

BRT REALTY TRUST  
Form 10-Q  
May 09, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2013**

**OR**

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

**Commission File Number 001-07172**

**BRT REALTY TRUST**

(Exact name of Registrant as specified in its charter)

**Massachusetts**  
(State or other jurisdiction of  
incorporation or organization)

**13-2755856**  
(I.R.S. Employer  
Identification No.)

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**60 Cutter Mill Road, Great Neck, NY**  
(Address of principal executive offices)

**11021**  
(Zip Code)

**516-466-3100**

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date.

14,162,837 Shares of Beneficial Interest,

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\$3 par value, outstanding on May 3, 2013

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**BRT REALTY TRUST AND SUBSIDIARIES**

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Table of Contents**Part 1 - FINANCIAL INFORMATION****Item 1. Financial Statements****BRT REALTY TRUST AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except share data)**

|  | March 31,<br>2013<br>(Unaudited) | September 30,<br>2012 |
|--|----------------------------------|-----------------------|
| <b>ASSETS</b>  |                                  |                       |
| Real estate properties net of accumulated depreciation and amortization of \$7,684 and \$4,787 | \$ 269,014                       | \$ 190,317            |
| Real estate loans, all earning interest  | 91,476                           | 37,096                |
| Deferred fee income  | (1,051)                          | (512)                 |
| Real estate loans, net   | 90,425                           | 36,584                |
| Cash and cash equivalents  | 16,634                           | 78,245                |
| Restricted cash - construction holdbacks   | 40,587                           | 55,252                |
| Available-for-sale securities at fair value  | 325                              | 1,249                 |
| Deferred costs, net  | 12,207                           | 12,337                |
| Prepaid expenses   | 4,464                            | 5,978                 |
| Other assets   | 6,569                            | 5,994                 |
| Total Assets   | \$ 440,225                       | \$ 385,956            |
| <b>LIABILITIES AND EQUITY</b>  |                                  |                       |
| Liabilities:   |                                  |                       |
| Mortgages payable  | \$ 220,755                       | \$ 169,284            |
| Junior subordinated notes  | 37,400                           | 37,400                |
| Accounts payable and accrued liabilities   | 3,649                            | 4,298                 |
| Deposits payable   | 2,615                            | 2,108                 |
| Deferred income  | 25,848                           | 25,848                |
| Total Liabilities  | 290,267                          | 238,938               |
| Commitments and contingencies  |                                  |                       |
| Equity:  |                                  |                       |
| BRT Realty Trust shareholders' equity:   |                                  |                       |
| Preferred shares, \$1 par value:   |                                  |                       |
| Authorized 10,000 shares, none issued  |                                  |                       |
| Shares of beneficial interest, \$3 par value:  |                                  |                       |
| Authorized number of shares, unlimited, 13,535 and 13,473 issued                               | 40,606                           | 40,420                |
| Additional paid-in capital   | 165,402                          | 165,258               |
| Accumulated other comprehensive (loss) income  | (30)                             | 356                   |
| Accumulated deficit  | (72,879)                         | (72,585)              |
| Total BRT Realty Trust shareholders' equity  | 133,099                          | 133,449               |
| Non-controlling interests  | 16,859                           | 13,569                |
| Total Equity   | 149,958                          | 147,018               |

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|                              |    |         |    |         |
|------------------------------|----|---------|----|---------|
| Total Liabilities and Equity | \$ | 440,225 | \$ | 385,956 |
|------------------------------|----|---------|----|---------|

See accompanying notes to consolidated financial statements.

Table of Contents**BRT REALTY TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

|  | Three Months Ended<br>March 31, |            | Six Months Ended<br>March 31, |          |
|--|---------------------------------|------------|-------------------------------|----------|
|  | 2013                            | 2012       | 2013                          | 2012     |
| <b>Revenues:</b>   |                                 |            |                               |          |
| Rental and other revenue from real estate properties   | \$ 6,866                        | \$ 1,019   | \$ 12,506                     | \$ 1,787 |
| Interest and fees on real estate loans   | 2,966                           | 2,202      | 4,845                         | 4,454    |
| Recovery of previously provided allowances   |                                 | 3          | 422                           | 10       |
| Other income   | 314                             | 463        | 624                           | 590      |
| Total revenues   | 10,146                          | 3,687      | 18,397                        | 6,841    |
| <b>Expenses:</b>   |                                 |            |                               |          |
| Interest expense   | 2,661                           | 875        | 5,607                         | 1,342    |
| Advisor s fees, related party  | 443                             | 273        | 817                           | 444      |
| General and administrative including \$198 and \$232 to related party for the three months ended and \$403and \$481 for the six months ended | 1,721                           | 2,006      | 3,584                         | 3,680    |
| Property acquisition costs   | 160                             | 1,793      | 1,038                         | 1,793    |
| Operating expenses relating to real estate properties  | 3,417                           | 959        | 6,563                         | 1,745    |
| Depreciation and amortization  | 1,618                           | 180        | 2,905                         | 364      |
| Total expenses   | 10,020                          | 6,086      | 20,514                        | 9,368    |
| Total revenues less total expenses   | 126                             | (2,399)    | (2,117)                       | (2,527)  |
| Equity in earnings (loss) of unconsolidated ventures   | 68                              | (40)       | 129                           | (115)    |
| Gain on sale of available-for-sale securities  | 482                             | 342        | 482                           | 324      |
| Gain on sale of loan   |                                 |            |                               | 3,192    |
| Income (loss) from continuing operations   | 676                             | (2,097)    | (1,506)                       | 874      |
| <b>Discontinued operations:</b>  |                                 |            |                               |          |
| Gain on sale of real estate assets   |                                 |            |                               | 490      |
| Net income (loss)  | 676                             | (2,097)    | (1,506)                       | 1,364    |
| Plus: net loss attributable to non-controlling interests   | 334                             | 1,069      | 1,212                         | 1,482    |
| Net income (loss) attributable to common shareholders  | \$ 1,010                        | \$ (1,028) | \$ (294)                      | \$ 2,846 |
| <b>Basic and diluted per share amounts attributable to common shareholders:</b>  |                                 |            |                               |          |
| Income (loss) from continuing operations   | \$ .07                          | \$ (.07)   | \$ (.02)                      | \$ .17   |
| Discontinued operations  |                                 |            |                               | .03      |
| Basic and diluted income (loss) per share  | \$ .07                          | \$ (.07)   | \$ (.02)                      | \$ .20   |
| <b>Amounts attributable to BRT Realty Trust:</b>   |                                 |            |                               |          |
| Income (loss) from continuing operations   | \$ 1,010                        | \$ (1,028) | \$ (294)                      | \$ 2,356 |
| Discontinued operations  |                                 |            |                               | 490      |
| Net income (loss)  | \$ 1,010                        | \$ (1,028) | \$ (294)                      | \$ 2,846 |

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Weighted average number of common shares  
outstanding:

|                   |            |            |            |            |
|-------------------|------------|------------|------------|------------|
| Basic and diluted | 14,170,229 | 14,050,088 | 14,111,153 | 14,015,940 |
|-------------------|------------|------------|------------|------------|

Continued on Next Page



Table of Contents**BRT REALTY TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

(Dollars in thousands)

|   | <b>Three Months Ended<br/>March 31,</b> |             | <b>Six Months Ended<br/>March 31,</b> |             |  |
|---|---|-------------|---------------------------------------|-------------|--|
|   | <b>2013</b>                             | <b>2012</b> | <b>2013</b>                           | <b>2012</b> |  |
| Net income (loss)   | \$ 676                                  | \$ (2,097)  | \$ (1,506)                            | \$ 1,364    |  |
| Other comprehensive income:                                     |   |             |                                       |             |  |
| Net unrealized (loss) gain on available-for-sale securities     | (392)                                   | (79)        | (415)                                 | 297         |  |
| Unrealized gain (loss) on derivative instruments                | 18                                      | (27)        | 29                                    | (27)        |  |
| Other comprehensive (loss) income                               | (374)                                   | (106)       | (386)                                 | 270         |  |
| Comprehensive income (loss)                                     | 302                                     | (2,203)     | (1,892)                               | 1,634       |  |
| Comprehensive loss attributable to non-controlling interests    | 337                                     | 1,065       | 1,216                                 | 1,478       |  |
| Comprehensive income (loss) attributable to common shareholders | \$ 639                                  | \$ (1,138)  | \$ (676)                              | \$ 3,112    |  |

See accompanying notes to consolidated financial statements.

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Six Months Ended March 31, 2013

(Unaudited)

(Dollars in thousands, except share data)

|   | Shares of<br>Beneficial<br>Interest | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Accumulated<br>Deficit | Non-<br>Controlling<br>Interest | Total      |
|---|-------------------------------------|----------------------------------|---|------------------------|---------------------------------|------------|
| Balances, September 30, 2012                    | \$ 40,420                           | \$ 165,258                       | \$ 356  | \$ (72,585)            | \$ 13,569                       | \$ 147,018 |
| Restricted stock vesting                        | 186                                 | (186)                            |   |                        |                                 |            |
| Compensation expense<br>restricted stock        |                                     | 330                              |   |                        |                                 | 330        |
| Contributions from<br>non-controlling interests |                                     |                                  |   |                        | 5,191                           | 5,191      |
| Distributions to non-controlling<br>interests   |                                     |                                  |   |                        | (689)                           | (689)      |
| Net loss  |                                     |                                  |   | (294)                  | (1,212)                         | (1,506)    |
| Other comprehensive loss                        |                                     |                                  | (386)   |                        |                                 | (386)      |
| Comprehensive loss                              |                                     |                                  |   |                        |                                 | (1,892)    |
| Balances, March 31, 2013                        | \$ 40,606                           | \$ 165,402                       | (30)  | \$ (72,879)            | \$ 16,859                       | \$ 149,958 |

See accompanying notes to consolidated financial statements.

