of the ownership interests of Related Capital and substantially all of the businesses operated by Related Capital. We believe that the proposed acquisition of Related Capital by CharterMac should not affect our day-to-day operations. We will continue to be advised by our Advisor following the proposed acquisition (subject to annual renewal of the advisory agreement between us and our Advisor (the Advisory Agreement)); however, CharterMac will own 100% of our Advisor. In addition, our Advisor will continue to subcontract to Related Capital the obligation to provide the services which our Advisor is required to provide under the Advisory Agreement. The proposed acquisition contemplates that the same management team that is currently managing us will continue to manage us if the acquisition of Related Capital by CharterMac is completed.

General Information

We have elected to be treated as a REIT for federal income tax purposes. This treatment permits us to deduct dividend distributions to our shareholders for federal income tax purposes, thus effectively eliminating the double taxation that generally results when a corporation earns income and distributes that income to its shareholders by way of dividends. In order to maintain our status as a REIT, we must comply with a number of requirements under federal income tax law that are discussed under Certain Federal Income Tax Considerations.

Our principal executive offices are located at 625 Madison Avenue, New York, New York 10022. Our telephone number is (212) 421-5333.

Recent Developments

Dividend Declaration. On March 13, 2003, our Board of Trustees declared a dividend of $0.40 per share for the first quarter ended March 31, 2003, payable to shareholders of record on March 31, 2003. The dividend will be paid on May 15, 2003.

Table of Contents

Plaza at San Jacinto. On March 7, 2003, we exercised our rights under the subordinated promissory note and other documents to take possession of the real estate collateral of the Plaza at San Jacinto, a 132-unit multifamily property located in LaPorte, Texas. We had provided a $1.25 million mezzanine loan to the owner of the Plaza at San Jacinto on May 24, 2001. We paid approximately $6.7 million and now own the first mortgage loan on the property. As such, we are now a mortgagee in possession. This is a preliminary step towards foreclosure, which is expected to take place in the near future and allows us to secure and protect the real estate and cash collateral, securing both the first mortgage loan and the mezzanine loan. Based on a recent independent appraisal, we believe that the value of the collateral exceeds the amounts paid for the first mortgage loan and the mezzanine loan. However, there can be no assurance that we will be able to sell this property for an amount greater than or equal to its appraised value.

Interest Rate Swap. On March 24, 2003, we entered into a five-year LIBOR interest rate swap with a notional amount of $30 million, which represents approximately 34% of our outstanding floating rate debt on the Nomura Facility at December 31, 2002. The annual fixed interest rate payable by us on this swap is 3.48%.

New Loans. See Our Investments Portfolio Recent Developments beginning on page S-31 of this prospectus supplement for a discussion of other recent developments in our portfolio.

Table of Contents

THE OFFERING

Common shares of beneficial interest offered	1,600,000 shares(1)
Common shares of beneficial interest outstanding after this offering	7,979,630 shares(2)(3)
Use of proceeds	We estimate that our net proceeds from this offering, without exercise of the overallotment option, will be approximately $. We intend to use the net proceeds to fund future investment activity. See Use of Proceeds beginning on page S-9 of this prospectus supplement.
Risk Factors	See Risk Factors beginning on page S-12 of this prospectus supplement, and other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference for a discussion of factors you should carefully consider before deciding to invest in the common shares.
American Stock Exchange symbol	AMC

(1) 1,840,000 shares if the underwriters exercise their over-allotment option in full.

(2) Includes 16,000 common shares that we will issue to our Advisor upon completion of this offering (we will issue an additional 2,400 common shares (for a total of 18,400 common shares) to our Advisor if the underwriters exercise their over-allotment in full) pursuant to the Advisory Agreement, which entitles our Advisor to receive as compensation a number of common shares equal to 1% of the total number of common shares issued by us in this offering. Does not include 383,863 common shares reserved for issuance under our Incentive Share Option Plan.

(3) 8,222,030 common shares (including 18,400 common shares to be issued as described in footnote 2 above) if the underwriters exercise their over-allotment option in full.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of our common shares to acquire and originate government-insured and uninsured investments consistent with our investment strategy and subject to our investment policy limitations as stated in our declaration of trust.

The net proceeds from the sale of 1,600,000 common shares will be approximately $ after deducting the underwriting discount and the estimated expenses of the offering.

Table of Contents

SELECTED FINANCIAL DATA

The selected financial data as of December 31, 2002, 2001 and 2000 and for the years then ended are derived from our audited financial statements for those years. You should read this selected financial data along with Management s Discussion and Analysis of Financial Condition and Results of Operations, our audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated by reference in this prospectus supplement or the accompanying prospectus.

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands, except per share amounts)		
Operating Data:			
Mortgage loan income	$ 2,050	$ 2,773	$ 1,565
Ginnie Mae income	5,769	2,294	473
CMBS income			3,190
Equity in earnings of ARCap	2,400	2,400	401
Other income	2,639	631	2,682
Net (loss) gain on investments	614	(251)	(227)
Interest expense	(1,228)	(1,406)	(3,372)
Other expenses	(2,584)	(1,254)	(1,394)
Net income	$ 9,660	$ 5,187	$ 3,318
Net income per share (basic and diluted)	$ 1.61	$ 1.35	$ .86
Weighted average shares outstanding (basic and diluted)	6,017,740	3,838,630	3,838,630
Balance Sheet Data:			
Total assets	$ 195,063	$ 101,982	$ 70,438
Repurchase and warehouse facilities payable	$ 96,668	$ 43,610	$ 12,656
Total shareholders equity	$ 94,338	$ 55,279	$ 55,076
Other Data:			
Return on Equity	12.9%	9.4%	5.9%
Return on Assets	6.5%	6.0%	3.6%
Debt Service Coverage Ratio	8.9x	4.7x	2.0x

Table of Contents

CAPITALIZATION

Our actual capitalization at December 31, 2002, and our capitalization as adjusted to give effect to the issuance of 1,600,000 common shares in this offering at a price of $ per share is set forth below.

	as of December 31, 2002	
	Actual	As Adjusted*
	(Dollars in thousands)	
Shares of beneficial interest; par value $0.10 per share; 25,000,000 shares authorized; 6,738,826 issued and 6,363,630 outstanding (as adjusted 8,354,826 issued and 7,979,630 outstanding)	$ 674	$ 835
Treasury shares of beneficial interest; 375,196 shares	(38)	(38)
Additional paid-in-capital	99,470	
Distributions in excess of net income	(14,471)	(14,471)
Accumulated other comprehensive income	8,703	8,703
Total	$ 94,338	$

* After deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. Includes 16,000 common shares that we will issue to our Advisor (18,400 if the underwriters exercise their over-allotment option in full) upon completion of this offering pursuant to the Advisory Agreement. Assumes no exercise of the underwriters over-allotment option to purchase up to an additional 240,000 common shares.

Table of Contents

RISK FACTORS

An investment in our common shares involves a number of risks. Before making an investment decision, you should carefully consider all of the risks described in this prospectus supplement. If any of the risks discussed in this prospectus supplement actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our common shares could decline and you may lose all or part of your investment.

Mortgage investments that are not United States government insured and non-investment grade mortgage assets involve risk of loss

General. We intend to continue to originate and acquire uninsured and non-investment grade mortgage loans and mortgage assets as part of our investment strategy. Such loans and assets may include mezzanine loans, bridge loans and CMBS. While holding such interests, we will be subject to risks of borrower defaults, bankruptcies, fraud and losses and special hazard losses that are not covered by standard hazard insurance. Also, the costs of financing the mortgage loans could exceed the return on the mortgage loans. In the event of any default under mortgage loans held by us, we will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. To the extent we suffer such losses with respect to our investments in mortgage loans, the value of our company and the price of our common shares may be adversely affected.

