

BRT REALTY TRUST  
Form 10-Q  
August 09, 2012  
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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 June 30, 2012**

**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)

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

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

**11021**  
(Zip Code)

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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 Regulations 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 ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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

14,056,212 Shares of Beneficial Interest,

\$3 par value, outstanding on August 5, 2012

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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)

|                                                                               | June 30,<br>2012<br>(Unaudited) | September<br>30, 2011 |
|-------------------------------------------------------------------------------|---------------------------------|-----------------------|
| <b>ASSETS</b>                                                                 |                                 |                       |
| Real estate loans, all earning interest                                       | \$ 65,780                       | \$ 67,266             |
| Deferred fee income                                                           | (927)                           | (576)                 |
|                                                                               | 64,853                          | 66,690                |
| Real estate loan held-for-sale                                                |                                 | 8,446                 |
| Real estate properties net of accumulated depreciation of \$3,940 and \$2,511 | 166,786                         | 59,277                |
| Investment in unconsolidated ventures                                         | 3,914                           | 4,247                 |
| Cash and cash equivalents                                                     | 42,969                          | 44,025                |
| Restricted cash — construction holdbacks                                      | 30,276                          |                       |
| Available-for-sale securities at fair value                                   | 1,849                           | 2,766                 |
| Deferred costs                                                                | 9,055                           | 1,692                 |
| Other assets                                                                  | 10,051                          | 3,869                 |
| Total Assets                                                                  | \$ 329,753                      | \$ 191,012            |
| <b>LIABILITIES AND EQUITY</b>                                                 |                                 |                       |
| Liabilities:                                                                  |                                 |                       |
| Mortgages payable                                                             | \$ 125,702                      | \$ 14,417             |
| Junior subordinated notes                                                     | 37,400                          | 37,400                |
| Accounts payable and accrued liabilities                                      | 2,868                           | 948                   |
| Deposits payable                                                              | 2,724                           | 2,518                 |
| Deferred income                                                               | 16,080                          |                       |
| Total Liabilities                                                             | 184,774                         | 55,283                |
| 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, 13,924 and 14,994 issued              | 41,772                          | 44,981                |
| Additional paid-in capital                                                    | 167,227                         | 171,889               |
| Accumulated other comprehensive income                                        | 436                             | 278                   |
| Accumulated deficit                                                           | (74,311)                        | (77,015)              |
| Cost of 451 and 1,422 treasury shares of beneficial interest                  | (3,505)                         | (11,070)              |
| Total BRT Realty Trust shareholders' equity                                   | 131,619                         | 129,063               |
| Non-controlling interests                                                     | 13,360                          | 6,666                 |
| Total Equity                                                                  | 144,979                         | 135,729               |

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|                              |    |         |    |         |
|------------------------------|----|---------|----|---------|
| Total Liabilities and Equity | \$ | 329,753 | \$ | 191,012 |
|------------------------------|----|---------|----|---------|

See accompanying notes to consolidated financial statements.

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**BRT REALTY TRUST AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

|                                                                                                                                                              | Three Months Ended<br>June 30, |                 | Nine Months Ended<br>June 30, |                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------|-------------------------------|-----------------|
|                                                                                                                                                              | 2012                           | 2011            | 2012                          | 2011            |
| <b>Revenues:</b>                                                                                                                                             |                                |                 |                               |                 |
| Interest on real estate loans                                                                                                                                | \$ 2,014                       | \$ 2,828        | \$ 5,628                      | \$ 5,730        |
| Loan fee income                                                                                                                                              | 548                            | 690             | 1,388                         | 1,208           |
| Rental revenue from real estate properties                                                                                                                   | 2,668                          | 763             | 4,455                         | 2,576           |
| Recovery of previously provided allowances                                                                                                                   | 9                              | 1,002           | 19                            | 3,568           |
| Other income                                                                                                                                                 | 316                            | 61              | 906                           | 411             |
| <b>Total revenues</b>                                                                                                                                        | <b>5,555</b>                   | <b>5,344</b>    | <b>12,396</b>                 | <b>13,493</b>   |
| <b>Expenses:</b>                                                                                                                                             |                                |                 |                               |                 |
| Interest on borrowed funds                                                                                                                                   | 1,416                          | 452             | 2,758                         | 1,651           |
| Advisor's fees, related party                                                                                                                                | 333                            | 237             | 777                           | 699             |
| Foreclosure related professional fees                                                                                                                        |                                | 162             |                               | 519             |
| Property acquisition costs                                                                                                                                   | 471                            |                 | 2,264                         |                 |
| General and administrative including \$181 and \$231 to related party for the three months ended and \$662 and \$682 for the nine months ended, respectively | 1,734                          | 1,585           | 5,414                         | 4,645           |
| Operating expenses relating to real estate properties                                                                                                        | 1,733                          | 889             | 3,478                         | 2,655           |
| Amortization and depreciation                                                                                                                                | 1,077                          | 183             | 1,441                         | 555             |
| <b>Total expenses</b>                                                                                                                                        | <b>6,764</b>                   | <b>3,508</b>    | <b>16,132</b>                 | <b>10,724</b>   |
| <b>Total revenues less total expenses</b>                                                                                                                    | <b>(1,209)</b>                 | <b>1,836</b>    | <b>(3,736)</b>                | <b>2,769</b>    |
| Equity in earnings (loss) of unconsolidated ventures                                                                                                         | 20                             | 60              | (95)                          | 195             |
| Gain on sale of available-for-sale securities                                                                                                                | 96                             | 176             | 420                           | 1,190           |
| Gain on sale of loan                                                                                                                                         |                                |                 | 3,192                         |                 |
| Loss on extinguishment of debt                                                                                                                               |                                |                 |                               | (2,138)         |
| <b>(Loss) income from continuing operations</b>                                                                                                              | <b>(1,093)</b>                 | <b>2,072</b>    | <b>(219)</b>                  | <b>2,016</b>    |
| <b>Discontinued operations:</b>                                                                                                                              |                                |                 |                               |                 |
| Gain on sale of real estate assets                                                                                                                           | 302                            | 645             | 792                           | 1,342           |
| Net (loss) income                                                                                                                                            | (791)                          | 2,717           | 573                           | 3,358           |
| Plus: net loss attributable to non controlling interests                                                                                                     | 649                            | 455             | 2,131                         | 1,153           |
| <b>Net (loss) income attributable to common shareholders</b>                                                                                                 | <b>\$ (142)</b>                | <b>\$ 3,172</b> | <b>\$ 2,704</b>               | <b>\$ 4,511</b> |
| <b>Basic and diluted per share amounts attributable to common shareholders:</b>                                                                              |                                |                 |                               |                 |
| (Loss) income from continuing operations                                                                                                                     | \$ (.03)                       | \$ .18          | \$ .13                        | \$ .22          |
| Discontinued operations                                                                                                                                      | .02                            | .05             | .06                           | .10             |
| <b>Basic and diluted (loss) income per share</b>                                                                                                             | <b>\$ (.01)</b>                | <b>\$ .23</b>   | <b>\$ .19</b>                 | <b>\$ .32</b>   |

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## Amounts attributable to BRT Realty Trust:

|                                          |    |       |    |       |    |       |    |       |
|------------------------------------------|----|-------|----|-------|----|-------|----|-------|
| (Loss) income from continuing operations | \$ | (444) | \$ | 2,527 | \$ | 1,912 | \$ | 3,169 |
| Discontinued operations                  |    | 302   |    | 645   |    | 792   |    | 1,342 |
| Net (loss) income                        | \$ | (142) | \$ | 3,172 | \$ | 2,704 | \$ | 4,511 |

## Weighted average number of common shares outstanding:

|                   |            |            |            |            |
|-------------------|------------|------------|------------|------------|
| Basic and diluted | 14,056,357 | 14,070,774 | 14,029,364 | 14,031,861 |
|-------------------|------------|------------|------------|------------|

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)

|                                                                 | <b>Three Months Ended<br/>June 30,</b> |             |          | <b>Nine Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------|----------------------------------------|-------------|----------|---------------------------------------|-------------|
|                                                                 | <b>2012</b>                            | <b>2011</b> |          | <b>2012</b>                           | <b>2011</b> |
| Net (loss) income                                               | \$ (791)                               | \$ 2,717    | \$ 573   | \$ 3,358                              |             |
| Other comprehensive income:                                     |                                        |             |          |                                       |             |
| Net unrealized (loss) gain on available-for-sale securities     | (46)                                   | (272)       | 251      | (677)                                 |             |
| Unrealized loss on derivative instruments                       | (66)                                   |             | (93)     |                                       |             |
| Other comprehensive (loss) income                               | (112)                                  | (272)       | 158      | (677)                                 |             |
| Comprehensive (loss) income                                     | (903)                                  | 2,445       | 731      | 2,681                                 |             |
| Comprehensive loss attributable to non-controlling interests    | 649                                    | 455         | 2,131    | 1,153                                 |             |
| Comprehensive (loss) income attributable to common shareholders | \$ (254)                               | \$ 2,900    | \$ 2,862 | \$ 3,834                              |             |

See accompanying notes to consolidated financial statements.