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**BRT REALTY TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Dollars in Thousands)

|  | Six Months Ended<br>March 31, |          |
|--|-------------------------------|----------|
|  | 2013                          | 2012     |
| Cash flows from operating activities:  |                               |          |
| Net (loss) income  | (1,506)                       | \$ 1,364 |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: |                               |          |
| Recovery of previously provided allowances   | (422)                         | (10)     |
| Depreciation and amortization  | 3,727                         | 611      |
| Amortization of deferred fee income  | (791)                         | (817)    |
| Amortization of restricted stock   | 330                           | 391      |
| Gain on sale of real estate assets from discontinued operations                                    |                               | (490)    |
| Gain on sale of available-for-sale securities  | (482)                         | (324)    |
| Gain on sale of loan   |                               | (3,192)  |
| Equity in (earnings) loss of unconsolidated joint ventures   | (129)                         | 115      |
| Distribution of earnings of unconsolidated joint ventures  | 90                            | 355      |
| Change in straight line rent   | 7                             | 16       |
| Increases and decreases from changes in other assets and liabilities:                              |                               |          |
| (Increase) decrease in interest and dividends receivable   | (550)                         | 254      |
| Decrease in prepaid expenses   | 7                             | 120      |
| Decrease in prepaid interest   | 1,507                         | 165      |
| Decrease in accounts payable and accrued liabilities   | (113)                         | (2,058)  |
| Decrease in deferred costs   | (430)                         | (33)     |
| Increase in security deposits and other receivables  | (286)                         | (2,940)  |
| Other  | 282                           | (8)      |
| Net cash provided by (used in) operating activities  | 1,241                         | (6,481)  |
| Cash flows from investing activities:  |                               |          |
| Collections from real estate loans   | 8,658                         | 71,499   |
| Additions to real estate loans   | (63,038)                      | (66,099) |
| Loan loss recoveries   | 422                           | 10       |
| Additions to real estate properties  | (64,600)                      | (68,650) |
| Net costs capitalized to real estate owned   | (16,559)                      | (4,365)  |
| Net change in restricted cash - construction holdbacks   | 14,665                        | (33,064) |
| Collection of loan fees  | 1,330                         | 1,544    |
| Proceeds from sale of real estate owned  | 24                            | 516      |
| Proceeds from sale of available-for-sale securities  | 991                           | 2,513    |
| Purchase of available-for-sale-securities  |                               | (1,634)  |
| Distributions of capital of unconsolidated joint ventures  |                               | 3,035    |
| Contributions to unconsolidated joint ventures   |                               | (4,760)  |
| Net cash used in investing activities  | (118,107)                     | (99,455) |

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Table of Contents**BRT REALTY TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)****(Unaudited)****(Dollars in Thousands)**

|   | <b>Six Months Ended<br/>March 31,</b> |             |
|---|---------------------------------------|-------------|
|   | <b>2013</b>                           | <b>2012</b> |
| Cash flows from financing activities:                                 |                                       |             |
| Increase in mortgages payable   | 52,248                                | 88,992      |
| Mortgage principal payments   | (777)                                 | (3,103)     |
| Increase in deferred borrowing costs                                  | (718)                                 | (7,110)     |
| Capital contributions from non-controlling interests                  | 5,191                                 | 7,375       |
| Capital distribution to non-controlling interests                     | (689)                                 |             |
| Proceeds from sale of New Markets Tax Credits                         |                                       | 13,730      |
| Repurchase of shares of beneficial interest                           |                                       | (879)       |
| Net cash provided by financing activities                             | 55,255                                | 99,005      |
| Net decrease in cash and cash equivalents                             | (61,611)                              | (6,931)     |
| Cash and cash equivalents at beginning of period                      | 78,245                                | 44,025      |
| Cash and cash equivalents at end of period                            | \$ 16,634                             | \$ 37,094   |
| Supplemental disclosure of cash flow information:                     |                                       |             |
| Cash paid during the period for interest, net of capitalized interest | 4,669                                 | \$ 1,383    |
| Taxes paid  | 80                                    | \$ 168      |

See accompanying notes to consolidated financial statements.

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**BRT REALTY TRUST AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**March 31, 2013**

**Note 1 Organization and Background**

BRT Realty Trust ( BRT or the Trust ) is a business trust organized in Massachusetts. BRT (i) originates and holds for investment senior mortgage loans secured by commercial and multi-family real estate property in the United States, (ii) began participating, in fiscal 2012, as an equity investor in joint ventures that own and operate multi-family properties and (iii) owns and operates commercial and mixed use real estate assets, and in particular, development properties located in Newark, New Jersey.

The loans we originate generally have relatively high yields and are short-term or bridge loans with a duration ranging from six months to one year, with up to a one year extension in certain cases. Our policy is to lend at a floating rate of interest based on a spread over the prime rate, with a stated minimum rate, though we originate fixed rate loans as circumstances dictate.

The Trust conducts its operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes.

**Note 2 - Basis of Preparation**

The accompanying interim unaudited consolidated financial statements as of March 31, 2013 and for the three and six months ended March 31, 2013 and 2012 reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for such interim periods. The results of operations for the three and six months ended March 31, 2013 are not necessarily indicative of the results for the full year. The balance sheet as of September 30, 2012 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Certain items on the consolidated financial statements for the preceding period have been reclassified to conform with the current period's presentation.

The consolidated financial statements include the accounts and operations of BRT Realty Trust, its wholly owned subsidiaries, and its majority owned or controlled real estate entities and its interests in variable interest entities in which the Trust is determined to be the primary beneficiary. Material intercompany balances and transactions have been eliminated.

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RBH-TRB Newark Holdings LLC, referred to herein as the Newark Joint Venture, was determined to be a Variable Interest Entity ( VIE ) because the total equity investment at risk is not sufficient to permit it to finance its activities without additional subordinated financial support by its equity holders. The Trust was determined to be the primary beneficiary of this joint venture because it has a controlling interest in that it has the power to direct the activities of the Newark Joint Venture that most significantly impact the entity s economic performance and it has the obligation to absorb losses of, and the right to receive benefits from, the entity that could potentially be significant to the Newark Joint Venture.

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**Note 2 - Basis of Preparation (Continued)**

The Trust's consolidated joint ventures that own multi-family properties were determined to be VIEs because the voting rights of some equity investors are not proportional to their obligations to absorb the expected losses of the entity and their right to receive the expected residual returns. In addition, substantially all of the entity's activities either involve or are conducted on behalf of the investor that has disproportionately few voting rights.

The Trust was determined to be the primary beneficiary of these joint ventures because it has a controlling interest in that it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance and it has the obligation to absorb losses of and the right to receive benefits from the entity that could potentially be significant to the VIE.

With respect to its unconsolidated joint ventures, in which (i) the Trust is primarily the managing member but does not exercise substantial operating control over these entities or the Trust is not the managing member and (ii) such entities are not VIEs, the Trust has determined that such joint ventures should be accounted for under the equity method of accounting for financial statement purposes.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

**Note 3 - Equity**

**Common Share Dividend Distribution**

During the quarter ended March 31, 2013, the Trust did not declare a dividend to its shareholders.

**Restricted Shares**

The Trust's 2012 Incentive Plan, approved by its shareholders in January 2012, permits the Trust to grant stock options, restricted stock, restricted stock units, performance shares awards and any one or more of the foregoing. A maximum of 600,000 shares may be issued pursuant to such plan. As of March 31, 2013, 131,475 shares have been issued pursuant to this plan. An aggregate of 495,950 shares of restricted stock have also been granted pursuant to the Trust's 2003 and 2009 equity incentive plans (collectively, the "Prior Plans") and had not vested as of March 31, 2013. No additional awards may be granted under the Prior Plans. The restricted shares that have been granted under the plans vest five years from the date of grant and under specified circumstances, including a change in control, may vest earlier. For accounting purposes, the restricted shares are not included in the outstanding shares shown on the consolidated balance sheet until they vest, but are included in the



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earnings per share computation. The estimated fair value of restricted stock at the date of grant is being amortized ratably into expense over the applicable vesting period. For the three months ended March 31, 2013 and 2012 the Trust recorded \$137,000 and \$179,000 of compensation expense, respectively, and for the six months ended March 31, 2013 and 2012, recorded \$330,000 and \$391,000 of compensation expense, respectively. At March 31, 2013, \$2,244,000 has been deferred as unearned compensation and will be charged to expense over the remaining weighted average vesting period of approximately 2.87 years.

Table of Contents**Note 3 Equity (Continued)****Per Share Data**

Basic earnings (loss) per share attributable to holders of shares of beneficial interest was determined by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the applicable period.

Diluted earnings (loss) per share attributable to holders of shares of beneficial interest reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that shared in the earnings of the Trust.