Limited recourse loans may limit our recovery to the value of the mortgaged property. Our loans are generally non-recourse, except for our mezzanine loans, which typically have limited recourse provisions for the first three years from the date of the permanent loan. In addition, limited recourse against the borrower may be further limited by applicable provisions of the laws of the jurisdictions in which the mortgaged properties are located or by the selection of remedies and the impact of those laws on that selection. With respect to our non-recourse mortgage loans, in the event of a borrower default, the specific mortgaged property and other assets, if any, pledged to secure the relevant mortgage loan, may be less than the amount owed under the mortgage loan. As to those mortgage loans that provide for recourse against the borrower and its assets generally, there can be no assurance that such recourse will provide a recovery in respect of a defaulted mortgage loan greater than the liquidation value of the mortgaged property securing that mortgage loan.

Competition in acquiring desirable investments may limit the availability of desirable investments which could, in turn, negatively affect our ability to maintain our dividend distribution

We compete for loan investments with numerous public and private real estate investment vehicles, such as mortgage banks, pension funds, REITs, institutional investors and individuals. Mortgages, subordinated interests in CMBS and other investments are often obtained through a competitive bidding process. In addition, competitors may seek to establish relationships with the financial institutions and other firms from which we intend to purchase such assets. Many of our competitors are larger than us, may have access to greater capital and other resources, may have management personnel with more experience than our officers or our Advisor and may have other advantages over us and our Advisor in conducting certain business and providing certain services. Competition may result in higher prices for mortgage assets, lower yields and a narrower spread of yields over our borrowing costs. In addition, competition for desirable investments could delay the investment of proceeds from this offering in desirable assets, which may, in turn, reduce earnings per share and may negatively affect our ability to maintain our dividend distribution. There can be no assurance that we will achieve investment results that will allow any specified level of cash distribution.

Interest rate fluctuations will affect the value of our assets, net income and the common shares

General. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Interest rate fluctuations can adversely affect our income and value of our common shares in many ways and present a variety of risks, including the risk of a mismatch between asset yields and borrowing rates, variances in the yield curve and changing prepayment rates.

Interest rate mismatch could occur between asset yields and borrowing rates resulting in decreased yield. Our operating results will depend in large part on differences between the income from our assets (net of credit losses) and our borrowing costs. We expect that most of our assets will bear fixed interest rates and will have terms in excess of five years. We fund the origination and acquisition of a significant portion of our assets with borrowings which have interest rates that reset relatively rapidly, such as monthly or quarterly. We anticipate that, in most cases, the income from our assets will respond more slowly to interest rate fluctuations than the cost of our borrowings, creating a mismatch between asset yields and borrowing rates. Consequently, changes in interest rates, particularly short-term interest rates, may influence our net income. To mitigate the impact of interest rate fluctuations, on March 24, 2003, we entered into a five-year LIBOR interest rate swap with a notional amount of $30 million. The annual fixed interest rate payable by us on this swap is 3.48%. Based on the $87.9 million of borrowings outstanding under the Nomura Facility at December 31, 2002, a 1% change in LIBOR would impact our annual net income and cash flows by approximately $878,800 (not taking into account the effects of the interest rate swap entered into on March 24, 2003). Taking into account the interest rate swap, a 1% change in LIBOR would impact our annual net income and cash flows by approximately $578,000. Our borrowings under the Fleet Line of Credit also bear interest at rates that fluctuate with LIBOR. See Our Investments Portfolio Bridge Loans Acquisition/Rehabilitation Bridge Loans beginning on Page S-25 of this prospectus supplement. Based on the $8.8 million outstanding under the Fleet Line of Credit at December 31, 2002, a 1% change in LIBOR would impact our annual net income and cash flows by approximately $87,880. Increases in these rates will tend to decrease our net income and market value of our net assets. Interest rate fluctuations that result in our interest expense exceeding interest income would result in our incurring operating losses.

Prepayment rates can increase, thus adversely affecting yields. The value of our assets may be affected by prepayment rates on investments. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. To the extent we originate mortgage loans, we expect that such mortgage loans will have a measure of protection from prepayment in the form of prepayment lock-out periods or prepayment penalties. However, such protection may not be available with respect to investments which we acquire, but do not originate. In periods of declining mortgage interest rates, prepayments on mortgages generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the investments that were prepaid. In addition, the market value of mortgage investments may, because of the risk of prepayment, benefit less from declining interest rates than from other fixed-income securities. Conversely, in periods of rising interest rates, prepayments on mortgages generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition of certain investments.

We are dependent on our Advisor and if our Advisor terminates the Advisory Agreement, we may not be able to find an adequate replacement advisor

We have no employees, although for administrative purposes we have appointed officers. We have entered into an Advisory Agreement with our Advisor under which our Advisor provides us with all of the services vital to our operations. We are dependent on our Advisor for the management and administration of

our business and investments. The results of our operations will be dependent upon the availability of, and our Advisor s ability to identify and capitalize on, investment opportunities. The agreement may be terminated (i) without cause by our Advisor or (ii) with or without cause by a majority of our independent trustees, each without penalty and each upon 60 days prior written notice to the non-terminating party. If our Advisor terminates our agreement, we may not be able to find an adequate replacement advisor.

Conflicts of interest could arise among our Advisor, Related Capital and us with respect to investment opportunities

Our Advisor has subcontracted to Related Capital the obligation to provide the services which our Advisor is required to provide under the Advisory Agreement. There are risks involved with this arrangement. Under the Advisory Agreement, our Advisor and Related Capital are permitted to act as advisor to any other person or entity having investment policies similar to ours, including other REITs. Generally, in conflict situations with non-affiliated entities, our Advisor must present an investment opportunity to us if the opportunity is within our investment objectives and policies, the opportunity is of a character that could be taken by us, and we have the financial resources to take advantage of the opportunity. However, to the extent that other companies advised by or affiliated with our Advisor or Related Capital have similar investment objectives to ours and have funds available for investment at the same time as us or to the extent that an investment is potentially suitable for us and at least one such entity, conflicts of interest could arise as to which entity should acquire the investment.

Related Capital effectively controls and manages a closed-end, publicly held limited partnership with similar investment objectives that may invest in mortgages suitable for investment by us (although this entity has fully invested its available funds and is not permitted to raise additional capital). In addition, an affiliate of Related Capital is the manager of CharterMac, which is an American Stock Exchange listed company that invests primarily in tax-exempt mortgage investments but has in the past, and may in the future, invest in taxable mortgage investments similar to those in which we invest. For example, CharterMac acquired a preferred equity interest in ARCap. Finally, The Related Companies, LP, the majority owner of Related Capital, also effectively controls two Delaware limited liability companies whose principal lines of business have been the arrangement of credit enhancements for tax-exempt revenue bonds, although from time to time they may invest in taxable mortgage investments similar to ours. As of the date of this prospectus supplement, neither entity is actively operating.

To the extent that these existing entities, as well as affiliated entities which may be formed by affiliates of Related Capital in the future, have funds available for investment at the same time as us and a potentially suitable investment is offered to us or the affiliated entities, our Advisor will review the affiliated entities and our investment portfolios and will determine whether or not the investment should be made by one of the affiliated entities or by us based upon factors such as the amount of funds available for investment, yield and portfolio diversification. If the making of a mortgage loan or other mortgage investment appears equally appropriate for us and these affiliated entities, the mortgage loan or other mortgage investment will either be made by a joint venture between two or more of such entities (which may include us), or will be allocated to one of such entities on a basis of rotation with the initial order of priority determined by the dates of formation of the entities.

Furthermore, if the proposed acquisition of Related Capital by CharterMac is completed, the conflicts described above with respect to Related Capital will remain the same and will become conflicts between us and CharterMac. This is due to the fact that CharterMac will acquire all of the ownership interests in our Advisor and CharterMac proposes to continue to operate the same potentially competitive businesses in which Related Capital is currently engaged. In addition, agreements between CharterMac and Stephen M. Ross, one of its trustees and the majority owner of our Advisor, which will be entered into upon consummation of that proposed acquisition, will specifically permit Mr. Ross to compete with CharterMac in the business of originating mezzanine loans to multifamily housing properties similar to those which secure our loans, which is the same conflict as currently exists, and would continue to permit Mr. Ross to compete with us for such investments.