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| <b>For the nine months ended<br/>June 30, 2012</b> | <b>Shares of<br/>Beneficial<br/>Interest</b> | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Accumulated<br/>Deficit</b> | <b>Treasury<br/>Shares</b> | <b>Non-<br/>Controlling<br/>Interest</b> | <b>Total</b> |
|----------------------------------------------------|----------------------------------------------|-------------------------------------------|-----------------------------------------------------------|--------------------------------|----------------------------|------------------------------------------|--------------|
| Balances, September 30, 2011                       | \$ 44,981                                    | \$ 171,889                                | \$ 278                                                    | \$ (77,015)                    | \$ (11,070)                | \$ 6,666                                 | \$ 135,729   |
| Restricted stock vesting                           |                                              | (319)                                     |                                                           |                                | 319                        |                                          |              |
| Compensation expense<br>restricted stock           |                                              | 574                                       |                                                           |                                |                            |                                          | 574          |
| Contributions from<br>non-controlling interests    |                                              |                                           |                                                           |                                |                            | 8,930                                    | 8,930        |
| Distributions to non-controlling<br>interests      |                                              |                                           |                                                           |                                |                            | (105)                                    | (105)        |
| Retirement of treasury shares<br>(930,198 shares)  | (2,790)                                      | (4,456)                                   |                                                           |                                | 7,246                      |                                          |              |
| Shares repurchased 139,507<br>shares               | (419)                                        | (461)                                     |                                                           |                                |                            |                                          | (880)        |
| Net income                                         |                                              |                                           |                                                           | 2,704                          |                            | (2,131)                                  | 573          |
| Other comprehensive income                         |                                              |                                           | 158                                                       |                                |                            |                                          | 158          |
| Comprehensive income                               |                                              |                                           |                                                           |                                |                            |                                          | 731          |
| Balances, June 30, 2012                            | \$ 41,772                                    | \$ 167,227                                | \$ 436                                                    | \$ (74,311)                    | \$ (3,505)                 | \$ 13,360                                | \$ 144,979   |

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)**

|                                                                               | <b>Nine Months Ended<br/>June 30,</b> |             |
|-------------------------------------------------------------------------------|---------------------------------------|-------------|
|                                                                               | <b>2012</b>                           | <b>2011</b> |
| Cash flows from operating activities:                                         |                                       |             |
| Net income                                                                    | \$ 573                                | \$ 3,358    |
| Adjustments to reconcile net income to net cash used in operating activities: |                                       |             |
| Recovery of previously provided allowances                                    | (19)                                  | (3,568)     |
| Amortization and depreciation                                                 | 1,912                                 | 697         |
| Amortization of deferred fee income                                           | (1,364)                               | (1,185)     |
| Accretion of junior subordinated notes principal                              |                                       | 277         |
| Amortization of securities discount                                           |                                       | (28)        |
| Amortization of restricted stock                                              | 574                                   | 636         |
| Gain on sale of real estate assets from discontinued operations               | (792)                                 | (1,342)     |
| Gain on sale of available-for-sale securities                                 | (420)                                 | (1,190)     |
| Loss on extinguishment of debt                                                |                                       | 2,138       |
| Gain on sale of loan                                                          | (3,192)                               |             |
| Equity in earnings (loss) of unconsolidated joint ventures                    | 95                                    | (195)       |
| Distribution of earnings of unconsolidated joint ventures                     | 525                                   | 150         |
| Change in straight line rent                                                  | 20                                    | (56)        |
| Increases and decreases from changes in other assets and liabilities:         |                                       |             |
| Increase in interest and dividends receivable                                 | (66)                                  | (468)       |
| (Increase) decrease in prepaid expenses                                       | (57)                                  | 94          |
| Increase in prepaid interest                                                  | (1,853)                               |             |
| Increase in accounts payable and accrued liabilities                          | 2,031                                 | 438         |
| Decrease in deferred costs                                                    | (243)                                 |             |
| Increase in security deposits and other receivable                            | (4,234)                               | (77)        |
| Other                                                                         | (5)                                   | 122         |
| Net cash used in operating activities                                         | (6,515)                               | (199)       |
| Cash flows from investing activities:                                         |                                       |             |
| Collections from real estate loans                                            | 83,711                                | 47,260      |
| Additions to real estate loans                                                | (86,244)                              | (112,442)   |
| Proceeds from the sale of loans and loan participations                       | 15,657                                | 26,500      |
| Loan loss recoveries                                                          | 19                                    | 1,012       |
| Additions to real estate properties                                           | (101,512)                             |             |
| Net costs capitalized to real estate owned                                    | (7,271)                               | (2,654)     |
| Net change in restricted cash – construction holdbacks                        | (30,276)                              |             |
| Collection of loan fees                                                       | 1,717                                 | 2,079       |
| Proceeds from sale of real estate owned                                       | 852                                   | 4,021       |
| Proceeds from sale of available-for-sale securities                           | 3,222                                 | 7,266       |
| Purchase of available for sale securities                                     | (1,634)                               | (55)        |
| Distributions of capital from unconsolidated joint ventures                   | 4,474                                 |             |
| Contributions to unconsolidated joint ventures                                | (4,760)                               | (10)        |

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|                                                              |           |         |          |
|--------------------------------------------------------------|-----------|---------|----------|
| Purchase of interest from minority partner                   |           | (713)   |          |
| Net cash used in investing activities                        | (122,045) |         | (27,736) |
| Cash flows from financing activities:                        |           |         |          |
| Repayment of junior subordinated notes                       |           | (5,000) |          |
| Proceeds from borrowed funds                                 | 3,500     |         |          |
| Repayment of borrowed funds                                  | (3,500)   |         |          |
| Increase in mortgages payable                                | 114,695   |         | 1,261    |
| Mortgage principal payments                                  | (3,410)   |         | (202)    |
| Increase in deferred borrowing costs                         | (7,805)   |         | (910)    |
| Capital contributions from non-controlling interests         | 8,929     |         | 2,256    |
| Capital distribution to non-controlling interests            | (105)     |         | (66)     |
| Proceeds from sale of New Market Tax Credits                 | 16,080    |         |          |
| Repurchase of shares of beneficial interest                  | (880)     |         | (1,178)  |
| Net cash provided by (used in) financing activities          | 127,504   |         | (3,839)  |
| Net decrease in cash and cash equivalents                    | (1,056)   |         | (31,774) |
| Cash and cash equivalents at beginning of period             | 44,025    |         | 58,497   |
| Cash and cash equivalents at end of period                   | \$ 42,969 | \$      | 26,723   |
| Supplemental disclosure of cash flow information:            |           |         |          |
| Cash paid during the period for interest                     | \$ 2,380  | \$      | 1,625    |
| Taxes paid                                                   | \$ 169    |         |          |
| Reclassification of deferred costs to real estate properties |           | \$      | 396      |

See accompanying notes to consolidated financial statements.

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**BRT REALTY TRUST AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**June 30, 2012**

**Note 1 Organization and Background**

BRT Realty Trust ( "BRT" or the "Trust" ) is a business trust organized in Massachusetts. BRT originates and holds for investment senior mortgage loans secured by commercial and multi-family real estate property in the United States. The loans BRT originates generally have relatively high yields and are short-term or bridge loans with a duration ranging from six months to one year. BRT's policy is to lend at a floating rate of interest based on a spread over the prime rate, with a stated minimum rate, though BRT originates fixed rate loans as circumstances dictate. BRT receives an origination fee for the loans it originates.