Basic and diluted shares outstanding for the three months ended March 31, 2013 and 2012 were 14,170,229 and 14,050,088, respectively, and for the six months ended March 31, 2013 and 2012 were 14,111,153 and 14,015,940, respectively.

**Note 4 - Real Estate Properties**

A summary of real estate properties owned is set forth below (dollars in thousands):

|                              | September<br>30, 2012<br>Balance | Additions | Costs<br>Capitalized and<br>Improvements | Depreciation,<br>Amortization and<br>Other Reductions | March<br>31, 2013<br>Balance |
|------------------------------|----------------------------------|-----------|--|---|------------------------------|
| Shopping centers/Retail      | \$ 2,749                         |           |  | \$ (52)   | \$ 2,697                     |
| Coop/Condo Apartments        | 250                              |           |  | (24)  | 226                          |
| Commercial/Mixed Use (a)     | 61,808                           |           | \$ 15,127                                | (305)   | 76,630                       |
| Multi-Family (b)             | 117,538                          | \$ 64,600 | 1,888                                    | (2,537)   | 181,489                      |
| Land                         | 7,972                            |           |  |   | 7,972                        |
| Total real estate properties | \$ 190,317                       | \$ 64,600 | \$ 17,015                                | \$ (2,918)  | \$ 269,014                   |

a) Represents the real estate assets of the Newark Joint Venture, a consolidated VIE which owns operating and development properties in Newark, NJ. These properties contain a mix of office, retail space, charter schools and surface parking. Certain of these assets are subject to blanket mortgages aggregating \$20,100,000, held by the Trust, which are eliminated in consolidation. Several of the assets are also encumbered by other mortgages - see Note 8 Debt Obligations Mortgages Payable.

b) During the six months ended March 31, 2013, the Trust purchased, through consolidated joint ventures in which it has an 80% or 90% equity interest, the following multi-family properties (dollars in thousands):



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**Note 4 - Real Estate Properties (Continued)**

| Location             | Purchase Date | Number of Units | Contract Purchase Price | Acquisition Mortgage Debt | BRT Equity | Property Acquisition Costs |
|----------------------|---------------|-----------------|-------------------------|---------------------------|------------|----------------------------|
| North Charleston, SC | 10/4/12       | 208             | \$ 21,500               | \$ 17,716                 | \$ 4,410   | \$ 213                     |
| Cordova, TN          | 11/15/12      | 464             | 25,450                  | 19,248                    | 6,220      | 386                        |
| Decatur, GA          | 11/19/12      | 212             | 10,450                  | 8,046                     | 3,396      | 231                        |
| Panama City, FL      | 01/11/13      | 160             | 7,200                   | 5,587                     | 2,164      | 136                        |
|                      |               | 1,044           | \$ 64,600               | \$ 50,597                 | \$ 16,190  | \$ 966                     |

Subsequent to March 31, 2013, the Trust purchased through consolidated joint ventures in which it has an 80% equity interest, the following multi-family properties (dollars in thousands):

| Location    | Purchase Date | No. of Units | Contract Purchase Price | Acquisition Mortgage Debt | BRT Equity | Estimated Acquisition Costs |
|-------------|---------------|--------------|-------------------------|---------------------------|------------|-----------------------------|
| Houston, TX | 4/19/13       | 240          | \$ 16,763               | \$ 13,200                 | \$ 3,723   | \$ 445                      |
| Pooler, GA  | 4/29/13       | 300          | 35,250                  | 26,400                    | 8,120      | 141                         |
|             |               | 540          | \$ 52,013               | \$ 39,600                 | \$ 11,843  | \$ 586                      |

**Note 5 - Real Estate Loans**

Information relating to real estate loans, all of which are earning interest, is summarized as follows (dollars in thousands):

| Property Type            | March 31, 2013    |         | September 30, 2012 |         |
|--------------------------|-------------------|---------|--------------------|---------|
|                          | Real Estate Loans | Percent | Real Estate Loans  | Percent |
| Multi-family residential | \$ 42,729         | 46%     | \$ 35,096          | 95%     |
| Hotel                    | 15,743            | 17%     |                    |         |
| Parking facility         | 15,148            | 17%     |                    |         |
| Retail                   | 10,010            | 11%     | 2,000              | 5%      |
| Land                     | 7,846             | 9%      |                    |         |
|                          | 91,476            | 100%    | 37,096             | 100%    |
| Deferred fee income      | (1,051)           |         | (512)              |         |
| Real estate loans, net   | \$ 90,425         |         | \$ 36,584          |         |

Table of Contents**Note 5 - Real Estate Loans (Continued)**

At March 31, 2013, four separate borrowers had four loans outstanding that in the aggregate were in excess of 10% of total loans. Information regarding these loans all of which are performing is set forth in the table below (dollars in thousands):

| Property Type    | Gross Loan<br>Balance | % of<br>Gross Loans | % of Assets | State |
|------------------|-----------------------|---------------------|-------------|-------|
| Multi-Family     | \$ 15,095             | 16.5%               | 3.4%        | GA    |
| Parking Facility | 14,522                | 15.9%               | 3.3%        | NY    |
| Hotel            | 14,100                | 15.4%               | 3.2%        | NY    |
| Multi-Family     | 9,329                 | 10.2%               | 2.1%        | NY    |

Substantially all of the Trust's loan portfolio consists of senior mortgage loans secured by real properties, 64% of which are located in New York, 17% in Georgia, 9% in Michigan, 5% in Florida and 5% in two other states.

On December 5, 2012, the Trust originated a loan in the amount of \$21,174,000. Gould Investors L.P., a related party, participated in this loan on a pari passu basis and holds a \$6,905,000 interest in this loan. The Trust retained a \$14,269,000 interest in this loan.

**Note 6 - Allowance for Possible Loan Losses**

At March 31, 2013 and September 30, 2012 the Trust did not have an allowance for possible loan losses, as all loans are performing in accordance with their respective loan agreements and management has determined that all amounts outstanding are fully collectable.

**Note 7 Available-For-Sale Securities**

Information regarding our available-for-sale securities, all of which are equity securities, is set forth below (dollars in thousands):

|                   | March 31, 2013 | September 30, 2012 |
|-------------------|----------------|--------------------|
| Cost basis        | \$ 283         | \$ 789             |
| Unrealized gains  | 80             | 499                |
| Unrealized losses | (38)           | (39)               |
| Market value      | \$ 325         | \$ 1,249           |

Unrealized gains and losses are reflected as accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

The Trust's available-for-sale equity securities were determined to be Level 1 financial assets within the valuation hierarchy established by current accounting guidance, and the valuation is based on current market quotes received from financial sources that trade such securities. All of the available-for-sale securities in an unrealized loss position are not considered to be other than temporarily impaired because the Trust expects the value of these securities to recover and plans on holding them until at least such recovery.

Table of Contents**Note 7 Available-For-Sale Securities (Continued)**

Information regarding the sales of available-for-sale equity securities is presented in the table below (dollars in thousands):

|                    | Three months ended |          | Six months ended |          |
|--------------------|--------------------|----------|------------------|----------|
|                    | March 31,          |          | March 31,        |          |
|                    | 2013               | 2012     | 2013             | 2012     |
| Proceeds from sale | \$ 991             | \$ 1,957 | \$ 991           | \$ 2,513 |
| Less cost basis    | 509                | 1,615    | 509              | 2,189    |
| Gain on sale       | \$ 482             | \$ 342   | \$ 482           | \$ 324   |

Gain on sale was determined using specific identification.

**Note 8 Debt Obligations**

Debt obligations consist of the following (dollars in thousands):

|                           | March 31, 2013 | September 30, 2012 |
|---------------------------|----------------|--------------------|
| Line of Credit            |                |                    |
| Junior subordinated notes | \$ 37,400      | \$ 37,400          |
| Mortgages payable         | 220,755        | 169,284            |
| Total debt obligations    | \$ 258,155     | \$ 206,684         |

Line of credit

In June 2011, the Trust, through a wholly owned subsidiary, entered into a senior secured revolving credit facility with Capital One, National Association. The subsidiary may borrow (i) on an unsecured basis, \$10 million for up to 90 days and (ii) on a secured basis, up to the lesser of \$25 million and the borrowing base, as such term defined in the facility. Interest accrues on the outstanding balance at the greater of (i) 4% plus LIBOR and (ii) 5.50%. The facility matures June 21, 2014. The Trust has guaranteed the payment and performance of its subsidiary's obligations under the facility. The facility requires the Trust and the subsidiary to maintain or comply with, various covenants, and limits, with specified exceptions, the incurrence of debt.

For the three months ended March 31, 2013 and March 31, 2012, fee amortization, which is a component of interest expense, was \$38,000 and \$37,000, respectively and for the six months ended March 31, 2013 and March 31, 2012, was \$75,000 and \$74,000, respectively. At March 31, 2013 and September 30, 2012, there was no outstanding balance on this facility.