Conflicts of interest could arise in transactions where we lend to borrowers affiliated with Related Capital

We have invested in, and may in the future invest in, mortgage investments secured by properties in which either direct or indirect affiliates of Related Capital own equity interests in the borrower. Our declaration of trust requires that any transaction between our Advisor, Related Capital or any of their affiliates and us be approved by a majority of trustees, including a majority of the independent trustees, not otherwise interested in the transaction, as being fair and reasonable and on terms not less favorable to us than those available from unaffiliated third parties. As of December 31, 2002, we had three bridge loans to borrowers that are affiliates of Related Capital, with a carrying value totaling approximately $4.6 million. Typically, these affiliate borrowers are limited partnerships where the general partner is either an affiliate of Related Capital or an unaffiliated third party with a 1% general partnership interest, and the 99% limited partner is a limited partnership in which an affiliate of Related Capital owns a 1% general partnership interest and one or more Fortune 500 companies own a 99% limited partnership interest.

Every transaction entered into between us and a Related Capital affiliate raises a potential conflict of interest. In addition to the initial determination to invest in mortgage investments secured by properties owned by a Related Capital affiliate, such conflicts of interest with respect to these mortgage investments include, among others, decisions regarding (i) whether to waive defaults of such Related Capital affiliate, (ii) whether to foreclose on a loan, and (iii) whether to permit additional financing on the properties securing our investments other than financing provided by us.

We may not accurately assess investment yields, which may negatively affect our earnings

Before making any investment, our Advisor will consider the expected yield of the investment and the factors that may influence the yield actually obtained on such investment. These considerations will affect our or our Advisor s decision whether to purchase such an investment and the price offered for such an investment. No assurances can be given that we or our Advisor can make an accurate assessment of the yield to be produced by an investment. Many factors beyond our and our Advisor s control are likely to influence the yield on the investments, including, but not limited to, competitive conditions in the local real estate market, local and general economic conditions and the quality of management of the underlying property. Our Advisor s inability to accurately assess investment yields may result in our purchasing assets that do not perform as well as expected, which may negatively affect our earnings.

In our loan program with Fannie Mae, we guarantee a first loss position

Through a program with Fannie Mae which we have discontinued, we originated construction and permanent loans for multifamily properties on Fannie Mae s behalf. We guaranteed a first loss position and receive loss sharing and loan origination fees for loans that we originated. If defaults occur on loans originated by us then we may be required to make an immediate cash payment of up to the total amount of our first loss position. As of December 31, 2002, we originated, on Fannie Mae s behalf, loans totaling approximately $3.3 million and have made forward commitments for an additional approximate $4.0 million. We also guaranteed construction loans for which we have issued a forward commitment to originate a loan under the Fannie Mae program, with respect to which we guarantee repayment of 100% of such construction loans. Our maximum exposure under the Fannie Mae program and the forward commitments at December 31, 2002 was $7.3 million.

Table of Contents

Volatility of values of mortgaged properties may adversely affect our loans

Multifamily and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event net operating income decreases, a borrower may have difficulty paying our mortgage loan, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our mortgage loans, which could also cause us to suffer losses.

We are subject to construction completion risks

Some of our loans are secured by multifamily housing properties which are still in various stages of construction. Construction of such properties generally takes approximately 12 to 24 months. The principal risk associated with construction lending is the risk of noncompletion of construction which may arise as a result of: (i) underestimated initial construction costs, (ii) cost overruns during construction, (iii) delays in construction, (iv) failure to obtain governmental approvals, and (v) adverse weather and other unpredictable contingencies beyond the control of the developer. If a mortgage loan is called due to construction not being completed as required in the mortgage loan documents, we may determine to expend additional capital in order to preserve our investment.

In order to minimize certain risks which may occur during the construction phase of a property, our Advisor endeavors to obtain in most instances one or more types of security during such period, including a construction completion guarantee from the principals of the property owner, personal recourse to the property owner and payment and performance bonding of the general contractor, if any, with respect to a property securing our investment. In addition, our Advisor may require principals of the property owner to provide us with an operating deficit guarantee, covering operating deficits of a property securing an investment during an agreed-upon period. We may not be able, however, to obtain such security with respect to certain properties. In other cases, we may decide to forego certain types of available security if we determine that the security is not necessary or is too expensive to obtain in relation to the risks covered.

We are subject to risks in connection with our stabilization guarantee program with Wachovia

Pursuant to our agreement with Wachovia, we provide guarantees for the benefit of Wachovia for the period following construction completion until property stabilization on loans for new construction of multifamily properties under the LIHTC program. If a property does not stabilize by the specified date, we may be required to purchase the loan secured by that property from Wachovia. The principal risk associated with these guarantees is that there can be no assurance that we will have sufficient funds available to purchase a loan required to be purchased pursuant to this program. If we have to borrow the funds needed to purchase a loan, we will be subject to the interest rate risks described under the heading Interest rate fluctuations will affect the value of our assets, net income and the common shares beginning on page S-13 of this prospectus supplement. As of December 31, 2002, our outstanding commitments under this guarantee program were approximately $19.2 million. For more information about our stabilization guarantee program, see Our Investments Portfolio Supplemental Products Stabilization Guarantees with Wachovia Bank, N.A. beginning on page S-30 of this prospectus supplement.

We are subject to risks in connection with our standby loan program

Under our standby loan program, we issue bridge construction and permanent loan commitments for transactions involved with the construction or rehabilitation of multifamily apartment complexes in various locations throughout the United States in return for a commitment fee. If the borrower cannot structure and close an alternative financing arrangement at a future date, we would become obligated to fund the loan at an agreed upon interest rate. The principal risk associated with this program is that there can be no assurance that we will have sufficient funds available to fund the loan. If we have to borrow the funds needed to fund the loan, we will be subject to the interest rate risks described under the heading Interest rate fluctuations will affect the value of our assets, net income and the common shares beginning on page S-13 of this prospectus supplement. As of December 31, 2002, our outstanding commitments under this program were approximately $5.1 million. For more information about our stabilization guarantee program, see Our Investments Portfolio Supplemental Products Standby Bridge and Permanent Loan Commitments beginning on page S-30 of this prospectus supplement.

Bridge and mezzanine loans involve greater risks of loss than senior loans secured by income-producing properties

We have acquired and expect to continue to acquire bridge and mezzanine loans. These types of loans are considered to involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property due to a variety of factors, including the loan becoming unsecured as a result of foreclosure by the senior lender. We may not recover some or all of our investment in such loans. In addition, bridge loans and mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

Subordinated interests are subject to increased risk of first loss or non-investment grade subordinated interests

We have invested indirectly in subordinated CMBS through our ownership of a preferred membership interest in ARCap. Subordinated CMBS of the type in which ARCap invests include first loss and non-investment grade subordinated interests. A first loss security is the most subordinate class in a structure and accordingly is the first to bear the loss upon a default on restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Such classes are subject to special risks, including a greater risk of loss of principal and non-payment of interest than more senior, rated classes. The market values of subordinated interests in CMBS and other subordinated securities tend to be more sensitive to changes in economic conditions than more senior, rated classes. As a result of these and other factors, subordinated interests generally are not actively traded and may not provide holders with liquidity of investment. With respect to our investment in ARCap, our ability to transfer our membership interest in ARCap is further limited by the terms of ARCap s operating agreement.