Beginning in the quarter ended March 31, 2012, BRT expanded its business activities by acquiring for investment, with venture partners, multi-family residential properties. The Trust generally contributes 80% of the required equity in such transactions.

BRT 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 June 30, 2012 and for the three and nine months ended June 30, 2012 and 2011 reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such interim periods. The results of operations for the three and nine months ended June 30, 2012 are not necessarily indicative of the results for the full year. The balance sheet as of September 30, 2011 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 year'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 it is the primary beneficiary. Material intercompany balances and transactions have been eliminated.

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Restricted cash-construction holdbacks represent a portion of the net proceeds received from mortgage financing completed in February, 2012. These funds are to be used for construction of two buildings at the Teachers Village Project of our Newark Joint Venture.

RBH-TRB Newark Holdings LLC 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 as it has a controlling financial interest in the VIE as it has the power to direct the activities of the VIE and has the obligation to absorb a majority of the VIE 's expected losses.

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

The Trust's three consolidated joint ventures that own multi-family residential properties in Florida and Tennessee 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 and 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 the entity and the right to receive benefits from the entity that could potentially be significant to the VIE.

For these reasons the Trust has consolidated the operations and assets and liabilities of these VIEs in the Trust's consolidated financial statements.

With respect to its unconsolidated joint ventures, as (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 variable interest entities, the Trust has determined that such joint ventures should be accounted for under the equity method of accounting for financial statement purposes.

These statements should be read in conjunction with the consolidated financial statements and related notes which are included in BRT's Annual Report on Form 10-K for the year ended September 30, 2011.

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 June 30, 2012, 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. An aggregate of 583,030 shares of restricted stock have been granted pursuant to the Trust's 2003 and 2009 equity incentive plans (collectively, the Prior Plans) and have not yet vested. No awards have been granted under the 2012 Plan and no additional awards may be granted under the Prior Plans. The restricted shares that have been granted under the Prior 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 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

Table of Contents**Note 3 Equity (Continued)**

vesting period. For the three months ended June 30, 2012 and 2011 the Trust recorded \$183,000 and \$210,000 of compensation expense, respectively, and for the nine months ended June 30, 2012 and 2011, recorded \$574,000 and \$636,000 of compensation expense, respectively. At June 30, 2012, \$2,076,000 has been deferred as unearned compensation and will be charged to expense over the remaining weighted average vesting period of approximately 2.84 years.

**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 each 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 June 30, 2012 and 2011 were 14,056,357 and 14,070,774, respectively and for the nine months ended June 30, 2012 and 2011 were 14,029,364 and 14,031,861, respectively.

The impact of dilutive securities is not included in the computation of loss per share for the three and nine months ended June 30, 2011, as the inclusion of such common share equivalents would be anti-dilutive.

**Note 4 - Real Estate Loans**

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

| Property Type            | June 30, 2012             |         | September 30, 2011        |         |
|--------------------------|---------------------------|---------|---------------------------|---------|
|                          | Real Estate<br>Loans, Net | Percent | Real Estate<br>Loans, Net | Percent |
| Multi-family residential | \$ 52,041                 | 79.1%   | \$ 26,300                 | 39.2%   |
| Industrial               | 11,739                    | 17.9    | 11,874                    | 17.6    |
| Office                   |                           |         | 24,975                    | 37.1    |
| Retail                   | 2,000                     | 3.0     | 4,117                     | 6.1     |



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|                        |           |      |        |      |
|------------------------|-----------|------|--------|------|
|                        | 65,780    | 100% | 67,266 | 100% |
| Deferred fee income    | (927)     |      | (576)  |      |
| Real estate loans, net | \$ 64,853 | \$   | 66,690 |      |

The Trust recognized cash basis interest of \$149,000 and \$452,000 on non-earning loans in the three and nine months ended June 30, 2011, respectively.

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## Note 4 - Real Estate Loans (Continued)

At June 30, 2012, one borrower had two loans outstanding that in the aggregate were in excess of 5% of total assets. Information regarding these loans are set forth in the table below (dollars in thousands):

| Property Type | Gross Loan Balance | # of Loans | % of Gross Loans | % of Assets | State | Status     |
|---------------|--------------------|------------|------------------|-------------|-------|------------|
| Multi-Family  | \$ 16,620          | 1          | 25.3%            | 5.0%        | NY    | Performing |
| Multi-Family  | \$ 7,303           | 1          | 11.1%            | 2.2%        | NY    | Performing |

Substantially all of the Trust's loan portfolio consists of senior mortgage loans secured by real properties, 44% of which are located in New York, 19% in Florida, 18% in Maryland, and 19% in Georgia.

## Note 5 - Real Estate Loan Held For Sale

At September 30, 2011, the Trust had one loan classified as held for sale. The loan, which represented a pari passu interest in a loan with a principal balance of approximately \$17 million, had a carrying value of approximately \$8.5 million. In October 2011, pursuant to a Federal Bankruptcy Court approved joint plan of reorganization, the Trust and its loan participant sold the rights to the loan for net proceeds of approximately \$23.5 million. The Trust recognized a gain of \$3.2 million on the sale representing its 50% interest in the loan. The Trust provided \$15 million of financing for the purchase which was paid off on December 5, 2011.

## Note 6 - Allowance for Possible Losses

At June 30, 2012 and September 30, 2011 the Trust did not have an allowance for possible loan losses.

## Note 7 - Real Estate Properties

A summary of real estate properties owned is as follows (dollars in thousands):

| September 30, 2011 Balance | Additions | Costs Capitalized | Depreciation and Amortization | June 30, 2012 Balance |
|----------------------------|-----------|-------------------|-------------------------------|-----------------------|
|----------------------------|-----------|-------------------|-------------------------------|-----------------------|

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|                              |    |        |    |         |    |       |       |         |    |         |
|------------------------------|----|--------|----|---------|----|-------|-------|---------|----|---------|
| Shopping centers/Retail      | \$ | 2,853  |    |         | \$ | (78)  | \$    | 2,775   |    |         |
| Coop apartments              |    | 315    |    | \$      | 2  | (60)  |       | 257     |    |         |
| Commercial (a)               |    | 48,137 | \$ | 762     |    | 7,474 | (457) | 55,916  |    |         |
| Multi Family (b)             |    |        |    | 100,750 |    | 10    | (894) | 99,866  |    |         |
| Land                         |    | 7,972  |    |         |    |       |       | 7,972   |    |         |
| Total real estate properties | \$ | 59,277 | \$ | 101,512 | \$ | 7,486 | \$    | (1,489) | \$ | 166,786 |

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(a) Represents the real estate assets of RBH-TRB Newark Holdings LLC, a consolidated VIE which owns operating and development properties in Newark, NJ. These properties contain a mix of office and retail space, totaling approximately 640,000 square feet. These assets are subject to blanket mortgages aggregating \$23,250,000, held by the Trust, which are eliminated in

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**Note 7 - Real Estate Properties (Continued)**

consolidation. Several of the assets are also encumbered by other mortgages which are discussed in Note 10 Debt Obligations Mortgages Payable.

(b) On March 22, 2012, the Trust, through a consolidated joint venture, purchased a 542 unit multi-family residential property located in Palm Beach Gardens, Florida. The purchase price was \$59,400,000 exclusive of acquisition costs of \$1,550,000 which were expensed in the three months ended March 31, 2012. The Trust has an 80% interest in this joint venture. The property is encumbered by a \$45,200,000 mortgage see Note 10 Debt Obligations Mortgages Payable. The Trust made a capital contribution of \$14,480,000 representing its proportionate share of capital required to purchase and improve the property.

On March 30, 2012, the Trust, through a consolidated joint venture, purchased a 208 unit multi-family residential property located in Melbourne, Florida. The purchase price was \$9,300,000 exclusive of \$238,000 of acquisition costs which were expensed in the quarter ended March 31, 2012. The Trust has an 80% interest in this joint venture. The property is encumbered by a \$7,680,000 mortgage see Note 10 Debt Obligations Mortgages Payable. The Trust made a capital contribution of \$3,120,000 representing its proportionate share of capital required to purchase and improve the property.