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### **Note 8 Debt Obligations (Continued)**

#### Junior Subordinated Notes

At March 31, 2013 and September 30, 2012, the Trust's junior subordinated notes had an outstanding principal balance of \$37,400,000. The interest rates on the outstanding notes are set forth in the table below:

| Interest Period                       | Interest Rate |
|---------------------------------------|---------------|
| March 15, 2011 through July 31, 2012  | 3.00%         |
| August 1, 2012 through April 29, 2016 | 4.90%         |
| April 30, 2016 through April 30, 2036 | Libor + 2.00% |

Interest expense relating to the junior subordinated notes for the three months ended March 31, 2013 and 2012 was \$458,000 and \$281,000, respectively and for the six months ended March 31, 2013 and 2012, was \$916,000 and \$561,000, respectively. Amortization of the deferred costs, was \$5,000 for the three months ended March 31, 2013 and 2012, and \$10,000 for the six months ended March 31, 2013 and 2012.

#### Mortgages Payable

The Trust had the following obligations outstanding as of the dates indicated all of which are secured by the underlying real property (dollars in thousands):

| Property                       | March 31,<br>2013 | September 30,<br>2012 | Rate  | Maturity      |
|--------------------------------|-------------------|-----------------------|-------|---------------|
| Yonkers, NY                    | \$ 1,909          | \$ 1,954              | 5.25% | April 2022    |
| Palm Beach Gardens, FL         | 45,200            | 45,200                | 3.78% | April 2019    |
| Melbourne, FL                  | 7,680             | 7,680                 | 3.98% | April 2019    |
| Marietta, GA                   | 7,421             | 6,462                 | 6.50% | February 2015 |
| Lawrenceville, GA              | 4,687             | 4,687                 | 4.49% | March 2022    |
| Collierville, TN               | 25,680            | 25,680                | 3.91% | July 2022     |
| North Charleston, SC           | 17,716            |                       | 3.79% | November 2022 |
| Cordova, TN                    | 19,248            |                       | 3.71% | December 2022 |
| Decatur, GA                    | 8,046             |                       | 3.74% | December 2022 |
| Panama City, FL                | 5,588             |                       | 4.06% | February 2023 |
| 65 Market St Newark, NJ        | 900               | 900                   | 7.00% | January 2015  |
| 909 Broad St Newark, NJ        | 6,034             | 6,132                 | 6.00% | August 2030   |
| Teachers Village Newark, NJ(1) | 2,738             | 2,738                 | 17%   | June 2013     |
| Teachers Village Newark, NJ(2) | 22,748            | 22,748                | 5.50% | December 2030 |
| Teachers Village Newark, NJ    | 4,250             | 4,250                 | 3.46% | February 2032 |
| Teachers Village Newark, NJ    | 975               | 988                   | 2.00% | February 2022 |
| Teachers Village Newark, NJ    | 799               | 1,380                 | 2.50% | February 2014 |

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|                             |            |            |              |                |
|-----------------------------|------------|------------|--------------|----------------|
| Teachers Village Newark, NJ | 1,832      | 1,832      | (3)          | February 2034  |
| Teachers Village Newark, NJ | 15,700     | 15,700     | Libor +3.00% | August 2019    |
| Teachers Village Newark, NJ | 5,250      | 5,250      | 3.28%        | September 2042 |
| Teachers Village Newark, NJ | 14,142     | 13,491     | 8.65%        | December 2023  |
| Teachers Village Newark, NJ | 2,212      | 2,212      | (4)          | August 2034    |
|                             | \$ 220,755 | \$ 169,284 |              |                |

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**Note 8 Debt Obligations (Continued)**

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(1) As of March 31, 2013 and September 30, 2012, respectively, the Trust had guaranteed \$685,000 of this mortgage obligation.

(2) TD Bank has the right, in 2018, to require subsidiaries of the Newark Joint Venture to repurchase such debt. If such right is exercised, such subsidiaries will be required to refinance such debt. The stated interest rate is 5.5% per year; however, the United States Treasury Department is reimbursing the interest at the rate of 4.99% per year under the Qualified School Construction Bond program and accordingly, the effective rate of interest thereon until 2018 is 0.51% per year.

(3) The debt is to be serviced in full by annual payment-in-lieu of taxes ( PILOT ) of \$256,000 in 2013 increasing to approximately \$281,000 at maturity. This obligation is secured by a municipal tax lien.

(4) The debt is to be serviced in full by annual PILOT payments of \$311,000 in 2013 increasing to approximately \$344,000 at maturity. This obligation is secured by a municipal tax lien.

**Note 9 Deferred Income (New Markets Tax Credit Transaction)**

On February 3, 2012 and September 11, 2012 special purpose subsidiaries of the Newark Joint Venture entered into transactions with affiliates of Goldman Sachs ( Goldman ) related to the Teacher s Village project and received proceeds related to New Market Tax Credits ( NMTC ) for which the project qualified. The NMTC program was enacted by Congress to serve low-income and distressed communities by providing investors with tax credit incentives to make capital investments in those communities. The program permits taxpayers to claim credits against their Federal income tax for up to 39% of qualified investments.

Goldman contributed \$16,400,000 and \$11,200,000 to the projects through special-purpose entities created to effect the financing transaction and is entitled to receive tax credits against its qualified investment in the project over the seven year period commencing with the date of the applicable financing. At the end of such periods, the Newark Joint Venture subsidiaries have the option to acquire the special purpose entities for a nominal fee and it is anticipated that they will exercise this option.

Included in deferred income on the Trust s consolidated balance sheet at March 31, 2013 and September 30, 2012 is \$25,848,000 of the Goldman contribution, which is net of fees. This amount will be recognized into income when the obligation to comply with the requirements of the NMTC program as set forth in the applicable provisions of the Internal Revenue Code of 1986, as amended (the Code ), is eliminated. Risks of non-compliance include recapture (i.e. reversal of the benefit of the tax credit and the related indemnity obligation of the Newark Joint Venture). The tax credits are subject to recapture for a seven year period as provided in the Code.

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Costs incurred in structuring these transactions are deferred and will be recognized as an expense based on the maturities of the various mortgage financings related to the NMTC transaction. At March 31, 2013 and September 30, 2012 these costs totaled \$9.9 million and \$10.2 million, respectively and are included in deferred costs on the consolidated balance sheets.

The Trust determined that these special purpose entities are VIE s. The VIE s ongoing activities, which include collecting and remitting interest and fees and NMTC compliance, were all considered in the design of the special purpose entities and are not anticipated to affect the economic performance during the life of the VIE s.

Table of Contents**Note 9 - Deferred Income (New Markets Tax Credit Transaction) (Continued)**

Management considered the obligation to deliver tax benefits and provide guarantees to Goldman and the Trust's obligations to absorb the losses of the VIE. Management also considered Goldman's lack of a material interest in the underlying economics of the project. Management concluded that the Trust is the primary beneficiary and has therefore consolidated the VIE's.

**Note 10 - Segment Reporting**

Management has determined that the Trust operates in three reportable segments: (i) a loan and investment segment which includes the origination and servicing of the Trust's loan portfolio and investments; (ii) a multi-family property segment which includes the ownership and operation of its multi-family properties; and (iii) a commercial and mixed use real estate segment which includes the operation and disposition of the Trust's other real estate assets and in particular, the Newark Joint Venture. Due to the addition of the multi-family properties in fiscal 2012 and 2013, the Trust changed the manner in which general and administrative expenses and general corporate debt is allocated to the segments. Management determined it would be more appropriate to allocate these expenses based on the amount of equity invested rather than on the total assets of each segment as was previously done. The prior period has been changed to reflect the new allocation of these expenses.

The following table summarizes the Trust's segment reporting for the periods indicated (dollars in thousands):

|   | Three Months Ended<br>March 31, 2013 |                             |                      |          |
|---|--------------------------------------|-----------------------------|----------------------|----------|
|   | Loan and<br>Investment               | Multi-Family<br>Real Estate | Other<br>Real Estate | Total    |
| Rental and other revenue from real estate properties  |                                      | \$ 6,122                    | \$ 744               | \$ 6,866 |
| Interest and fees on real estate loans                | \$ 2,966                             |                             |                      | 2,966    |
| Other income  | 31                                   |                             | 283                  | 314      |
| Total revenues  | 2,997                                | 6,122                       | 1,027                | 10,146   |
| Interest expense                                      | 352                                  | 1,576                       | 733                  | 2,661    |
| Advisors fee, related party                           | 240                                  | 166                         | 37                   | 443      |
| General and administrative expenses                   | 1,167                                | 386                         | 168                  | 1,721    |
| Property acquisition costs                            |                                      | 160                         |                      | 160      |
| Operating expenses relating to real estate properties |                                      | 2,992                       | 425                  | 3,417    |
| Depreciation and amortization                         |                                      | 1,434                       | 184                  | 1,618    |
| Total expenses  | 1,759                                | 6,714                       | 1,547                | 10,020   |
| Total revenues less total expenses                    | 1,238                                | (592)                       | (520)                | 126      |
| Equity in earnings of unconsolidated ventures         |                                      |                             | 68                   | 68       |
| Gain on sale of available- for-sale securities        | 482                                  |                             |                      | 482      |
| Net income (loss)                                     | 1,720                                | (592)                       | (452)                | 676      |

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|   |    |         |      |         |     |         |            |
|---|----|---------|------|---------|-----|---------|------------|
| Plus: (net income) loss attributable to non-controlling interests |    |         | (21) |         | 355 |         | 334        |
| Net income (loss) attributable to common shareholders             | \$ | 1,720   | \$   | (613)   | \$  | (97)    | \$ 1,010   |
| Segment assets at March 31, 2013                                  | \$ | 100,450 | \$   | 188,301 | \$  | 151,474 | \$ 440,225 |