Participating interests in mortgages may not be available and, even if obtained, may not be realized

In connection with the acquisition and origination of mortgages, we have obtained and may continue to obtain participating interests that may entitle us to payments based upon a development s cash flow, profits or any increase in the value of the development that would be realized upon a refinancing or sale of the development. Competition for participating interests is dependent to a large degree upon market conditions. Participating interests are more difficult to obtain when mortgage financing is available at relatively low interest rates. In the current interest rate environment, we may have greater difficulty obtaining participating interests. Participating interests are not government insured or guaranteed and are therefore subject to the general risks inherent in real estate investments. Therefore, even if we are successful in investing in

Table of Contents

mortgage investments which provide for participating interests, there can be no assurance that such interests will result in additional payments to us.

Short-term repurchase agreements involve risk of loss

We finance and expect to continue to finance, a portion of our investments through collateralized borrowing in the form of repurchase agreements, which involve the sale by us of assets concurrently with an agreement by us to repurchase such assets at a later date at a fixed price. During the repurchase agreement period, we continue to receive principal and interest payments on the assets. The use of borrowing, or leverage, to finance our assets involves a number of risks, including the following:

If we are unable to renew our borrowings at favorable rates, we may be forced to sell assets, and our profitability may be adversely affected. We rely on short-term repurchase agreements to finance a portion of our assets. Our ability to achieve our investment objectives depends on our ability to borrow money in sufficient amounts and on favorable terms and our ability to renew or replace these short-term borrowings on a continuous basis as they mature. If we are not able to renew or replace maturing borrowings, we would be forced to sell some of our assets under possibly adverse market conditions, which may adversely affect our profitability. As of December 31, 2002, we had borrowings of approximately $87.9 million outstanding under the Nomura Facility, all of which typically have 30 day settlement terms.

A decline in the market value of our assets may result in margin calls that may force us to sell assets under adverse market conditions. Repurchase agreements involve the risk that the market value of the securities sold by us may decline and that we will be required to post additional collateral, reduce the amount borrowed or suffer forced sales of the collateral. If forced sales were made at prices lower than the carrying value of the collateral, we would experience additional losses. If we are forced to liquidate our assets to repay borrowings, there can be no assurance that we will be able to maintain compliance with the REIT asset and source of income requirements.

Our use of repurchase agreements to borrow money may give our lenders greater rights in the event of bankruptcy. Of our total borrowings of approximately $96.7 million as of December 31, 2002, approximately $87.9 million were made using repurchase agreements which require us to pledge certain of our assets to the lender to secure our obligations thereunder. Borrowings made under repurchase agreements may qualify for special treatment under the Bankruptcy Code, which may make it difficult for us to recover our pledged assets if a lender files for bankruptcy. In addition, if we were to file for bankruptcy, lenders under our repurchase agreements may be able to avoid the automatic stay provisions of the Bankruptcy Code and take possession of, and liquidate, the assets we pledged under these agreements without delay.

Our debt obligations may reduce our operating performance and put us at a competitive disadvantage

In addition to the risks associated with the short-term repurchase agreements described above, we are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest under the Fleet Line of Credit, and the risk that indebtedness under the Fleet Line of Credit will not be refinanced at maturity or that the terms of such refinancing will not be as favorable as the terms of the Fleet Line of Credit.

A portion of the outstanding principal under the Fleet Line of Credit is due at the maturity or prepayment of each of the underlying loans. We anticipate repaying the indebtedness through refinancing or sales proceeds of the properties securing the mortgage loans. In the event that the proceeds from such sales

or refinancings do not generate sufficient amounts to repay our obligations under the Fleet Line of Credit, we will be required to pay off the remaining borrowings under the Fleet Line of Credit through cash, other borrowings or equity offerings. If we were unable to refinance our indebtedness on acceptable terms, we might be forced to sell assets under possibly adverse market conditions, which may adversely affect our profitability. If prevailing interest rates, financing spreads or other factors at the time of refinancing the Fleet Line of Credit result in higher interest rates, our interest expense would increase, which would adversely affect our results of operations.

We intend to incur additional debt in connection with new acquisitions and/or originations. We may also borrow funds if necessary to satisfy the requirement that we distribute to shareholders as dividends at least 90% of our annual REIT taxable income, or otherwise as is necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

Our debt may harm our business and operating results, including requiring us to use a substantial portion of our cash generated to pay interest and required principal payments, which reduces the amount available for dividends.

As of the date of this prospectus supplement, we had borrowings of $8.8 million outstanding under the Fleet Line of Credit.

Liquidation of collateral may jeopardize our REIT status

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our mortgage investments to satisfy our obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT. For further discussion of the asset and source of income requirements and the consequences of our failure to continue to qualify as a REIT, please see Certain Federal Income Tax Considerations beginning on page S-46 of this prospectus supplement.

Hedging transactions can limit gains and increase exposure to losses

On March 24, 2003 we entered into a five-year LIBOR interest rate swap with a notional amount of $30 million, which represents approximately 34% of our outstanding floating rate debt on the Nomura Facility at December 31, 2002. The annual fixed interest rate payable by us on this swap is 3.48%. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates and prepayment rates.

Hedging involves risk and typically involves costs, including transaction costs. Such costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. Such costs will limit the amount of cash available for distributions to shareholders. We intend generally to hedge as much of the interest rate risk as our Advisor determines is in our best interests given the cost of such hedging transactions.

REIT provisions of the Internal Revenue Code of 1986, as amended (the Code), may limit our ability to hedge our assets and related borrowings. Any limitation on our use of hedging techniques may result in greater interest rate risk.

There are risks related to loans secured by properties that benefit from LIHTCs

The success of our investments in loans secured by properties that benefit from using LIHTCs will be based in part on the results of operations of the underlying properties. The value of such loans and the

Table of Contents

quality of the underlying properties as collateral for such loans may be affected by other factors, such as property resale and other restrictive terms.

Regulations prevent sales of underlying properties for a 15-year period. The law governing LIHTCs generally prohibits the owners of such properties from selling the properties during a 15-year tax credit compliance period and then may require, unless waived, that beginning in year 14 the properties be offered for sale for approximately a one-year period of time at the same price originally paid for them plus an annual cost of living inflation factor. The properties will be at least 15 years old when they are sold and may not sell for the same price as new properties. Factors outside the owner s control, such as demand for apartments and real estate values generally, will determine whether the properties can be sold for more than the owner invested in them or the amount of our mortgage loan. The properties are required to be leased to low-income tenants at restricted rentals for periods in excess of the 15-year tax credit compliance period.

Terms of government financings could limit revenues. If a property receives government assistance or financing, the terms of the government assistance or financing (e.g., tenant eligibility, approvals for rent increases, limitations on the percentage of income which low- and moderate-income tenants may pay as rent) could limit the revenue from the property and depress its value and thereby jeopardize the owner s ability to repay our mortgage loan. There can be no assurance that government assistance programs which are intended to benefit a property will be continued by the assistance provider and that if such assistance is not continued that the property will generate sufficient additional revenue to substitute for the discontinued government assistance so as to meet its mortgage or operating obligations.

Geographic concentration and the credit quality of borrowers may result in losses

We have not established any limit upon the geographic concentration of properties securing mortgage loans acquired or originated by us or the credit quality of borrowers of uninsured mortgage assets acquired or originated by us. As a result, properties securing our mortgage loans may be overly concentrated in certain geographic areas and the underlying borrowers of our uninsured mortgage assets may have low credit quality. We may experience losses due to geographic concentration or low credit quality. As of December 31, 2002, 76.5% of our investments in bridge and mezzanine loans were secured by properties in Texas. Bridge and mezzanine loans comprised approximately 21% of our portfolio of investments as of December 31, 2002.

Changes in mortgage loan programs could adversely affect us

We could be hindered in making investments by adverse changes in the FHA insurance, Ginnie Mae or Fannie Mae guarantee programs or rules or regulations relating to them. Generally, once a mortgage has been endorsed for insurance or guaranteed, subsequent amendments to the rules or regulations would not apply retroactively to affect preexisting investments, but could affect prospective investments. Changes to the guarantee programs could adversely affect our ability to originate or acquire attractive investments.