On June 20, 2012, the Trust, through a consolidated joint venture, purchased a 324 unit multi-family residential property located in Collierville, Tennessee. The purchase price was \$32,100,000 exclusive of \$476,000 of acquisition costs which were expensed in the quarter ended June 30, 2012. The Trust has an 80% interest in this joint venture. The property is encumbered by a \$25,680,000 mortgage see Note 10 Debt Obligations Mortgages Payable. The Trust made a capital contribution of \$6,220,000 representing its proportionate share of capital required to purchase and improve the property.

**Note 8 Investment in Unconsolidated Ventures**

The Trust is a partner in unconsolidated ventures which own and operate in the aggregate four properties. The Trust's share of earnings (loss) in all of its unconsolidated joint ventures, including a joint venture engaged in purchasing loans that ceased investment activities in November 2011, was \$20,000 and \$60,000 for the three months ended June 30, 2012 and 2011, respectively, and \$(95,000) and \$195,000 for the nine months ended June 30, 2012 and 2011, respectively. The Trust's equity in these unconsolidated ventures totaled \$3,914,000 and \$4,247,000 at June 30, 2012 and September 30, 2011, respectively.

On January 12, 2012, an unconsolidated joint venture in which the Trust has an 80% interest purchased a 207 unit multi-family residential property in Marietta, Georgia. The Trust's equity investment was \$2,560,000.

On February 23, 2012, an unconsolidated joint venture in which the Trust has an 80% interest purchased a 170 unit multi-family residential property in Lawrenceville, Georgia. The Trust's equity investment was \$2,200,000.



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## Note 9 Available-For-Sale Securities

Information regarding our available-for-sale securities is set forth in the table below (dollars in thousands):

|                   | June 30, 2012 |       | September 30, 2011 |       |
|-------------------|---------------|-------|--------------------|-------|
| Cost basis        | \$            | 1,328 | \$                 | 2,488 |
| Unrealized gains  |               | 560   |                    | 406   |
| Unrealized losses |               | (39)  |                    | (128) |
| Market value      | \$            | 1,849 | \$                 | 2,766 |

Unrealized gains and losses are reflected as accumulated other comprehensive income 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 impaired on an other than temporary basis because the Company expects the value of these securities to recover and plans on holding them until at least such recovery.

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

|                    | Three months ended |      |          |      | Nine months ended |       |          |       |
|--------------------|--------------------|------|----------|------|-------------------|-------|----------|-------|
|                    | June 30,           |      | June 30, |      | June 30,          |       | June 30, |       |
|                    | 2012               | 2011 | 2012     | 2011 | 2012              | 2011  | 2012     | 2011  |
| Proceeds from sale | \$                 | 709  | \$       | 978  | \$                | 3,222 | \$       | 3,849 |
| less cost basis    |                    | 613  |          | 802  |                   | 2,802 |          | 3,151 |
| Gain on sale       | \$                 | 96   | \$       | 176  | \$                | 420   | \$       | 698   |

For 2011 the calculation of gain or loss on sale was determined using an average cost. For 2012, the gain or loss on sale was determined using specific identification.

During the nine months ended June 30, 2011, the Trust sold available-for-sale debt securities for \$3,417,000 which had a basis of \$2,925,000 determined using specific cost. Accordingly, the Trust recognized a gain of \$492,000 from these sales.

## Note 10 Debt Obligations

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

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|                           | June 30, 2012 | September 30, 2011 |
|---------------------------|---------------|--------------------|
| Line of credit            |               |                    |
| Junior subordinated notes | \$ 37,400     | \$ 37,400          |
| Mortgages payable         | 125,702       | 14,417             |
| Total debt obligations    | \$ 163,102    | \$ 51,817          |

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**Note 10 Debt Obligations (Continued)**

Line of credit

On June 22, 2011, the Trust, through a wholly owned subsidiary, entered into a senior secured revolving credit facility with Capital One, National Association. The maximum amount that may be borrowed under the facility is the lesser of \$25 million and the borrowing base. The borrowing base ranges from 40% to 65% (depending on, among other things, the type of property secured by the eligible mortgage receivables pledged to the lender 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 the Trust's option into an 18-month term loan. The Trust has guaranteed the payment and performance of its subsidiary's obligations under the facility.

On April 17, 2012, the facility was amended to allow the subsidiary to borrow for up to 90 days on an unsecured basis, a maximum of \$10,000,000.

The facility, requires the Trust and the subsidiary to maintain or comply with, among other things, net worth and liquidity covenants, debt service and collateral coverage ratios and limits, with specified exceptions, and the incurrence of debt.

For the three and nine months ended June 30, 2012, interest expense, which includes fee amortization with respect to the facility, was \$70,000 and \$144,000, respectively. At June 30, 2012 and September 30, 2011, there were no outstanding balances on this facility.

Junior Subordinated Notes

At June 30, 2012 and September 30, 2011, the Trust's junior subordinated notes had an outstanding principal balance of \$37,400,000. The interest rates on the outstanding notes is set forth in the table below:

| Interest Period                       | Interest Rate |
|---------------------------------------|---------------|
| May 2009 through March 14, 2011       | 3.50%         |
| 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 both the three months ended June 30, 2012 and 2011 was \$280,000. For the nine months ended June 30, 2012 and 2011, interest expense was \$841,000 and \$1,284,000, respectively. Amortization of the deferred costs, which is a component of interest expense on borrowed funds, was \$5,000 and \$6,000 for the three months ended June 30, 2012 and 2011, respectively, and \$15,000 and \$21,000 for the nine months ended June 30, 2012 and 2011, respectively.





Table of Contents**Note 10 Debt Obligations (Continued)**Mortgages Payable

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

| Property                            | June 30,<br>2012 | September 30,<br>2011 | Rate  | Maturity       |
|-------------------------------------|------------------|-----------------------|-------|----------------|
| Yonkers, NY (1)                     | \$ 1,975         | \$ 2,041              | 5.25% | April 2022     |
| Palm Beach Gardens, FL (2)          | 45,200           |                       | 3.78% | April 2019     |
| Melbourne, FL (2)                   | 7,680            |                       | 3.97% | April 2019     |
| Collierville, TN (3)                | 25,680           |                       | 3.91% | July 2022      |
| 65 Market St Newark, NJ             | 900              | 900                   | 7.00% | January 2015   |
| 69 Market St Newark, NJ             |                  | 1,200                 | 7.00% | N/A            |
| 909 Broad St Newark, NJ             | 5,702            | 5,828                 | 6.00% | August 2030    |
| 909 Broad St Newark, NJ             | 475              | 486                   | 6.00% | August 2030    |
| Teachers Village Newark, NJ (4) (5) | 22,748           |                       | 5.50% | December 2030  |
| Teachers Village Newark, NJ (4)     | 4,250            |                       | 3.46% | February 2032  |
| Teachers Village Newark, NJ (4)     | 993              |                       | 2.00% | February 2022  |
| Teachers Village Newark, NJ (4)     | 1,667            |                       | 2.50% | February 2014  |
| Teachers Village Newark, NJ (4) (6) | 1,832            |                       | (5)   | February 2034  |
| Teachers Village Newark, NJ (7)     | 6,600            | 3,962                 | 17%   | September 2012 |
|                                     | \$ 125,702       | \$ 14,417             |       |                |

(1) On March 29, 2012, a consolidated joint venture which owns a property in Yonkers, NY, refinanced an existing mortgage in the amount of \$ 1,990,000 with the current lender. The new mortgage bears interest at one-month LIBOR plus 3.15%. In connection with the transaction, the venture entered into an interest rate swap agreement which effectively fixes the interest rate at 5.25%.

(2) Reflects the mortgage debt obtained with respect to the acquisition of such property in March 2012.

(3) Reflects the mortgage debt obtained with respect to the acquisition of such property in June 2012.

(4) From December 29, 2011 through February 2, 2012, subsidiaries of our consolidated Newark Joint Venture entered into a series of agreements and transactions pursuant to which such entities obtained \$31.8 million of mortgage financing and \$13.7 million in Federal New Markets Tax Credit (the "NMTC") proceeds. The NMTC proceeds are recorded as a deferred income on the consolidated balance sheet at June 30, 2012. The net proceeds of the foregoing, together with \$2.5 million in NMTC proceeds received in May 2012, are to be used to construct two buildings at the Teachers Village site. The remaining proceeds from the transaction which totaled \$30.3 million at June 30, 2012 are to be used for construction and are reflected on the consolidated balance sheet as restricted cash-construction holdbacks. See Note 11 to the Trust's consolidated financial statements.