Table of Contents**Note 10 - Segment Reporting (Continued)**

|  | <b>Six Months Ended<br/>March 31, 2013</b> |                                     |                              |                   |
|--|--|-------------------------------------|------------------------------|-------------------|
|  | <b>Loan and<br/>Investment</b>             | <b>Multi-Family<br/>Real Estate</b> | <b>Other<br/>Real Estate</b> | <b>Total</b>      |
| Rental and other revenue from real estate properties         |  | \$ 11,072                           | \$ 1,434                     | \$ 12,506         |
| Interest and fees on real estate loans                       | \$ 4,845                                   |                                     |                              | 4,845             |
| Other income   | 473  |                                     | 573                          | 1,046             |
| <b>Total revenues</b>  | <b>5,318</b>                               | <b>11,072</b>                       | <b>2,007</b>                 | <b>18,397</b>     |
| Interest expense   | 709  | 3,063                               | 1,835                        | 5,607             |
| Advisors fee, related party                                  | 426  | 300                                 | 91                           | 817               |
| General and administrative expenses                          | 2,452                                      | 782                                 | 350                          | 3,584             |
| Property acquisition costs                                   |  | 1,038                               |                              | 1,038             |
| Operating expenses relating to real estate properties        |  | 5,292                               | 1,271                        | 6,563             |
| Depreciation and amortization                                |  | 2,538                               | 367                          | 2,905             |
| <b>Total expenses</b>  | <b>3,587</b>                               | <b>13,013</b>                       | <b>3,914</b>                 | <b>20,514</b>     |
| <b>Total revenues less total expenses</b>                    | <b>1,731</b>                               | <b>(1,941)</b>                      | <b>(1,907)</b>               | <b>(2,117)</b>    |
| Equity in earnings of unconsolidated ventures                |  |                                     | 129                          | 129               |
| Gain on sale of available- for-sale securities               | 482  |                                     |                              | 482               |
| <b>Net income (loss)</b>                                     | <b>2,213</b>                               | <b>(1,941)</b>                      | <b>(1,778)</b>               | <b>(1,506)</b>    |
| Plus: net loss attributable to non-controlling interests     |  | 90                                  | 1,122                        | 1,212             |
| <b>Net income (loss) attributable to common shareholders</b> | <b>\$ 2,213</b>                            | <b>\$ (1,851)</b>                   | <b>\$ (656)</b>              | <b>\$ (294)</b>   |
| <b>Segment assets at March 31, 2013</b>                      | <b>\$ 100,450</b>                          | <b>\$ 188,301</b>                   | <b>\$ 151,474</b>            | <b>\$ 440,225</b> |

Table of Contents**Note 10 -Segment Reporting (Continued)**

The following table summarizes the Trust's segment reporting for the periods indicated (dollars in thousands):

|  | Three Months Ended<br>March 31, 2012 |                             |                      | Total      |
|--|--------------------------------------|-----------------------------|----------------------|------------|
|  | Loan and<br>Investment               | Multi-Family<br>Real Estate | Other<br>Real Estate |            |
| Rental and other revenue from real estate properties     |                                      | \$ 178                      | \$ 841               | \$ 1,019   |
| Interest and fees on real estate loans                   | \$ 2,202                             |                             |                      | 2,202      |
| Other income   | 173                                  |                             | 293                  | 466        |
| Total revenues   | 2,375                                | 178                         | 1,134                | 3,687      |
| Interest expense   | 116                                  | 139                         | 620                  | 875        |
| Advisor's fee, related party                             | 199                                  | 37                          | 37                   | 273        |
| General and administrative                               | 722                                  | 552                         | 732                  | 2,006      |
| Property acquisition costs                               |                                      | 1,793                       |                      | 1,793      |
| Operating expenses relating to real estate properties    |                                      | 70                          | 889                  | 959        |
| Depreciation and amortization                            |                                      |                             | 180                  | 180        |
| Total expenses   | 1,037                                | 2,591                       | 2,458                | 6,086      |
| Total revenues less total expenses                       | 1,338                                | (2,413)                     | (1,324)              | (2,399)    |
| Equity in earnings (loss) of unconsolidated ventures     | 6                                    | (129)                       | 83                   | (40)       |
| Gain on sale of available- for-sale securities           | 342                                  |                             |                      | 342        |
| Income (loss) from continuing operations                 | 1,686                                | (2,542)                     | (1,241)              | (2,097)    |
| Net income (loss)  | 1,686                                | (2,542)                     | (1,241)              | (2,097)    |
| Plus: net loss attributable to non-controlling interests |                                      | 347                         | 722                  | 1,069      |
| Net income (loss) attributable to common shareholders    | \$ 1,686                             | \$ (2,195)                  | \$ (519)             | \$ (1,028) |
| Segment assets at March 31, 2012                         | \$ 108,626                           | \$ 82,485                   | \$ 108,233           | \$ 299,344 |



Table of Contents**Note 10 - Segment Reporting (Continued)**

|  | <b>Six Months Ended<br/>March 31, 2012</b> |                                     |                              |                   |
|--|--|-------------------------------------|------------------------------|-------------------|
|  | <b>Loan and<br/>Investment</b>             | <b>Multi-Family<br/>Real Estate</b> | <b>Other<br/>Real Estate</b> | <b>Total</b>      |
| Rental and other revenue from real estate loans              |  | \$ 178                              | \$ 1,609                     | \$ 1,787          |
| Interest and fees on real estate loans                       | \$ 4,454                                   |                                     |                              | 4,454             |
| Other income   | 307  |                                     | 293                          | 600               |
| <b>Total revenues</b>  | <b>4,761</b>                               | <b>178</b>                          | <b>1,902</b>                 | <b>6,841</b>      |
| Interest expense   | 327  | 139                                 | 876                          | 1,342             |
| Advisor's fee, related party                                 | 312  | 37                                  | 95                           | 444               |
| General and administrative                                   | 1,818                                      | 552                                 | 1,310                        | 3,680             |
| Property acquisition costs                                   |  | 1,793                               |                              | 1,793             |
| Operating expenses relating to real estate properties        |  | 70                                  | 1,675                        | 1,745             |
| Depreciation and amortization                                |  |                                     | 364                          | 364               |
| <b>Total expenses</b>  | <b>2,457</b>                               | <b>2,591</b>                        | <b>4,320</b>                 | <b>9,368</b>      |
| <b>Total revenues less total expenses</b>                    | <b>2,304</b>                               | <b>(2,413)</b>                      | <b>(2,418)</b>               | <b>(2,527)</b>    |
| Equity in (loss) earnings of unconsolidated ventures         | (136)                                      | (129)                               | 150                          | (115)             |
| Gain on sale of available-for-sale securities                | 324  |                                     |                              | 324               |
| Gain on sale of loan   | 3,192                                      |                                     |                              | 3,192             |
| <b>Income (loss) from continuing operations</b>              | <b>5,684</b>                               | <b>(2,542)</b>                      | <b>(2,268)</b>               | <b>874</b>        |
| Discontinued operations:                                     |  |                                     |                              |                   |
| Gain on sale of real estate assets                           |  |                                     | 490                          | 490               |
| <b>Net income (loss)</b>                                     | <b>5,684</b>                               | <b>(2,542)</b>                      | <b>(1,778)</b>               | <b>1,364</b>      |
| Plus: net loss attributable to non-controlling interests     |  | 347                                 | 1,135                        | 1,482             |
| <b>Net income (loss) attributable to common shareholders</b> | <b>\$ 5,684</b>                            | <b>\$ (2,195)</b>                   | <b>\$ (643)</b>              | <b>\$ 2,846</b>   |
| <b>Segment assets at March 31, 2012</b>                      | <b>\$ 108,626</b>                          | <b>\$ 82,485</b>                    | <b>\$ 108,233</b>            | <b>\$ 299,344</b> |

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**Note 11 Fair Value of Financial Instruments**

Financial Instruments Not Measured at Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instruments that are not recorded at fair value on the consolidated balance sheets:

*Cash and cash equivalents, restricted cash construction holdbacks, accounts receivable (included in other assets), accounts payable and accrued liabilities:* The carrying amounts reported in the consolidated balance sheets for these instruments approximate their fair value due to the short term nature of these accounts.

*Real estate loans:* The earning mortgage loans of the Trust which have variable rate provisions, based upon a margin over prime rate, have an estimated fair value which is equal to their carrying value assuming market rates of interest between 12% and 12.5%. The earning mortgage loans of the Trust which have fixed rate provisions have an estimated fair value of \$22,000 greater than their carrying value assuming a market rate of interest of 12% which management believes reflects institutional lender yield requirements.

*Junior Subordinated Notes:* At March 31, 2013, the estimated fair value of the Trust's junior subordinated notes is lower than their carrying value by approximately \$20,755,000 based on a market rate of 6.38% which management believes reflect institutional lender yield requirements.

*Mortgages Payable:* At March 31, 2013, the estimated fair value of the Trust's mortgages payable is higher than their carrying value by approximately \$2,678,000 assuming market interest rates between 3.11% and 17%. Market rates were determined using rates which we believe reflect institutional lender yield requirements.

Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value assumptions.

Financial Instruments Measured at Fair Value

The Trust's fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, there is a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. Level 1 assets/liabilities are valued based on quoted prices for identical instruments in active markets, Level 2 assets/liabilities are valued based on quoted prices in active markets for similar instruments, on quoted prices in less active or inactive markets, or on other observable market inputs and Level 3 assets/liabilities are valued based significantly on unobservable market

inputs. The Trust does not currently own any financial instruments that are classified as Level 3.

Table of Contents**Note 11 Fair Value of Financial Instruments (Continued)**

Set forth below is information regarding the Trust's financial assets measured at fair value as of March 31, 2013 (dollars in thousands):

|                                      | Carrying and<br>Fair Value | Fair Value Measurements<br>Using Fair Value Hierarchy |         |
|--------------------------------------|----------------------------|---|---------|
|                                      |                            | Level 1   | Level 2 |
| <b>Financial Assets:</b>             |                            |   |         |
| Available-for-sale equity securities | \$ 325                     | \$ 325  |         |
| Interest Rate Cap                    | 4                          |   | \$ 4    |
| <b>Financial Liabilities:</b>        |                            |   |         |
| Interest Rate Swap                   | \$ 78                      |   | \$ 78   |

*Available-for-sale securities:* Fair values are approximated based on current market quotes from financial sources that track such securities. All of the available-for-sale securities in an unrealized loss position are equity securities and amounts are not considered to be other than temporarily impaired because the Trust expects the value of these securities to recover and plans on holding them until at least such recovery occurs.

*Derivative financial instruments:* Fair values are approximated using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. At March 31, 2013, these derivatives are included in other assets and accounts payable and accrued liabilities on the consolidated balance sheet.

Although the Trust has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with it utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparty. However, as of March 31, 2013, the Trust has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Trust has determined that its derivative valuation is classified in Level 2 of the fair value hierarchy.

**Note 12 Derivative Financial Instruments***Cash Flow Hedges of Interest Rate Risk*

The Trust's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Trust primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Trust making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

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The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income (Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. In March 2012, the Trust executed an interest rate swap used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended March 31, 2013 the Trust did not

Table of Contents**Note 12 Derivative Financial Instruments (Continued)**

record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Trust's variable-rate debt.

As of March 31, 2013, the Trust had the following outstanding interest rate derivative that was designated as a cash flow hedge of interest rate risk (dollars in thousands):

| Interest Rate Derivative | Notional Amount | Rate  | Maturity      |
|--------------------------|-----------------|-------|---------------|
| Interest Rate Swap       | \$ 1,908        | 5.25% | April 1, 2022 |

*Non-designated Hedges*

Derivatives not designated as hedges are not speculative and are used to manage the Trust's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and were equal to \$1,110 and \$5,700 for the three and six months ended March 31, 2013, respectively. As of March 31, 2013, the Trust had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollars in thousands):

| Interest Rate Derivative | Notional Amount | Rate | Maturity        |
|--------------------------|-----------------|------|-----------------|
| Interest Rate Caps       | \$ 24,700       | 1.0% | October 1, 2014 |

The table below presents the fair value of the Trust's derivative financial instruments as well as its classification on the consolidated balance sheets as of the dates indicated (amounts in thousands):

Derivatives as of:

| Balance Sheet Location | March 31, 2013 | Fair Value | September 30, 2012     | Fair Value |
|------------------------|----------------|------------|------------------------|------------|
|                        |                |            | Balance Sheet Location |            |

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|  |    |    |  |    |     |
|--|----|----|--|----|-----|
| Other Assets                             | \$ | 4  | Other assets                             | \$ | 10  |
| Accounts payable and accrued liabilities | \$ | 78 | Accounts payable and accrued liabilities | \$ | 104 |

The following table presents the effect of the Trust's derivative financial instrument on the consolidated statements of comprehensive (loss) income for the three and six months ended March 31, 2013 (dollars in thousands):

|   | Three Months Ended<br>March 31 |     |      | Six Months Ended<br>March 31 |      |      |    |    |
|---|--------------------------------|-----|------|------------------------------|------|------|----|----|
|   | 2013                           |     | 2012 | 2013                         |      | 2012 |    |    |
| Amount of loss recognized on derivative in Other Comprehensive Income                         | \$                             | 9   | \$   | 27                           | \$   | 11   | \$ | 27 |
| Amount of loss reclassified from Accumulated Other Comprehensive Income into Interest Expense |                                | (9) |      |                              | (18) |      |    |    |
|   |                                |     |      |                              |      |      |    | 21 |

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**Note 12 Derivative Financial Instruments (Continued)**

No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on the Trust's cash flow hedges during the three and six months ended March 31, 2013 or March 31, 2012. During the twelve months ending March 31, 2013, the Trust estimates an additional \$35,000 will be reclassified from Accumulated Other Comprehensive Income (Loss) as an increase to interest expense.

*Credit-risk-related Contingent Features*

The agreement between the Trust and its derivatives counterparty provides that if the Trust defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, the Trust could be declared in default on its derivative obligation.

As of March 31, 2013 the fair value of the derivative in a net liability position, which includes accrued interest, but excludes any adjustment for nonperformance risk related to this agreement, was \$79,000. As of March 31, 2013, the Trust has not posted any collateral related to this agreement. If the Trust had been in breach of this agreement at March 31, 2013, it could have been required to settle its obligations thereunder at its termination value of \$79,000.

**Note 13 New Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASC ) No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This update provides a uniform framework for fair value measurements and related disclosures between GAAP and International Financial Reporting Standards ( IFRS ) and requires additional disclosures, including: (i) quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs, for Level 3 fair value measurements; (ii) fair value of financial instruments not measured at fair value but for which disclosure of fair value is required, based on their levels in the fair value hierarchy; and (iii) transfers between Level 1 and Level 2 of the fair value hierarchy. This update was effective for the Trust's interim and annual reporting beginning January 1, 2012 and did not have a material impact on its financial condition, results of operations, or disclosures.

In June 2011, the FASB issued ASC No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This update requires the presentation of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. This update was effective for the Trust's interim and annual reporting beginning on January 1, 2012, and did not have a material impact on its financial condition, results of operations, or disclosures.

**Note 14 Subsequent Events**



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Subsequent events have been evaluated and any significant events, relative to our consolidated financial statements as of March 31, 2013 that require additional disclosure have been included in the notes to the consolidated financial statements.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may", "will", "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions or variations thereof. Forward-looking statements involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Investors are cautioned not to place undue reliance on any forward-looking statements and are urged to read "Item 1A Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2012.

**Overview**

We are a real estate investment trust, also known as a REIT. We operate in three business segments: real estate lending, ownership and operation of multi-family properties, and ownership and operation of other real estate assets.

Our lending activities involve originating and holding for investment senior mortgage loans secured by commercial and multi-family real estate property in the United States. Revenues are generated from the interest income (*i.e.*, the interest borrowers pay on our loans) and to a lesser extent, loan fee income generated on the origination and extension of loans and investment income from securities transactions.

Our multi-family activities derive revenues primarily from tenant rental payments. We commenced these activities in 2012 as we identified a demand for equity capital in this sector. Generally, these activities involve our investment of 80% of the equity in a joint venture that acquires a multi-family property. Our multi-family property activities are complementary to our loan origination activities in that we address the funding needs of multi-family real estate investors by providing access to equity capital.

Our ownership and operation of other real estate assets is comprised principally of the activities of the Newark Joint Venture and to a lesser extent, the ownership and operations of various real estate assets located in New York and Florida. The Newark Joint Venture is engaged in the development of properties in downtown Newark, NJ. The properties are to be developed for educational, commercial, retail and residential use. The Newark Joint Venture is currently developing a project known as "Teachers Village" the project currently involves five buildings (two of which are anticipated to be completed by July 2013 and the balance of which are to be completed by the summer of 2014), which are to be used for charter schools, retail space and residential units. The venture is currently unprofitable and it is anticipated that the activities will continue to be unprofitable at least until the "Teacher's Village" is constructed and reasonable occupancy levels achieved. The venture requires substantial third party funding (including tax credits and financing provided by governmental authorities) for its development activities no assurance can be given that sufficient funding will be available and even if sufficient funding is obtained and construction completed, that such development activities will ever be profitable to us.



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The following highlights our activities during the six months ended March 31, 2013 and our financial condition as of such date:

- we acquired four multi-family properties with an aggregate of 1,044 units for an aggregate purchase price of \$64.6 million (excluding acquisition costs of \$966 and including an aggregate of \$50.6 million of mortgage debt);
- we originated \$63 million of mortgage loans in the first six months of fiscal 2013 (\$42.8 million in the first quarter and \$20.2 million in the second quarter) compared to \$66.1 million in the first six months of fiscal 2012 (\$25.5 million in the first quarter and \$40.6 million in the second quarter);
- at March 31, 2013, our loans totaled \$90.4 million - all of which are performing; and
- at March 31, 2013 we had cash and cash equivalents and available-for-sale securities of \$17 million.

Subsequent to March 31, 2013, we acquired two multi-family properties with an aggregate of 540 units for an aggregate contract price of \$51.9 million, including the related mortgage debt of \$39.6 million.