There are a number of risks associated with being taxed as a REIT

Our REIT status subjects us and our shareholders to a number of risks, including the following:

Failure to qualify as a REIT would have adverse tax consequences for us. In order to maintain our REIT status we must meet a number of requirements. These requirements are highly technical and complex and often require an analysis of various factual matters and circumstances that may not be totally within our control. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the IRS may make changes to the tax laws and regulations, and the courts may issue new rulings, that make it more difficult or impossible for us to remain qualified as a REIT. If we fail to qualify as a REIT, we would be subject to federal income tax at regular corporate rates. Therefore, we would have less money

Table of Contents

available for investments and for distributions to our shareholders. This may also have an adverse effect on the market value of our common shares. In general, we would not be able to elect REIT status for four years after a year in which we lose our REIT status.

As a REIT, our income can only come from limited types of sources. To qualify as a REIT, at least 75% of our gross income must come from qualified real estate sources and 95% of our gross income must come from other sources that are itemized in the REIT tax laws. Therefore, we may have to forego opportunities to invest in potentially profitable businesses or assets because they would produce income that could jeopardize our status as a REIT.

We have certain distribution requirements. As a REIT, we must distribute to shareholders at least 90% of our REIT taxable income (excluding capital gains). The required distribution limits the amount we have available for other business purposes, including amounts to fund our growth. Also, it is possible that because of the differences between the time we actually receive revenue (such as original issue discount interest income attributable to our investment in ARCap) or pay expenses and the period we report those items for distribution purposes, we may have to borrow funds on a short-term basis to meet the 90% distribution requirement.

We are also subject to other tax liabilities. As a REIT, we may be subject to certain federal, state and local taxes on our income and property. Any of these taxes would reduce our operating cash flow.

For further discussion of the risks associated with REIT taxation, please see Certain Federal Income Tax Considerations beginning on page S-46 of this prospectus supplement.

Loss of Investment Company Act exemption would adversely affect us

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act of 1940. If we fail to qualify for this exemption then we would be regulated as an investment company and our business would be materially adversely affected. Investment company regulations would prevent us from conducting our business as described in this prospectus supplement by, among other restrictions, reducing our ability to use borrowings. The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. Under the current interpretation of Securities Exchange Commission staff, in order to qualify for this exemption, we must maintain at least 55% of our assets directly in these qualifying real estate interests. Mortgage-backed securities that do not represent all the certificates issued with respect to an underlying pool of mortgages may be treated as securities separate from the underlying mortgage loans and, thus, may not qualify for purposes of the 55% requirement. Therefore, our ownership of these mortgage-backed securities is limited by the provisions of the Investment Company Act. In meeting the 55% requirement under the Investment Company Act, we treat as qualifying interests mortgage-backed securities issued with respect to an underlying pool as to which we hold all issued certificates. If the Commission or its staff adopts a contrary interpretation, we could be required to sell a substantial amount of our mortgage-backed securities under potentially adverse market conditions. Further, in order to insure that we at all times qualify for the exemption from the Investment Company Act, we may be precluded from acquiring mortgage-backed securities whose yield is somewhat higher than the yield on mortgage-backed securities that could be purchased in a manner consistent with the exemption. The net effect of these factors may be to lower our net income.

Restrictions on share accumulation in REITs could discourage a change of control of our company

In order for us to qualify as a REIT, not more than 50% of the number or value of the outstanding shares may be owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year or during a proportionate part of a shorter taxable year.

Table of Contents

In order to prevent five or fewer individuals from acquiring more than 50% of our outstanding shares and a resulting failure to qualify as a REIT, our declaration of trust provides that, subject to certain exceptions, no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the outstanding shares. The shares most recently acquired by a person that are in excess of the 9.8% limit will not have any voting rights and be deemed to have been offered for sale to us for a period subsequent to the acquisition. Any person who acquires shares in excess of the 9.8% limit is obliged to immediately give written notice to us and provide us with any information we may request in order to determine the effect of the acquisition on our status as a REIT.

While these restrictions are designed to prevent any five individuals from owning more than 50% of our shares, they also discourage a change in control of our company. These restrictions may also deter tender offers that may be attractive to shareholders or limit the opportunity for shareholders to receive a premium for their shares if an investor makes purchases of shares to acquire a block of shares.

Supermajority voting requirements for acquisitions and mergers could discourage a change of control of our company

Our declaration of trust requires that 80% of our shareholders and all of our independent trustees approve exchange offers, mergers, consolidations or similar transactions involving us in which our shareholders receive securities in a surviving entity having materially different investment objectives and policies, or that is anticipated to provide significantly greater compensation to management, except for transactions affected because of changes in applicable law, or to preserve tax advantages for a majority in interest of our shareholders.

Issuances of large amounts of our common shares could cause our share price to decline

As of December 31, 2002, there were 6,363,630 common shares outstanding. This prospectus supplement relates to the sale of up to an additional 1,600,000 common shares, which may be increased to 240,000 common shares if the underwriters fully exercise their over-allotment option. Furthermore, in connection with this offering and the issuance of any common shares in the future, our Advisor is entitled to receive as compensation common shares equal to 1% of the issuance, which common shares vest over a three-year period and are restricted as to their transferability until they vest. Our Advisor will receive 16,000 common shares (18,400 common shares if the underwriters exercise their overallotment option in full) in connection with this offering. In addition, we may issue common shares under our Incentive Share Option Plan, which currently provides for the issuance of up to 383,863 common shares. Finally, our declaration of trust permits our trustees to issue an unlimited number of shares (subject to the consent of shareholders if required pursuant to the rules of the American Stock Exchange). The issuance of common shares could cause dilution of our existing common shares and a decrease in the market price.

Terrorist attacks in the United States and the war in Iraq may have a negative effect on our earnings

The terrorist attacks which occurred in New York City and Washington D.C. on September 11, 2001, the subsequent military actions taken by the United States and its allies in response, and the current military action in Iraq have caused significant uncertainty in the global financial markets. While the long-term effects of these events and their potential consequences are uncertain, they could have a material adverse effect on general economic conditions, consumer confidence and market liquidity. Among other things, it is possible that short-term interest rates may be affected by these events. If short-term interest rates increase rapidly, it would cause our borrowing costs to increase in comparison to the interest rates we earn on our mortgage investments. If that were to happen, our earnings would be negatively affected. In addition, the rate of prepayment on the mortgages underlying our mortgage investments could increase as a result of

Table of Contents

adverse economic conditions, changes in interest rates and other factors, all of which could be affected by the terrorist attacks and their aftermath.

Our shareholders may have personal liability for our acts and obligations

It is possible that certain states may not recognize the limited liability of shareholders, although our declaration of trust provides that our shareholders shall not be subject to any personal liability for our acts or obligations. Our declaration of trust also provides that every written agreement entered into by us shall contain a provision that our obligations are not enforceable against our shareholders personally. No personal liability should attach to our shareholders under any agreement containing such provision; however, not every written agreement entered into by us contains such a provision. In certain states, our shareholders may be held personally liable for contract claims where the underlying agreement does not specifically exclude shareholder liability. Our shareholders may also be held personally liable for other claims against us, such as tort claims, claims for taxes and certain statutory liability. Upon payment of any such liability, however, the shareholder will, in the absence of willful misconduct on the shareholder s part, be entitled to reimbursement from our general assets, to the extent such assets are sufficient to satisfy the claim.

Liability relating to environmental matters may impact the value of the underlying properties

Under various federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. The presence of hazardous substances may adversely affect an owner s ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us.

We may incur costs in connection with the compliance requirements of the Americans with Disabilities Act and fire and safety regulations

Certain underlying properties may be required to comply with the Americans with Disabilities Act, which has separate compliance requirements for public accommodations and commercial facilities, but generally requires that buildings be made accessible to disabled people. Compliance with the Americans with Disabilities Act could require removal of access barriers and noncompliance could result in imposition of fines by the U.S. government or an award of damages to private litigants.