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**Note 10 Debt Obligations (Continued)**

(5) 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 rate of interest thereon is 5.5% per year; however, the United States Treasury Department is covering the interest at the rate of 4.99% per year and accordingly, the effective rate of interest thereon until 2018 is 0.51% per year.

(6) 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 not secured by real property.

(7) As of June 30, 2012, The Trust had guaranteed \$1,653,000 of this mortgage obligation.

**Note 11 Deferred Income (New Markets Tax Credit Transaction)**

On February 3, 2012, subsidiaries of the Newark Joint Venture entered into a transaction with an affiliate of Goldman Sachs ( Goldman ) related to the Teacher s Village project and received proceeds from NMTC credits. 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 a net amount of \$16,400,000 to the project through a special-purpose entity created to effect the financing transaction and is entitled to receive tax credits against the \$60 million qualified investment in the project over the next seven years. At the end of the seven years, the Newark Joint Venture subsidiaries have the option to acquire the special purpose entity for a nominal fee and it is anticipated that it will exercise this option.

Included in deferred income on the Trust s consolidated balance sheet at June 30, 2012 is \$16,080,000 of the Goldman contribution. This amount will be recognized into income when the obligation to comply with the requirements of the New Markets Tax Credit 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 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.

Costs incurred in structuring this transaction are deferred and will be recognized as an expense based on the maturities of the various mortgage financings related to the NMTC transaction. At June 30, 2012, these costs totaled \$7,000,000 and are included in deferred costs on the consolidated balance sheet.

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

[Table of Contents](#)**Note 12 - Segment Reporting**

Management has determined that it operates in two reportable segments: (i) a loan and investment segment which includes the origination and servicing of our loan portfolio and investments; and (ii) a real estate segment which includes the operation and disposition of our real estate assets.

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

|                                                          | Three Months Ended<br>June 30, 2012 |                |            | Nine Months Ended<br>June 30, 2012 |                |            |
|----------------------------------------------------------|-------------------------------------|----------------|------------|------------------------------------|----------------|------------|
|                                                          | Loan and<br>Investment              | Real<br>Estate | Total      | Loan and<br>Investment             | Real<br>Estate | Total      |
| Interest and loan fee income                             | \$ 2,562                            |                | \$ 2,562   | \$ 7,016                           |                | \$ 7,016   |
| Rental revenues                                          |                                     | \$ 2,668       | 2,668      |                                    | \$ 4,455       | 4,455      |
| Other income                                             | 33                                  | 292            | 325        | 340                                | 585            | 925        |
| Total Revenues                                           | 2,595                               | 2,960          | 5,555      | 7,356                              | 5,040          | 12,396     |
| Interest on borrowed funds                               | 161                                 | 1,255          | 1,416      | 490                                | 2,268          | 2,758      |
| Operating expenses relating to real estate properties    |                                     | 1,733          | 1,733      |                                    | 3,478          | 3,478      |
| Other expenses                                           | 771                                 | 1,296          | 2,067      | 2,907                              | 3,284          | 6,191      |
| Property acquisition costs                               |                                     | 471            | 471        |                                    | 2,264          | 2,264      |
| Amortization and depreciation                            |                                     | 1,077          | 1,077      |                                    | 1,441          | 1,441      |
| Total expenses                                           | 932                                 | 5,832          | 6,764      | 3,397                              | 12,735         | 16,132     |
| Total revenues less total expenses                       | 1,663                               | (2,872)        | (1,209)    | 3,959                              | (7,695)        | (3,736)    |
| Equity in (loss) earnings of unconsolidated ventures     |                                     | 20             | 20         | (136)                              | 41             | (95)       |
| Gain on sale of available-for-sale securities            | 96                                  |                | 96         | 420                                |                | 420        |
| Gain on sale of loan                                     |                                     |                |            | 3,192                              |                | 3,192      |
| Income (loss) from continuing operations                 | 1,759                               | (2,852)        | (1,093)    | 7,435                              | (7,654)        | (219)      |
| Discontinued operations:                                 |                                     |                |            |                                    |                |            |
| Gain on sale of real estate Assets                       |                                     | 302            | 302        |                                    | 792            | 792        |
| Net income (loss)                                        | 1,759                               | (2,550)        | (791)      | 7,435                              | (6,862)        | 573        |
| Plus: net loss attributable to non-controlling interests |                                     | 649            | 649        |                                    | 2,131          | 2,131      |
| Net income (loss) attributable to common shareholders    | \$ 1,759                            | \$ (1,901)     | \$ (142)   | \$ 7,435                           | \$ (4,731)     | \$ 2,704   |
| Segment assets at June 30, 2012                          | \$ 106,765                          | \$ 222,988     | \$ 329,753 | \$ 106,765                         | \$ 222,988     | \$ 329,753 |



Table of Contents**Note 12 -Segment Reporting (Continued)**

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

|                                                         | Three Months Ended<br>June 30, 2011 |                |            | Nine Months Ended<br>June 30, 2011 |                |            |  |
|---------------------------------------------------------|-------------------------------------|----------------|------------|------------------------------------|----------------|------------|--|
|                                                         | Loan and<br>Investment              | Real<br>Estate | Total      | Loan and<br>Investment             | Real<br>Estate | Total      |  |
| Interest and loan fee income                            | \$ 3,518                            |                | \$ 3,518   | \$ 6,938                           |                | \$ 6,938   |  |
| Rental revenues                                         |                                     | \$ 763         | 763        |                                    | \$ 2,576       | 2,576      |  |
| Other income                                            | 1,063                               |                | 1,063      | 3,979                              |                | 3,979      |  |
| Total Revenues                                          | \$ 4,581                            | \$ 763         | \$ 5,344   | \$ 10,917                          | \$ 2,576       | \$ 13,493  |  |
| Interest on borrowed funds                              | 195                                 | 257            | 452        | 885                                | 766            | 1,651      |  |
| Other expenses                                          | 1,393                               | 1,480          | 2,873      | 4,116                              | 4,402          | 8,518      |  |
| Amortization and depreciation                           |                                     | 183            | 183        |                                    | 555            | 555        |  |
| Total expenses                                          | 1,588                               | 1,920          | 3,508      | 5,001                              | 5,723          | 10,724     |  |
| Total revenues less total expenses                      | 2,993                               | (1,157)        | 1,836      | 5,916                              | (3,147)        | 2,769      |  |
| Equity in earnings of unconsolidated ventures           |                                     | 60             | 60         |                                    | 195            | 195        |  |
| Gain on sale of available-for-sale securities           | 176                                 |                | 176        | 1,190                              |                | 1,190      |  |
| Loss on extinguishment of Debt                          |                                     |                |            | (1,441)                            | (697)          | (2,138)    |  |
| Income (loss) from continuing operations                | 3,169                               | (1,097)        | 2,072      | 5,665                              | (3,649)        | 2,016      |  |
| Discontinued operations:                                |                                     |                |            |                                    |                |            |  |
| Gain on sale of real estate Assets                      |                                     | 645            | 645        |                                    | 1,342          | 1,342      |  |
| Net income (loss)                                       | 3,169                               | (452)          | 2,717      | 5,665                              | (2,307)        | 3,358      |  |
| Less net loss attributable to non-controlling interests |                                     | 455            | 455        |                                    | 1,153          | 1,153      |  |
| Net income (loss) attributable to common shareholders   | \$ 3,169                            | \$ 3           | \$ 3,172   | \$ 5,665                           | \$ (1,154)     | \$ 4,511   |  |
| Segment assets                                          | \$ 127,457                          | \$ 60,803      | \$ 188,260 | \$ 127,457                         | \$ 60,803      | \$ 188,260 |  |



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**Note 13 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, 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 interest rates between 10% and 12.5%. The earning mortgage loans of the Trust which have fixed rate provisions have an estimated fair value of \$28,000 greater than their carrying value assuming a market rate of interest of 11% which we believe reflect institutional lender yield requirements.