Table of Contents**Results of Operations** Three months ended March 31, 2013 compared to the three months ended March 31, 2012**Revenues**

The following table compares our revenues for the periods indicated:

| (Dollars in thousands):                              | Three Months Ended<br>March 31, |                 | Increase<br>(Decrease) | % Change |
|--|---------------------------------|-----------------|------------------------|----------|
|  | 2013                            | 2012            |                        |          |
| Rental and other revenue from real estate properties | 6,866                           | 1,019           | 5,847                  | 573%     |
| Interest and fees on real estate loans               | \$ 2,966                        | \$ 2,202        | \$ 764                 | 34.7%    |
| Recovery of previously provided allowances           |                                 | 3               | (3)                    | (100.0)% |
| Other, income  | 314                             | 463             | (149)                  | (32.2)%  |
| <b>Total revenues</b>                                | <b>\$ 10,146</b>                | <b>\$ 3,687</b> | <b>\$ 6,459</b>        |          |

*Rental and other revenue from real estate properties.* The increase is due to the inclusion of \$3.7 million of rental revenue from five multi-family properties we acquired in fiscal 2012 and \$2.3 million of rental revenue from four multi-family properties acquired in the first half of fiscal 2013. The increase was partially offset by an approximate \$94,000 decline in rental revenue from reduced occupancy at our Newark Joint Venture properties which are development sites at which leasing space is difficult.

*Interest and fees on real estate loans.* The increase is due to a \$28.1 million increase in the weighted average balance of earning loans outstanding which resulted in an increase of \$802,000 in interest income. Partially offsetting the increase was a \$38,000 decrease in loan fees due to the inclusion, in the corresponding period of the prior year, of accelerated loan fee amortization related to the larger volume of loans paying off prior to maturity

**Expenses**

The following table compares our expenses for the periods indicated:

| (Dollars in thousands)       | Three Months Ended<br>March 31, |        | Increase<br>(Decrease) | % Change |
|------------------------------|---------------------------------|--------|------------------------|----------|
|                              | 2013                            | 2012   |                        |          |
| Interest expense             | \$ 2,661                        | \$ 875 | \$ 1,786               | 204%     |
| Advisor s fees related party | 443                             | 273    | 170                    | 62.3%    |
| General and administrative   | 1,721                           | 2,006  | (285)                  | (14.2)%  |

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|   |           |          |         |         |
|---|-----------|----------|---------|---------|
| Property acquisition costs                            | 160       | 1,793    | (1,633) | (91.1)% |
| Operating expenses relating to real estate properties | 3,417     | 959      | 2,458   | 256%    |
| Depreciation and amortization                         | 1,618     | 180      | 1,438   | 799%    |
| Total expenses  | \$ 10,020 | \$ 6,086 | 3,934   |         |

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*Interest expense.* The increase is attributable to the following: (i) \$923,000 is due to mortgages on the five multi-family properties acquired in fiscal 2012 and \$499,000 on four properties acquired in the first half of fiscal 2013; (ii) \$192,000 is due to the Newark Joint Venture's financing transactions; and (iii) \$178,000 is due to the increase in August 2012 of the interest rate on the junior subordinated notes from 3% to 4.9%.

*Advisor's fees, related party.* The fee is calculated based on invested assets which increased primarily due to the purchase of nine multi-family properties over the last 15 months.

*General and administrative.* The decrease is due to: (i) an approximately \$156,000 decrease in compensation expense relating to, among other things, the reversal of restricted stock amortization expense resulting from the forfeiture of restricted stock awards and decreases in expenses allocated pursuant to our shared services agreement to personnel performing services on our behalf; (ii) the \$63,000 decrease in the alternative minimum tax accrual due to reduced utilization of our net operating losses; and (iii) the inclusion in the three months ended March 31, 2012 of \$70,000 of legal fees related to collection and enforcement activities.

*Property acquisition costs.* The decrease is due to lower multi-family acquisition activity in the current quarter.

*Operating expenses relating to real estate properties.* The increase is due to the additional depreciation relating to the acquisition, in the previous 15 months, of nine multi-family properties.

*Depreciation and amortization.* The increase is due to the acquisition in the previous 15 months of nine multi-family properties.

***Other revenue and expense items***

*Equity in (loss) earnings of unconsolidated joint ventures.* The \$108,000 increase is due to the inclusion, in the three months ended March 31, 2012, of the acquisition costs related to a multi-family property acquired in February 2012 by an unconsolidated joint venture. Beginning in the fourth quarter of 2012, this venture's activities were included in our consolidated results of operations.

*Gain on sale of available-for-sale securities.* In the three months ended March 31, 2013 we sold available-for-sale securities with a cost of \$509,000 and recognized a gain of \$482,000. In the three months ended March 31, 2012, we sold available-for-sale securities with a cost basis of \$1,615,000 and recognized a gain of \$342,000. These gains are reflected in our loan and investment segment.

Table of Contents**Results of Operations** Six months ended March 31, 2013 compared to the six months ended March 31, 2012**Revenues**

The following table compares our revenues for the periods indicated:

| (Dollars in thousands):                              | Six Months Ended<br>March 31, |                 | Increase<br>(Decrease) | % Change |
|--|-------------------------------|-----------------|------------------------|----------|
|  | 2013                          | 2012            |                        |          |
| Rental and other revenue from real estate properties | \$ 12,506                     | \$ 1,787        | \$ 10,719              | 600%     |
| Interest and fees on real estate loans               | 4,845                         | 4,454           | 391                    | 8.8%     |
| Recovery of previously provided allowances           | 422                           | 10              | 412                    | N/M      |
| Other income   | 624                           | 590             | 34                     | 5.8%     |
| <b>Total revenues</b>                                | <b>\$ 18,397</b>              | <b>\$ 6,841</b> | <b>11,556</b>          |          |

*Rental and other revenue from real estate properties.* The increase is due to the inclusion of \$7.3 million of rental revenue from five multi-family properties we acquired in fiscal 2012 and \$3.5 million of rental revenue from four multi-family properties acquired in the first half of fiscal 2013. The increase was partially offset by an approximate \$168,000 decline in rental revenue from reduced occupancy at our Newark Joint Venture properties which are development sites at which leasing space is difficult.

*Interest and fees on real estate loans.* Approximately (i) \$225,000 of the increase is due to a \$4 million increase in the weighted average balance of earning loans outstanding, (ii) \$127,000 of the increase is due to the increase in the weighted average interest rate on the portfolio from 11.55% to 11.97% as a result of payoffs of loans bearing lower interest rates and (iii) a \$40,000 net increase in loan fee income.

*Recovery of previously provided allowances.* The increase is due to the inclusion of a \$422,000 recovery relating to a loan charged off in a prior period.

**Expenses**

The following table compares our expenses for the periods indicated:

| (Dollars in thousands) | Six Months Ended<br>March 31, |      | Increase<br>(Decrease) | % Change |
|------------------------|-------------------------------|------|------------------------|----------|
|                        | 2013                          | 2012 |                        |          |



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|   |    |        |    |       |    |        |         |
|---|----|--------|----|-------|----|--------|---------|
| Interest expense                                      | \$ | 5,607  | \$ | 1,342 | \$ | 4,265  | 318%    |
| Advisor s fees related party                          |    | 817    |    | 444   |    | 373    | 83.9%   |
| General and administrative                            |    | 3,584  |    | 3,680 |    | (96)   | (2.6)%  |
| Property acquisition costs                            |    | 1,038  |    | 1,793 |    | (755)  | (42.1)% |
| Operating expenses relating to real estate properties |    | 6,563  |    | 1,745 |    | 4,818  | 276.1%  |
| Depreciation and amortization                         |    | 2,905  |    | 364   |    | 2,541  | 699%    |
| Total expenses  | \$ | 20,514 | \$ | 9,368 | \$ | 11,146 |         |

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*Interest expense.* The increase is due to the following: (i) \$2 million is due to mortgages on the five multi-family properties acquired in fiscal 2012 and \$804,000 on four properties acquired in the first half of fiscal 2013; (ii) \$1.1 million is due to the Newark Joint Venture's financing transactions; and (iii) \$355,000 is due to the increase in August 2012 of the interest rate on the junior subordinated notes from 3% to 4.9%. We estimate that interest expense in fiscal 2013 attributable to our nine multi-family properties, the Newark Joint Venture's financings and the junior subordinated notes, will be approximately \$12.3 million. Capitalized interest was \$1.4 million and \$768,000 for the six months ended March 31, 2013 and 2012, respectively.

*Advisor's fees, related party.* The fee is calculated based on invested assets which increased primarily due to the purchase of nine multi-family properties over the past 15 months.

*General and administrative.* The decrease is due to: (i) an approximately \$210,000 decrease in compensation expense relating to, among other things, the reversal of restricted stock amortization expense resulting from the forfeiture of restricted stock awards, decrease in loan origination commissions, and decreases in expenses related to personnel performing services pursuant to our shared services agreement; and (ii) a \$103,000 decrease in an alternative minimum tax accrual due to reduced utilization of our net operating losses. The decrease was partially offset by increased professional fees of \$156,000 from joint venture activity related to our multi-family properties and litigation relating to the recovery of funds on a loan that was charged off in a prior fiscal year.

*Property acquisition costs.* The decrease is due to efficiencies realized in the closing of acquisitions completed in the current six month period.