In addition, owners are required to operate properties in compliance with fire and safety regulations, building codes, and other land use regulations. Compliance with such requirements may require owners to make substantial capital expenditures and these expenditures may impair an owner s ability to make debt payments, which in turn may adversely affect the value of the relevant mortgage asset held by us.

Tax legislation proposed by President Bush may have negative consequences for REITs

Recent tax legislation proposed by President Bush would, if enacted, allow corporations to pay dividends that are tax-free to shareholders or, to the extent dividends are not paid, allow shareholders to increase the tax basis of their shares. As currently described, this proposal would not apply to REITs. Although the proposal does not adversely affect the tax treatment of REITs, it may cause investments in non-REIT corporations to become relatively more desirable. As a result, the capital markets may be less favorable to REITs when they seek to raise equity capital, and the prices at which REIT equity securities trade may decline or underperform non-REIT corporations.

Table of Contents

OUR INVESTMENTS

Portfolio

At December 31, 2002, our diversified and actively managed loan portfolio consisted of Government National Mortgage Association (Ginnie Mae) certificates with a fair value of $114.0 million, bridge loans with a carrying value of $26.0 million, mezzanine loans with a carrying value of $12.4 million, first mortgage loans with a carrying value of $9.9 million, and our indirect investment in commercial mortgage-backed securities (CMBS) through our $20.2 million investment in ARCap Investors, L.L.C. (ARCap).

Ginnie Mae Certificates

As of December 31, 2002, our portfolio included twelve Ginnie Mae certificates.

Ginnie Mae is a wholly owned United States government corporation within the Department of Housing and Urban Development created to support a secondary market in government-insured and guaranteed mortgage loans. Ginnie Mae guarantees the timely payment of principal and interest on its securities, which are backed by pools of FHA and other government agency-insured or guaranteed mortgages. Ginnie Mae certificates are backed by the full faith and credit of the United States government. Ginnie Mae certificates are widely held and traded mortgage-backed securities and therefore provide a high degree of liquidity.

The yield on the Ginnie Mae certificates will depend, in part, upon the rate and timing of principal prepayments on the underlying mortgages in the asset pool. Generally, as market interest rates decrease, mortgage prepayment rates increase and the market value of interest rate sensitive obligations like the Ginnie Mae certificates increases. As market interest rates increase, mortgage prepayment rates tend to decrease and the relative market value of interest rate sensitive obligations like the Ginnie Mae certificates tend to decrease. The effect of prepayments on yield is greater the earlier a prepayment of principal is received. Certain of our Ginnie Mae certificates that are collateralized by mortgage loans on multifamily properties are generally less subject to prepayment because they have prepayment lockout periods and prepayment penalties.

Our portfolio of Ginnie Mae certificates as of December 31, 2002 is summarized in the table below.

Certificate	Fair Value at December 31, 2002	Principal Balance at December 31, 2002	Coupon Rate	Final Payment
	(Dollars in thousands)			
Western Manor*	$ 2,509	$ 2,460	7.125%	March 2029
Elmhurst Village*	22,599	21,677	7.745%	January 2042
Copper Commons*	2,130	2,088	8.500%	August 2029
Reserve at Autumn Creek*	18,597	16,023	7.745%	January 2042
Sun Coast Capital*	579	546	7.000%	April 2027
Casitas at Montecito*(1)	6,636	5,787	7.300%	October 2042

Village at Marshfield*	22,824	19,869	7.475%	January 2042
Cantera Crossing*	6,081	5,555	6.500%	June 2029
Fillmore Park*	1,319	1,189	6.700%	October 2042
Northbrooke*	11,856	10,475	7.080%	August 2043
Ellington Plaza*	11,718	10,501	6.835%	June 2044
Burlington*	7,186	6,824	5.900%	April 2031
Total/Weighted Average (2)	$ 114,034	$ 102,994	7.195%	February 2041

Table of Contents

(1) Repaid in March 2003.

(2) Weighted averages based on total amount committed for the construction costs.

* Partially or wholly pledged as collateral for borrowings under the Nomura Facility.

Bridge Loans

We currently originate two types of bridge loans:

- Bridge loans funded in connection with the development of multifamily properties which benefit from the Low-Income Housing Tax Credit (LIHTC) program under Section 42 of the Internal Revenue Code (LIHTC Bridge Loans); and

- Bridge loans funded in connection with providing multifamily developers with short-term capital to acquire and/or rehabilitate existing multifamily properties with the goal of refinancing or selling the properties (Acquisition/Rehabilitation Bridge Loans).

LIHTC Bridge Loans. We believe that since 1989, on average, nearly one-quarter of each year s new multifamily property construction contains an affordable component that produces LIHTCs (from 1989 through 2001, the number of affordable units producing LIHTCs ranged from 60,000 to 126,000 annually). Due to the equity payment schedule typically associated with LIHTC investment programs, there can be periods in a construction cycle where a developer needs short-term capital. To capitalize on this demand, we offer bridge loans to developers with typical terms of approximately 12 to 18 months and which are collateralized by the equity interests in the property owner.

This portion of our bridge lending focuses on LIHTC properties because we believe that default risks ordinarily associated with bridge lending are substantially reduced by the presence of LIHTCs, the value of which typically averages two to four times the principal amount of the bridge loan. The beneficial owners of these LIHTC properties are typically Fortune 500 companies that have invested in order to receive the tax benefits of the LIHTC which are received ratably over an 11-year period. In the event that these properties cannot support their debt service, the beneficial owners have an incentive to maintain the debt service so that they can avoid foreclosure of their equity interests and the loss of the tax benefits associated with the LIHTCs. According to a May 2002 Ernst & Young study Understanding the Dynamics; A Comprehensive Look at Affordable Housing Tax Credit Properties the foreclosure rate on LIHTC properties from 1987 to 2001 has been 0.14%.

Acquisition/Rehabilitation Bridge Loans. In October 2002, we introduced a new Acquisition/Rehabilitation Bridge Loan program targeting two-to-three year bridge loan investments on existing multifamily housing complexes nationwide. The bridge loans provide multifamily developers with short-term capital to acquire and/or rehabilitate existing properties with the goal of either refinancing with long-term debt provided by Fannie Mae or Freddie Mac or selling the property. Typically, the long-term debt is arranged by our affiliate, PW Funding Inc. Under this loan program, one of our wholly-owned subsidiaries provides individual loans ranging from $2 million to $20 million over a term of up to 24 months (generally with a one-year extension option). The interest rate on each loan is based on LIBOR, providing the borrower with low-cost interim financing. We lend an amount equal to between 80% and 90% of the value of the particular property, funding approximately 80% of such amount through the Fleet Line of Credit and providing the balance of the loans from our own funds. With respect to any loans we make utilizing the Fleet Line of Credit, the underlying property is pledged as collateral under the Fleet Line of Credit. In addition to the assignment of collateral in such instances, we have guaranteed repayment of the Fleet Line of Credit. There may be instances when we will not finance certain Acquisition/ Rehabilitation Bridge Loans through the Fleet Line of Credit.

We have found from our multifamily developer clients that there are very few options in the market for this type of short-term capital. Responding to our developers needs, we have structured a highly useful product that provides us with favorable returns and enables us to underwrite to a reliable exit strategy utilizing PW Funding. In addition, this product line minimizes our interest rate risk for these loans because the loans and the Fleet Line of Credit that we use to fund the loans float off of the same index.

Our portfolio of bridge loans as of December 31, 2002 is summarized in the table below.