Junior Subordinated Notes: At June 30, 2012, the estimated fair value of the Trust's junior subordinated notes is lower than their carrying value by approximately \$724,000 based on a market interest rate of 2.97%.

Mortgages Payable: At June 30, 2012, the estimated fair value of the Trust's mortgages payable is greater than their carrying value by approximately \$3,865,000 assuming market interest rates between 2.9% and 17%. Market interest rates were determined using current financing transactions provided by third party institutions.

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

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

Set forth below is information regarding the Trust's financial assets measured at fair value as of June 30, 2012 (dollars in thousands):

|                                | Carrying and<br>Fair Value | Maturity<br>Date | Fair Value Measurements<br>Using Fair Value Hierarchy |         |
|--------------------------------|----------------------------|------------------|-------------------------------------------------------|---------|
|                                |                            |                  | Level 1                                               | Level 2 |
| Available-for-sale securities: |                            |                  |                                                       |         |
| Corporate equity securities    | \$ 1,849                   |                  | \$ 1,849                                              |         |

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**Note 14 Derivative Financial Instruments**

*Financial Liabilities*

*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 impairment on an other than temporary basis because the Trust expects the value of these securities to recover and plans on holding them until at least such recovery occurs.

*Derivative financial instrument:* 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 June 30, 2012, this derivative is included in 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. As of June 30, 2012, the Trust assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Trust determined that its derivative valuation is classified in Level 2 of the fair value hierarchy.

*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.

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 on our consolidated balance sheet and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. In March 2012, the Trust entered into an interest rate swap agreement 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.

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

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As of June 30, 2012, 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 | Rate  | Maturity      |
|--------------------------|----------|-------|---------------|
| Interest Rate Swap       | \$ 1,976 | 5.25% | April 1, 2022 |

Table of Contents**Note 14 Derivative Financial Instruments**

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

| June 30, 2012                            |            | September 30, 2011                       |            |
|------------------------------------------|------------|------------------------------------------|------------|
| Balance Sheet Location                   | Fair Value | Balance Sheet Location                   | Fair Value |
| Accounts payable and accrued liabilities | \$ 90      | Accounts payable and accrued liabilities | \$         |

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 nine months ended June 30, 2012 (dollars in thousands):

|                                                                                               | Three Months Ended |    | Nine Months Ended |     |
|-----------------------------------------------------------------------------------------------|--------------------|----|-------------------|-----|
|                                                                                               | June 30, 2012      |    |                   |     |
| Amount of loss recognized on derivative in Other Comprehensive Income                         | \$                 | 72 | \$                | 100 |
| Amount of loss reclassified from Accumulated Other Comprehensive Income into Interest Expense | \$                 | 9  | \$                | 9   |

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 nine months ended June 30, 2012 or June 30, 2011. During the twelve months ending June 30, 2013, the Trust estimates an additional \$35,000 will be reclassified from other comprehensive income 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 June 30, 2012, 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 \$96,000. As of June 30, 2012, the Trust has not posted any collateral related to this agreement. If the Trust had been in breach of this agreement at June 30, 2012, it could have been required to settle its obligations thereunder at its termination value of \$96,000.

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**Note 15 New Accounting Pronouncements**

In May 2011, the FASB issued ASU No. 2011-04, which is included in ASC 820, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S GAAP and IFRS. This update defines fair value, clarifies a framework to measure fair value, and requires specific disclosures of fair value measurements. The guidance is effective for the Trust's interim and annual reporting periods beginning October 1, 2011, and applied prospectively. The adoption of the guidance did not have a material impact on its financial condition, results of operations, or disclosures of the Trust.

In June 2011, the FASB issued ASU No. 2011-05, which is included in ASC 220, Presentation of Comprehensive Income. This update improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. The guidance requires all non-owner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance will be effective for the Trust's interim and annual reporting periods beginning January 1, 2012, and applied retrospectively. The Trust does not expect adoption of this guidance to have a material impact on its financial condition, results of operations, or disclosures.

**Note 16 Subsequent Events**

Subsequent events have been evaluated and any significant events, relative to our consolidated financial statements as of June 30, 2012 that warrant 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**

With the exception of historical information, 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. 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" 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, 2011.

**Overview**

We are a real estate investment trust, also known as a REIT. We originate and hold for investment senior mortgage loans secured by commercial and multi-family properties in the United States. Historically, our primary source of revenue has been interest income, and to a lesser extent, loan fee income generated on the origination and extension of loans, rental revenue from real properties and investment income. We believe that during the nine months ended June 30, 2012, loan origination activities decreased from the corresponding prior year period due to competitive pricing pressure. Beginning in the quarter ended March 31, 2012, we expanded our activities by acquiring for investment, with venture partners, multi-family residential properties. As a result of the expansion of our activities and the acquisition in the most recent two quarters of multi-family residential properties, we expect that rental revenues, real estate operating expenses, interest expense, depreciation and cash flow from operations will increase in the future.

The following highlights our activities during the nine months ended June 30, 2012:

- the Newark Joint Venture closed on approximately \$47.9 million of financing, comprised of \$31.8 million of mortgage debt and \$16.1 million of New Markets Tax Credits proceeds, for the Teachers Village project enabling it to begin construction on two buildings of the project;
- our consolidated joint ventures purchased three multi-family residential properties with an aggregate of 1,074 units for an aggregate purchase price of \$100.8 million (excluding acquisition costs of \$2.3 million and including an aggregate of \$78.5 million of mortgage debt);
- we invested an aggregate of \$4.8 million, representing an 80% interest, in two unconsolidated joint ventures that purchased two multi-family residential properties with an aggregate of 377 units for an aggregate purchase price of \$14.4 million (excluding \$193,000 of

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acquisition costs and including an aggregate of \$11.2 million of mortgage debt);

- we originated \$86.2 million of mortgage loans in the first nine months of fiscal 2012 compared to \$112.4 million in the first nine months of fiscal 2011;
- at June 30, 2012, our net loan portfolio totaled \$64.9 million - all of the loans in the portfolio are performing; and



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- at June 30, 2012 we had cash and cash equivalents and available-for-sale securities of \$44.8 million.

### **Results of Operations** Three months ended June 30, 2012 compared to the three months ended June 30, 2011

#### ***Revenues***

The following table sets forth a comparison of our revenues for the periods indicated:

| (Dollars in thousands):                    | Three Months Ended<br>June 30, |          | Increase<br>(Decrease) |  | % Change |
|--------------------------------------------|--------------------------------|----------|------------------------|--|----------|
|                                            | 2012                           | 2011     |                        |  |          |
| Interest on real estate loans              | \$ 2,014                       | \$ 2,828 | \$ (814)               |  | (28.8)%  |
| Loan fee income                            | 548                            | 690      | (142)                  |  | (20.6)   |
| Rental revenue from real estate properties | 2,668                          | 763      | 1,905                  |  | 249.7    |
| Recovery of previously provided allowances | 9                              | 1,002    | (993)                  |  | (99.1)   |
| Other income                               | 316                            | 61       | 255                    |  | 418.0    |
| Total revenues                             | \$ 5,555                       | \$ 5,344 | \$ 211                 |  | 4.0      |

*Interest on real estate loans.* The decrease is attributable to the following factors: (i) \$518,000 is due to a \$17.5 million decrease in the average balance of earning loans outstanding; (ii) \$213,000 is due to the inclusion in the three months ended June 30, 2011 of cash basis income received primarily from non-performing loans and interest income from purchase money mortgages that were subsequently paid off; and (iii) \$83,000 is due to the decline, as a result of competitive pricing pressure, in the weighted average interest rate from 12.05% to 11.65%.

*Loan fee income.* The decrease is due to amortization of loan and extension fees resulting from a smaller loan portfolio.

*Rental revenue from real estate properties.* The increase is primarily due to \$1,872,000 of rental revenue received from two multi-family residential properties we acquired in late March 2012.

*Recovery of previously provided allowances.* The decline is due to the inclusion of \$1,002,000 of recoveries in the 2011 period. There were only limited recoveries in the current period.

*Other income.* The increase is the result of a U.S. Treasury subsidy which is covering approximately 90% of the interest payments with respect to Qualified School Construction Bonds ( QSCB s ) with a principal amount of approximately \$22.7 million issued by the Newark Joint Venture. We anticipate this subsidy, in the annual amount of approximately \$1.2 million, will continue until at least 2018.