*Operating expenses relating to real estate properties.* The increase is due primarily to the acquisition, in the previous 15 months, of nine multi-family properties.

*Depreciation and amortization.* The increase is due to the acquisition in the previous 15 months of nine multi-family properties.

***Other revenue and expense items***

*Equity in earnings (loss) of unconsolidated joint ventures.* The increase of \$244,000 is related to a loss of in the prior six month period: (i) \$127,000 from a joint venture entered into in the March 2012 quarter which loss is primarily the result of \$208,000 of acquisition costs and (ii) the write off of capitalized costs in the prior six month period related to a joint venture that ceased operations in November 2011.

*Gain on sale of available-for-sale securities.* In the six months ended March 31, 2013, we sold available-for-sale securities with a cost basis of \$509,000 and recognized a gain of \$482,000. In the six months ended March 31, 2012, we sold available-for-sale securities with a cost basis of \$2,189,000 and recognized a gain of \$324,000.

*Discontinued operations*

In the first half of fiscal 2012, discontinued operations consisted of the gain on the sale of a vacant cooperative apartment in New York City. There were no property sales in the first half of fiscal 2013.

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**Liquidity and Capital Resources**

We require funds to acquire properties, fund loan originations, repay borrowings, pay operating expenses, and with respect to the Newark Joint Venture, to fund operating losses and a third development phase. Our current sources of liquidity consist primarily of our cash and up to \$10 million that we may borrow on an unsecured basis for up to 90 days pursuant to our credit facility. At March 31, 2013, our liquidity (excluding \$40.6 million in restricted cash-construction holdback which is to be used by the Newark Joint Venture) was approximately \$26.6 million.

*Multi-Family Properties*

We anticipate that the debt service that becomes payable during 2013 through 2015 for our nine multi-family properties and the operating expenses of these properties will be funded from the rental revenues generated therefrom. The mortgage debt with respect to these properties is non-recourse to (i) the joint venture that owns the property, subject to standard carve-outs and (ii) us and our subsidiary holding our interest in the joint venture.

*Newark Joint Venture*

The Newark Joint Venture's current capital resource and liquidity requirements through September 2015 are primarily construction and related costs and debt service associated with the first and second phases of the Teacher's Village project which contemplate the construction of five buildings. We anticipate that the construction and associated costs for these phases of the Teachers Village project will be funded by the \$40.6 million reflected as restricted cash-construction holdback on our consolidated balance sheet, which funds are to be released to the venture from time to time upon satisfaction of specified construction and permitting related conditions.

We anticipate that the debt service payable from 2013 through 2015 and the estimated operating expenses for such years for the first and second phase of the Teacher's Village project, will be paid from existing interest reserves, a US Treasury interest subsidy on the qualified school construction bonds, New Jersey tax credits, the refinancing of approximately \$ 3.6 million of short term debt, funds generated from the operations of such properties and capital contributions from the members of the Newark Joint Venture. After giving effect to the \$2.4 million of rental revenues to be generated from the in-place lease agreements with three charter schools and a day-care center, the Newark Joint Venture estimates that it will require at least an additional \$7 million in rental payments from retail tenants and residential tenants at the Teachers Village buildings to cover debt service and operating expenses for 2014 and 2015. While the Newark Joint Venture has commenced marketing the retail space at these buildings, there is no assurance that the venture will be able to lease such space and that if leased, the rental payments therefrom and from rental revenues from the residential units (for which marketing has not commenced) will be sufficient to cover debt service and operating expenses.

The Newark Joint Venture is currently seeking up to \$30 million in financing from public and private sources to fund the third phase of the Teachers Village project. This third phase contemplates the construction of up to three additional buildings containing a mix of residential and retail space. No assurance can be given that the Newark Joint Venture will obtain the necessary financing on acceptable terms or if such financing is obtained, that such project will be profitable for us.

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We believe we have sufficient funds to meet our operating expenses in 2013 and to fund any capital contributions required by the general operations of Newark Joint Venture and our multi-family properties. We also have funds available to engage in our lending business and to make property acquisitions. The extent of our ability to engage such activities is limited by our available cash and, in the

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case of loan origination activities, by our (i) ability to sell participating interests in such loans and (ii) ability or willingness to use our credit facility, and in the case of our multi-family property activities, the availability of mortgage debt to finance such acquisitions.

*Credit Facility*

A subsidiary of ours is able, pursuant to a senior secured revolving credit facility, to borrow up to an aggregate of \$25 million to originate loans. The subsidiary may borrow (i) on an unsecured basis, \$10 million for up to 90 days and (ii) on a secured basis, up to the lesser of \$25 million and the borrowing base. The borrowing base is generally equal to 40% to 65% (depending on, among other things, the type of property secured by eligible mortgage receivables acceptable to the lender as collateral and the operating income of the related property) of such receivables. Interest accrues on the outstanding balance at the greater of (i) 4% plus LIBOR and (ii) 5.50%. The facility matures June 21, 2014 and, subject to the satisfaction of specified conditions, the outstanding balance may be converted at our option into an 18 month term loan. We have guaranteed the payment and performance of our subsidiary's obligations under the facility. The credit facility, among other things, requires us to maintain specified net worth and liquidity levels, requires the subsidiary to maintain specified debt service coverage and collateral coverage ratios, and limits our and our subsidiary's ability to incur debt.

At each of March 31, 2013 and April 30, 2013, no amount was outstanding under the facility and the maximum amount we could borrow was \$10 million for 90 days.

Cash Distribution Policy

At December 31, 2012, we had approximately \$56 million of net operating loss carry forwards available to offset future income. It therefore is highly unlikely that we will pay or, to maintain our REIT status, be required to pay any dividend in 2013 and for several years thereafter.

Off Balance Sheet Arrangements

None.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risks**

Our primary component of market risk is interest rate sensitivity. Our interest income is subject to changes in interest rates. We seek to minimize these risks by originating loans that are indexed to the prime rate, with a stated minimum interest rate. At March 31, 2013, approximately 89% the principal amount of our outstanding mortgage loans were comprised of variable rate based loans tied to the prime rate and with a stated minimum interest rate. When determining interest rate sensitivity, we assume that any change in interest rates is immediate and that the interest rate sensitive assets and liabilities existing at the beginning of the period remain constant over the period being measured. We assessed the market risk for our variable rate mortgage receivables as of March 31, 2013 and believe that a one percent increase in interest rates would have a positive annual effect of approximately \$623,000 on income before taxes and a one percent decline in interest rates would have no annual effect on income before taxes because all of our variable rate loans have a stated minimum rate.

As of March 31, 2013, we had one interest rate swap agreement outstanding. The fair value of our interest rate swap is dependent upon existing market interest rates and swap spreads, which change over time. At March 31, 2013, if there had been a 1% increase in forward interest rates, the fair market value of the interest rate swap and net unrealized loss on derivative instrument would have increased by approximately \$40,000. If there had been a 1% decrease in forward interest rates, the fair market value of the interest rate swap and net unrealized loss on derivative instrument would have decreased by approximately \$194,000. These changes would not have any impact on our net income or cash.

With the exception of two mortgages (one which is subject to an interest rate swap agreement and the other an interest rate cap) all of our mortgage debt is fixed rate. For the variable rate debt, a one percent increase in the interest rate would have a negative annual effect of approximately \$130,000 and a one percent decline in the interest rate would have a \$64,000 positive effect on income before taxes.

Our junior subordinated notes bear interest at a fixed rate through April 2016 and accordingly, the effect of changes in interest rates would not currently impact the amount of interest expense that we incur under such indebtedness.

As of March 31, 2013, 64% of our loan portfolio was secured by properties located in the New York metropolitan area, 17% in Georgia, 9% in Michigan and 10% in other states and we are therefore subject to risks associated with the economics in these areas.

**Item 4. Controls and Procedures**

As required under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer, Senior Vice President-Finance and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2013. Based upon that evaluation, the Chief Executive Officer, Senior Vice President-Finance and Chief Financial Officer concluded that our disclosure controls and procedures as of March 31, 2013 are effective.

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting or in other factors that could significantly

affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.



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**Part II**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

In September 2011, we announced that our Board of Trustees had authorized a share buyback plan pursuant to which we may, through September 2013, expend up to \$2,000,000 to acquire our common shares. There were no share purchases effected in the quarter ended March 31, 2013.

**Item 6. Exhibits**

| <b>Exhibit No.</b> | <b>Title of Exhibits</b>  |
|--------------------|---|
| 31.1               | Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002      |
| 31.2               | Certification of Senior Vice President Finance pursuant to Section 302 of the Sarbanes-Oxley Act of 2002              |
| 31.3               | Certification of Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1               | Certification of President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002      |
| 32.2               | Certification of Senior Vice President Finance pursuant to Section 906 of the Sarbanes-Oxley Act of 2002              |
| 32.3               | Certification of Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS            | XBRL Instance Document  |
| 101.SCH            | XBRL Taxonomy Extension Schema Document   |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB            | XBRL Taxonomy Extension Definition Label Linkbase Document  |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document  |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRT REALTY TRUST  
(Registrant)

May 9, 2013

/s/ Jeffrey A. Gould  
Jeffrey A. Gould, President and  
Chief Executive Officer

May 9, 2013

/s/ George Zweier  
George Zweier, Vice President  
and Chief Financial Officer  
  
(principal financial officer)