Property	Location	Number of Apartment Units	Carrying Amount	Outstanding Principal Balance	Remaining Committed Balance to Fund	Interest Rate	Maturity
			(Dollars in thousands)				
Alexandrine(1)(2)	Detroit, MI	30	$ 214	$ 214	$	12.50%	November 2002
Concord at Palm(3)	Houston, TX	360	3,832	3,850		12.00%	December 2003
Parwood(1)(4)	Long Beach, CA	528	2,997	3,022	1,578	11.00%	January 2004
Concord at Little York	Houston, TX	276	3,475	3,500		12.00%	February 2004
Concord at Gulfgate	Houston, TX	288	3,453	3,500		12.00%	May 2004
Clark s Crossing(4)	Laredo, TX	160	0	0	1,649	12.00%	October 2003
Reserve of Fox River(1)	Yorkville, IL	132	1,339	1,350		12.00%	May 2003
Del Mar Villas(5)	Dallas, TX	260	5,512	5,554		LIBOR + 4.625%	April 2004
Mountain Valley(5)(6)	Dallas, TX	312	5,175	5,242	1,065	LIBOR + 4.750%	November 2004
Total		2,346	$ 25,997	$ 26,232	$ 4,292		

(1) These loans are to limited partnerships whose general partners are affiliates of our Advisor.

(2) Consists of two notes that matured in November 2002. One note, in the approximate amount of $207,000, was repaid in January 2003. The remaining note, in the amount of $6,800, remains unpaid.

(3) Repaid in March 2003.

(4) Funded on an as needed basis.

(5) Pledged as collateral under the Fleet Line of Credit.

(6) To be funded for rehabilitation.

Mezzanine Financing

Mezzanine loans are subordinate to senior mortgages and may include a participating component, such as a right to a portion of the cash flow and refinancing and sale proceeds from the underlying properties.

We seek to capitalize on attractive yields available through the funding of mezzanine debt in combination with our origination of government-insured multifamily mortgages. We believe that we are one

Table of Contents

of the few programs in the country that offers mezzanine loans in conjunction with agency-insured first mortgage loans.

Our mezzanine loans typically finance newly constructed or rehabilitated market-rate multifamily properties and generally have terms of 40 years with an option to call the loan on 12 months notice at any time after the tenth anniversary of the equity loan closing. These loans are typically in a subordinated mortgage position, are secured by equity interests in the borrower and have limited recourse to the borrower for the three years following the date of the permanent loan. We seek properties in growing real estate markets with well capitalized developers or guarantors. We leverage the expertise of our Advisor and its affiliates in the initial underwriting of the property, as well as in the ongoing monitoring of the property through construction, lease-up and stabilization.

Our portfolio of mezzanine loans as of December 31, 2002, is summarized in the table below.

Property	Location	Number of Apartment Units	Occupancy	Carrying Amount	Outstanding Principal Balance	Interest Rate	Maturity
			(Dollars in thousands)				
Stabilized Properties:							
Stony Brook Village II(1)(2)	East Haven, CT	125	88.00%	$ 651	$ 764	15.33%	June 2037
Plaza at San Jacinto(2)	Houston, TX	132	82.00%	1,226	1,250	11.40%	January 2043
Properties in lease-up period:							
Hollows Apartments(2)	Greenville, NC	184	78.30%	1,399	1,549	10.00%	January 2042
Elmhurst Village(2)	Oveido, FL	313	84.62%	2,455	2,874	10.00%	January 2042
Reserve at Autumn Creek(2)	Friendswood, TX	212	87.00%	1,927	1,987	10.00%	January 2042
Properties in construction period:							
Club at Brazos(2)(3)	Rosenberg, TX	200		1,885	1,962	10.00%	May 2043
Northbrooke(2)(4)	Harris County, TX	240		1,364	1,500	11.50%	August 2043
Del Mar Villas	Dallas, TX	260		765	765	LIBOR + 4.625%	April 2004
Mountain Valley	Dallas, TX	312		776	776	LIBOR + 4.750%	November 2004
Total		1,978		$ 12,448	$ 13,427		

(1) Repaid in January 2003.

(2) Interest on the mezzanine loans is based on a fixed percentage of the unpaid principal balance of the related first mortgage loan. The amount shown is the approximate effective rate earned on the balance of the mezzanine loan.

(3) Funded based on property performance. Remaining balance that may be funded is $561,000.

(4) Funded based on property performance. Remaining balance that may be funded is $666,000.

FHA-Insured and Uninsured First Mortgage Loans

As of December 31, 2002, our portfolio included three first mortgage loans, one of which is FHA-insured. The FHA is part of the United States Department of Housing and Urban Development created in 1934 under the National Housing Act to insure mortgages made to finance the construction, rehabilitation,

Table of Contents

purchase and refinancing of multifamily residential housing and other developments. Mortgage loans insured by the FHA generally have 40-year terms, not including any construction period, and are backed by the full faith and credit of the United States.

We may invest in other first mortgages that are not insured by the FHA.

Our portfolio of FHA-insured and uninsured first mortgage loans as of December 31, 2002 is summarized in the table below.

Property	Location	Carrying Amount	Outstanding Mortgage Balance	Interest Rate	Maturity
		(Dollars in thousands)			
Stony Brook Village II(1)	East Haven, CT	$ 8,285	$ 8,285	7.625%	June 2037
Sunset Gardens	Eagle Pass, TX	$ 1,309	$ 1,323	11.500%	September 2003
Alexandrine	Detroit, MI	$ 342	$ 342	11.000%	December 2003
Total		$ 9,936	$ 9,950		

(1) This FHA-insured loan, which was repaid in January 2003 had been pledged to secure our obligation under a first loss protection agreement with Fannie Mae. See Loan Origination Program with Fannie Mae beginning on page S-29 of this prospectus supplement.

CMBS Through our Preferred Membership Interests in ARCap

Through our convertible preferred membership interests in ARCap, we have an indirect investment in CMBS owned by ARCap. ARCap was formed in January 1999 by REMICap, an experienced CMBS investment manager, and Apollo Real Estate Investors, the real estate arm of one of the country s largest private equity investors. In conjunction with a preferred equity offering, REMICap and ARCap merged, making ARCap the only internally-managed investment vehicle exclusively investing in subordinated CMBS. As of December 31, 2002, ARCap had $823 million in assets, including investments in $799 million of CMBS. Multifamily properties underlie approximately one-third of ARCap s CMBS.

In September 1999, we acquired a BB+ rated subordinated CMBS from ARCap. In connection with this acquisition, we entered into an agreement with ARCap, which gave us the right to sell the CMBS investment to ARCap and purchase a preferred equity position in ARCap, all based on the then fair value of the CMBS investment. In November 2000, we exercised our right to sell the CMBS investment to ARCap and purchased Series A Preferred Membership Interests in ARCap in the face amount of $20 million, with a preferred dividend rate of 12%. At December 31, 2002, the carrying value of our ARCap investment was $20.2 million.

Our equity in the earnings of ARCap will generally be equal to the preferred equity rate of 12%, unless ARCap does not have earnings and cash flows adequate to meet this distribution requirement. ARCap has met its distribution requirements to us to date. Yields on CMBS depend, among other things, on the rate and timing of principal payments, the pass-through rate, interest rate fluctuations and defaults on the underlying mortgages. Our interest in ARCap is illiquid and we need to obtain the consent of the board of managers of ARCap before we can transfer our interest in ARCap to any party other than a current member. The carrying amount of our investment in ARCap is not necessarily representative of the amount we would receive upon a sale of the interest.

ARCap has informed its members that it intends to shift its focus to CMBS fund management, whereby ARCap will manage CMBS investment funds raised from third-party investors. ARCap will generally be a minority investor in these funds. ARCap thereby intends to diversify its revenue base by increasing its proportion of revenue derived from fees as opposed to interest income.

Table of Contents

Loan Origination Program with Fannie Mae

In March 2000, we entered into a loan origination program with Fannie Mae in which we originate, on Fannie Mae s behalf, construction and permanent loans for multifamily properties and receive loss sharing and loan origination fees. Since we entered into the loan program, the level of loan origination competition has increased, reducing our projected financing volume and profitability. As a result, we have discontinued this program. We have reached an agreement in principle with Fannie Mae to terminate this program and transfer our rights and obligations in the loan program to a third party.