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### Expenses

The following table sets forth a comparison of our expenses for the periods indicated:

| (Dollars in thousands)                                | Three Months Ended<br>June 30, |          | Increase<br>(Decrease) | % Change |
|-------------------------------------------------------|--------------------------------|----------|------------------------|----------|
|                                                       | 2012                           | 2011     |                        |          |
| Interest - borrowed funds                             | \$ 1,416                       | \$ 452   | \$ 964                 | 213.2%   |
| Advisor's fees - related party                        | 333                            | 237      | 96                     | 40.5     |
| Foreclosure related professional fees                 |                                | 162      | (162)                  | (100.0)  |
| Property acquisition costs                            | 471                            |          | 471                    | N/A      |
| General and administrative                            | 1,734                          | 1,585    | 149                    | 9.4      |
| Operating expenses relating to real estate properties | 1,733                          | 889      | 844                    | 99.4     |
| Amortization and depreciation                         | 1,077                          | 183      | 894                    | 488.5    |
| Total expenses                                        | \$ 6,764                       | \$ 3,508 | \$ 3,256               | 92.8     |

*Interest - borrowed funds.* The increase is attributable to the following factors: (i) \$518,000 is due to mortgages on the multi-family residential properties acquired in March 2012; (ii) \$376,000 is due to the Newark Joint Venture's financing transactions; and (iii) \$70,000 is related to interest and fee amortization associated with our credit line. We anticipate that interest expense will increase in the near term because: (i) the current period does not include interest expense for the full quarter with respect to the mortgage debt of \$25.7 million incurred in connection with the acquisition on June 20, 2012 of a multi-family residential property in Tennessee; and (ii) the interest rate on the junior subordinated notes will increase from 3% to 4.9% in August 2012.

*Advisor's fees - related party.* The fee is calculated based on invested assets and increased primarily because of the increase in the assets of the Trust. This was due to the purchase of several multi-family properties in the current fiscal year.

*Foreclosure related professional fees.* There were no such fees in the current quarter as we resolved all of the bankruptcy, foreclosure and related proceedings in which we had been involved.

*Property acquisition costs.* Our consolidated joint venture purchased a multi-family residential property in Tennessee and incurred property acquisition costs of \$471,000. Such costs included acquisition fees to our joint venture partners, brokerage fees, and legal, due diligence and other transactional costs and expenses.

*General and administrative.* The increase is due to increased professional fees associated with recent joint venture activities, the fee payable to the chairman of our board of trustees and to increases in various expenses, none of which was individually material.

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*Operating expenses relating to real estate properties.* The increase is due primarily to the acquisition, in March 2012, of two multi-family residential properties.

*Amortization and depreciation.* The increase is the result of the addition of two multi-family residential properties acquired in March 2012.

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***Other revenue and expense items***

*(Loss) gain on sale of available-for-sale securities* - In the three months ended June 30, 2012, we sold available-for-sale securities with a cost basis of \$613,000 and recognized a gain of \$96,000. In the three months ended June 30, 2011, we sold available-for-sale securities with a cost basis of \$800,000 and recognized a gain of approximately \$176,000.

***Discontinued operations***

In the three months ended June 30, 2012 and 2011, discontinued operations consisted of gains on the sale of one vacant cooperative apartment in New York City in each period.

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## Results of Operations

Nine months ended June 30, 2012 compared to the nine months ended June 30, 2011

### Revenues

The following table sets forth a comparison of our revenues for the periods indicated:

| (Dollars in thousands):                    | Nine Months Ended<br>March 31, |           | Increase<br>(Decrease) |  | % Change |
|--------------------------------------------|--------------------------------|-----------|------------------------|--|----------|
|                                            | 2012                           | 2011      |                        |  |          |
| Interest on real estate loans              | \$ 5,628                       | \$ 5,730  | \$ (102)               |  | (1.8)%   |
| Loan fee income                            | 1,388                          | 1,208     | 180                    |  | 14.9     |
| Rental revenue from real estate properties | 4,455                          | 2,576     | 1,879                  |  | 73.0     |
| Recovery of previously provided allowances | 19                             | 3,568     | (3,549)                |  | 99.5     |
| Other income                               | 906                            | 411       | 495                    |  | 120.4    |
| Total revenues                             | \$ 12,396                      | \$ 13,493 | \$ (1,097)             |  | (8.1)    |

*Interest on real estate loans.* The decrease is attributable to the following factors: (i) \$878,000 is due to the inclusion, during the nine months ended June 30, 2011, of cash basis income received primarily on non-performing loans and purchase money mortgages that were subsequently paid off; and (ii) \$183,000 is due to the decline, as a result of competitive pricing pressure, in the weighted average interest rate from 12.18% to 11.75%. Partially offsetting the decrease by approximately \$959,000 was the increase of \$11.3 million in the average balance of earning loans outstanding. While originations were lower in the current nine months than in the corresponding period in the prior fiscal year, the timing of the payoffs of loans caused the average balance to increase.

*Loan fee income.* The increase is primarily due to amortization of loan fees resulting from a larger loan portfolio.

*Rental revenue from real estate properties.* The increase is due to the inclusion of \$2,051,000 of rental income from two multi-family properties acquired in March 2012. Partially offsetting the increase was (i) the inclusion in the corresponding period of the prior year of \$106,000 of rebill income at a Newark Joint Venture property and (ii) a \$108,000 decrease due to the loss of several commercial tenants at the Newark Joint Venture's Market Street property. This is a future development site and accordingly, only short term leases are offered at this property.

*Recovery of previously provided allowances.* The decline is due to the inclusion of \$3,568,000 in recoveries in the 2011 period. There were only limited recoveries in the current period.

*Other income.* The increase is the result of a U.S. Treasury subsidy which will cover approximately 90% of the interest payments with respect to QSCBs with a principal amount of \$22.7 million issued by the Newark Joint Venture. We anticipate this subsidy in the annual amount of approximately \$1.2 million will continue until at least 2018.



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### Expenses

The following table sets forth a comparison of our expenses for the periods indicated:

| (Dollars in thousands)                                | Nine Months Ended<br>June 30, |           | Increase<br>(Decrease) |  | % Change |
|-------------------------------------------------------|-------------------------------|-----------|------------------------|--|----------|
|                                                       | 2012                          | 2011      |                        |  |          |
| Interest on borrowed funds                            | \$ 2,758                      | \$ 1,651  | \$ 1,107               |  | 67.1%    |
| Advisor s fees related party                          | 777                           | 699       | 78                     |  | 11.2     |
| Foreclosure related professional fees                 |                               | 519       | (519)                  |  | 100      |
| Property acquisition costs                            | 2,264                         |           | 2,264                  |  | N/A      |
| General and administrative                            | 5,414                         | 4,645     | 769                    |  | 16.6     |
| Operating expenses relating to real estate properties | 3,478                         | 2,655     | 823                    |  | 31.0     |
| Amortization and depreciation                         | 1,441                         | 555       | 886                    |  | 159.6    |
| Total expenses                                        | \$ 16,132                     | \$ 10,724 | \$ 5,408               |  | 50.4     |

*Interest on borrowed funds.* The increase is attributable to the following factors: (i) \$843,000 is due to interest expense related to the Newark Joint Venture s financing transactions; (ii) \$568,000 is due to mortgages on the multi-family residential properties acquired in March 2012; and (iii) \$144,000 is related to interest expense and amortization of fees associated with our credit line. The increase was partially offset by a \$448,000 interest expense decrease resulting from the March 2011 restructuring of our junior subordinated notes.

*Advisor s fee related party.* The fee is calculated based on invested assets and increased because of an increase in the assets of the Trust. This was primarily due to the purchase of several multi-family assets in the current fiscal year.

*Property acquisition costs.* Beginning March 2012, our consolidated joint ventures purchased three separate multi-family residential properties and incurred property acquisition costs of \$2,264,000. Such costs included acquisition fees to our joint venture partners, brokerage fees, and legal, due diligence and other transactional costs and expenses.

*General and administrative.* The increase is attributable to the following factors: (i) \$270,000 is due to higher rates of employee compensation and the payment of a fee to the chairman of our board of trustees; (ii) \$208,000 is due to the inclusion in the prior year of reversals of over-accruals relating to professional and stock exchange fees and expenses and compensation expense; (iii) \$165,000 is due to the payment of Federal alternative minimum tax resulting from our use of net operating loss carryforwards to reduce 2011 taxable income; and (iv) \$140,000 is due to increased professional fees relating to, among other things, our joint ventures engaged in acquiring multi-family residential properties. The balance of the increase is due to increases in various expenses, none of which was individually material.

*Operating expenses relating to real estate properties.* The increase is due to the addition of two multi-family residential properties acquired in March 2012.



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*Amortization and depreciation.* The increase is due to the addition of two multi-family residential properties acquired in March 2012.

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***Other revenue and expense items***

*Equity in (loss) earnings of unconsolidated joint ventures.* The decrease of \$290,000 is related to a loss of: (i) \$138,000 from a joint venture entered into in the March 2012 quarter which loss is primarily the result of \$193,000 of acquisition costs; and (ii) \$136,000 (which reflects the write-off of \$297,000 of capitalized costs) related to a joint venture that ceased loan purchasing activities in November 2011.

*Gain on sale of available-for-sale securities.* In the nine months ended June 30, 2012, we sold available-for-sale securities with a cost basis of \$3,222,000 and recognized a gain of \$420,000. In the first nine months of fiscal 2011, we sold available-for-sale debt and equity securities with a cost basis of \$7,266,000 and recognized a gain of approximately \$1,190,000.

*Gain on sale of loan.* In October 2011, pursuant to a Federal Bankruptcy Court approved joint plan of reorganization, we and our loan participant sold the rights to a loan, for net proceeds of approximately \$23.5 million. We recognized a \$3.2 million gain on the sale, representing our 50% interest in this loan.

*Loss on extinguishment of debt.* In the nine months ended June 30, 2011, we restructured our outstanding junior subordinated notes. Pursuant to the restructuring, we repaid \$5.0 million of the notes at par and reduced the interest rate on the remaining outstanding notes through the April 2036 maturity date. For accounting purposes this restructuring was treated as an extinguishment of debt, and accordingly, we recognized a loss of \$2,138,000 which represented the unaccreted principal balance of the notes and the related unamortized costs.

***Discontinued operations***

In the first nine months of fiscal 2012, discontinued operations consisted of the gain on the sale of two vacant cooperative apartments. In the first nine months of fiscal 2011, discontinued operations consisted of the sale of two vacant cooperative apartments and a residential building all located in Manhattan, New York.

**Liquidity and Capital Resources**

Liquidity is a measurement of our ability to meet cash requirements, including to fund loan originations, pay operating expenses, repay borrowings, and other general business needs. We require capital to fund loan originations, acquire properties, invest in joint ventures and pay operating expenses. Our current sources of capital and liquidity primarily consist of our cash and credit facility. At June 30, 2012, our total available liquidity (excluding \$30.3 million in restricted cash-construction holdback which is to be used by the Newark Joint Venture) was \$45.1 million, including approximately \$43.0 million of cash and cash equivalents and up to \$10 million that we may borrow on an unsecured basis for up to 90 days pursuant to our credit facility to fund any capital contributions required by the general operations of the Newark Joint Venture and to engage in our lending business. The acquisition of additional real properties may be constrained by our liquidity and capital resource position.

*Credit Facility*

A senior secured revolving credit facility with Capital One, N.A. permits our subsidiary to borrow the lesser of \$25 million and the borrowing base (as determined pursuant to the facility) and provides for an interest rate equal to the greater of (i) 4% plus LIBOR and (ii) 5.5%. The facility, among

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other things, requires the Trust and the subsidiary to maintain or comply with, net worth and liquidity covenants, debt service and collateral coverage ratios and limits, with specified exceptions, the incurrence of debt. On April 17, 2012, the facility was amended to allow the subsidiary to borrow for up to 90 days on an unsecured basis, a maximum of \$10 million. There was no balance outstanding on the facility as of June 30, 2012.

*Multi-Family Residential Properties*

We anticipate that we will be able to fund the debt service (principal and interest) and the operating expenses with respect to the multi-family residential properties acquired in the March and June 2012 quarters, from the cash flow generated by such properties. The mortgage debt with respect to these properties is non-recourse to us, subject to customary carve-outs.

*Newark Joint Venture*

The current principal focus of the Newark Joint Venture is the redevelopment of its Teacher's Village site. The venture contemplates three financing phases, the first phase of which was completed between February and May 2012. Set forth below is information pertaining to funding of the development of this site.

Phase 1. The Newark Joint Venture obtained \$31.8 million of construction and permanent financing which, together with \$16.1 million of New Markets Tax Credits proceeds, was used to (i) pay transaction expenses of approximately \$7.2 million (which is reflected on our consolidated balance sheet as deferred costs) and \$6.3 million of debt (including \$4.3 million of debt which had been owed to us and (ii) will be used to construct two buildings at the Teacher's Village site in Newark, New Jersey. Approximately \$30.3 million of the proceeds of this financing are reflected on our consolidated balance sheet as of June 30, 2012 as restricted cash-construction holdbacks and will be released to the venture from time to time primarily upon satisfaction of specified construction and permitting related conditions. An interest reserve of \$2.6 million, which is included in other assets on our consolidated balance sheet, is expected to cover, until December 2013, the interest expense on the mortgage debt incurred in this financing. Thereafter, the Newark Joint Venture's ability to pay debt service (*i.e.* principal and interest) on such debt and the estimated operating expenses of these buildings will depend on generating rental revenue and cash flow from tenants. After giving effect to the approximately \$1.23 million to be generated from the in-place lease agreement with charter schools and a daycare center (and without giving effect to contractual rent increases), the Newark Joint Venture estimates that it will require at least an additional \$420,000 in rental payments from prospective retail tenants at these buildings to cover debt service and operating expenses. 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 will be sufficient to cover debt service and operating expenses. If such payments are insufficient, we may, but are not obligated to, cover a shortfall.

Phases 2 and 3. The Newark Joint Venture contemplates that an additional \$85 million will be raised in 2012 from public and private sources to complete the construction of an additional six residential/retail buildings at the Teachers Village site. No assurance can be given such financing will be obtained or that if is obtained, that the project will be profitable. The failure to complete these phases (including completing the contemplated construction), may adversely impact the venture's ability to obtain and retain tenants at the buildings to be constructed as contemplated by Phase 1.



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**Cash Distribution Policy**

At December 31, 2011, we had approximately \$62 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 2012 and for several years thereafter.

**Off Balance Sheet Arrangements**

At June 30, 2012, the Trust had guaranteed \$1.65 million of a \$6.6 million mortgage obligation of its Newark Joint Venture.

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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 June 30, 2012, approximately 97% 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 June 30, 2012 and believe that a one percent increase in interest rates would have a positive annual effect of approximately \$614,000 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.

Our mortgage debt (excluding a mortgage subject to an interest rate swap agreement), bears interest at fixed rates and accordingly, the effect of changes in interest rates would not impact the amount of interest expense that we incur under these mortgages.

As of June 30, 2012, 44% of our loan portfolio was secured by properties located in the New York metropolitan area, 19% in Florida, 19% in Georgia and 18% in Maryland and we are therefore subject to risks associated with those markets.

**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 June 30, 2012. 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 June 30, 2012 are effective.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2012 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 June 30, 2012.

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**Item 6. Exhibits**

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

| <b>Exhibit No.</b> | <b>Title of Exhibits</b>                                                                                                                                                                                                                   |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1               | Multi-Family Loan and Security Agreement dated as of the June 20, 2012 by and between Madison 324, LLC and CWCcapital LLC                                                                                                                  |
| 10.2               | Multi-Family Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of the 20th day of June, 2012, executed by Madison 324, LLC to Joseph B. Pitt, JR, as trustee for the benefit of CWCcapital LLC |
| 10.3               | Multi-Family Note dated as of June 20, 2012 in face amount of \$25,680,000 issued by Madison 324, LLC in favor of CWCcapital LLC                                                                                                           |
| 10.4               | Amendment No. 1 dated April 17, 2012 to Loan and Security Agreement by and among BRT RLOC LLC, BRT Realty Trust and Capital One, National Association                                                                                      |
| 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)

August 9, 2012

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

August 9, 2012

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