As of December 31, 2002, we originated loans, on Fannie Mae s behalf, totaling approximately $3.3 million and have made forward commitments for an additional approximately $4.0 million. Our maximum exposure under the Fannie Mae program and the forward commitments at December 31, 2002 was $7.3 million.

In order to conduct the program, we organized AMAC/FM Corporation, a Delaware corporation (AMAC/FM), that we wholly own. From time to time, we had to make capital contributions or loans to AMAC/FM in order to ensure that it has sufficient net worth to satisfy its obligations under the Fannie Mae program. On April 4, 2000, we transferred the Stony Brook Village II Apartments FHA first mortgage loan with a principal balance at December 31, 2002 of approximately $8.3 million to AMAC/FM. For further discussion of this first mortgage loan, see Recent Developments beginning on page S-31 of this prospectus supplement. AMAC/FM is treated, for federal income tax purposes, as a taxable REIT subsidiary.

The following table provides information relating to the loans we have originated on Fannie Mae s behalf.

Loans Originated

Property	**Location**	**Number of Apartments Units**	**Loan Amount**	**Loss Sharing Fee (annual rate)**
		(Dollars in thousands)		
Valley View	Cedar Rapids, IA	96	$ 2,187	0.36%
Maple Ridge Apartments	Jackson, MI	69	1,137	0.52%
Total		165	$ 3,324	

Forward Commitments

Property	**Location**	**Number of Apartments**	**Loan Amount**	**Loss Sharing Fee**

		Units		(annual rate)
		(Dollars in thousands)		
Cameron Creek Apartments	Dade County, FL	148	$ 3,000	0.35%
Desert View Apartments	Collidge, AZ	372	1,011	0.52%
Total		520	$ 4,011	

Table of Contents

Supplemental Products. We offer supplemental products that enhance our other lending programs as follows:

Standby Bridge and Permanent Loan Commitments. In January 2002, we began issuing standby bridge and permanent loan commitments for transactions involved with the construction or rehabilitation of multifamily apartment complexes in various locations throughout the United States in return for a commitment fee. These commitments, which are generally offered to clients of affiliates of our Advisor, are obligations to fund construction or permanent loans at a future date at an agreed upon interest rate if the borrower cannot structure and close an alternative financing arrangement. The standby loan commitments expire, on average, 12 to 18 months from issuance. As of December 31, 2002, our outstanding commitments under this program were approximately $5.1 million.

During 2002, we issued the following standby bridge and permanent loan commitments for the purpose of constructing/rehabilitating certain multifamily apartment complexes in various locations.

Standby Bridge Loan Commitments

Issue Date	Project	Location	No. of Apt. Units	Maximum Amount of Commitments	Commitment Expiration
				(Dollars in thousands)	
Jan-02	Valley View/Summertree(1)	Little Rock, AK	240	$ 400	April 2003
May-02	McMullen Square(1)(2)	San Antonio, TX	100	400	February 2003
Total Standby Bridge Loan Commitments			340	$ 800	

Standby Permanent Loan Commitments

Issue Date	Project	Location	No. of Apt. Units	Maximum Amount of Commitments	Commitment Expiration
				(Dollars in thousands)	
May-02	Highland Park(3)(4)	Topeka, TX	200	$ 4,250	December 2003
Total Standby Permanent Loan Commitments			200	$ 4,250	
Total Standby Bridge and Permanent Loan Commitments			540	$ 5,050	

(1) We received a loan commitment fee of 2.5% for issuing the commitment.

(2) Expired in February 2003. Funding did not occur.

(3) We received a loan commitment fee of 2.0% for issuing the commitment.

(4) We will receive a 1% loan origination fee if funding occurs. We do not anticipate that funding will occur.

Stabilization Guarantees with Wachovia Bank, N.A. We have entered into agreements with Wachovia Bank, N.A. (Wachovia) to provide guarantees, for the benefit of Wachovia, for the period following construction completion until property stabilization on loans for new construction of multifamily properties under the LIHTC program in exchange for a guarantee fee. We guarantee that properties which have completed construction will stabilize and the underlying construction loans will convert to permanent Fannie Mae or Freddie Mac loans by a specified date. These permanent loans are typically originated by PW Funding for the Fannie Mae or Freddie Mac forward commitment loan program. We provide these guarantees for loans that secure properties that are outside of the geographic areas in which Wachovia makes commercial real estate construction loans. As of December 31, 2002, our outstanding commitments under this guarantee program were approximately $19.2 million.

Table of Contents

During 2002, we provided stabilization guarantees for the following loans:

Maximum Amount of Guarantee

Date Closed	Project	Location	No. of Units	Less than 1 Year	1-3 Years	Loan Administration Fee(1) (annual percentage)	Construction Guarantee Fee(2)
			(Dollars in thousands)				
Jul-02	Clark s Crossing	Laredo, TX	160	$ 4,790	$	0.500%	0.625%
Sept-02	Creekside Apartments	Colorado Springs, CO	144	7,500		0.375%	
Oct-02	Village at Meadowbend	Temple, TX	138		3,675	0.500%	0.750%
Nov-02	Mapleview Apartments	Saginaw, MI	104		3,240	0.625%	0.247%
Total Stabilization Guarantees			546	$ 12,290	$ 6,915		

(1) Loan Administration Fee is paid on a monthly basis during the guarantee period.

(2) Construction Guarantee Fee is an up-front fee paid at closing and amortized over the guarantee period.

Recent Developments

Investments Originated/Acquired. In February 2003, we funded a predevelopment bridge loan of approximately $6.9 million and agreed to fund a $7.3 million rehabilitation loan secured by Noble Tower Apartments, a 195-unit apartment complex located in Oakland, CA. We have received a 1.0% fee for the bridge loan, which bears interest at 12.0% and matures in July 2005. We will receive an additional 1.0% fee for the rehabilitation loan, which will bear interest at a rate of 9.75% and is expected to have a term of fifteen months.

In March 2003, we partially funded an acquisition bridge loan totaling approximately $11.0 million for Baywoods Apartment, a 128-unit multifamily apartment complex located in Antioch, CA. Our initial funding was approximately $10.5 million with future fundings totaling approximately $500,000. In connection with the funding of this bridge loan, we have borrowed $8.0 million from the Fleet Line of Credit. This loan, which matures in March 2005, bears an interest rate of LIBOR + 400 basis points. Payments on this loan are interest only for the full 24 month term. We received a loan origination fee of 0.625%.

In March 2003, we partially funded a bridge loan of $1.7 million, secured by a 288-unit apartment complex located in Houston, TX, known as The Concord at Gessner. Our initial funding was approximately $1.5 million with future fundings totaling approximately $200,000. We have received a 2.0% fee for the bridge loan, which bears interest at a rate of 12.0% and matures in March 2005.

Investment Repayments. In January 2003, we received approximately $10.0 million in proceeds relating to the Stony Brook Village II first mortgage loan and mezzanine loan repayments. At December 31, 2002, the carrying value of the Stony Brook Village II first mortgage loan and mezzanine loan was approximately $8.3 million and approximately $651,000, respectively. The cash proceeds from the principal repayment of the first mortgage loan are being held as collateral for our contingent liabilities under guarantees issued in the Fannie Mae loan origination program.

In March 2003, the Concord at Palm bridge loan was repaid. We have received proceeds in the amount of approximately $3.9 million, which approximates the carrying amount of the bridge loan at December 31, 2002.

Table of Contents

In March 2003, the Casitas at Montecito Ginnie Mae certificate was repaid. We have received proceeds in the approximate amount of $5.8 million. The carrying amount of the certificate at December 31, 2002 was approximately $6.2 million.

Investment Policy

General. Our investment policy has been formulated to maximize the return on our asset base by investing in a diversified portfolio of in