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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to .

Commission file number 000-51860

PALADIN REALTY INCOME PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	**20-0378980**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10880 Wilshire Blvd., Suite 1400 **Los Angeles, California**	**90024**
(Address of principal executive offices)	**(Zip Code)**

(310) 996-8704
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class	Name of Each Exchange on Which Registered
None	**None**

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:
Common stock, par value $0.01 per share

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

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

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

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

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

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

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

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

There is no established trading market for the registrant's common stock, and therefore the aggregate market value of the registrant's common stock held by non-affiliates cannot be determined.

As of March 25, 2011, there were 5,450,992 outstanding shares of common stock of Paladin Realty Income Properties, Inc.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference certain information (solely to the extent explicitly indicated) from the registrant's proxy statement for the 2010 Annual Meeting of Stockholders filed or to be filed pursuant to Regulation 14A.

PALADIN REALTY INCOME PROPERTIES, INC.

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Special Note Regarding Forward-Looking Statements

Statements included in this annual report on Form 10-K (this "Annual Report") that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements are only predictions. We caution you that such forward-looking statements are not guarantees. Actual events, or our actual investments and results of operations, as applicable, could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "will," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terminology.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- Our ability to effectively raise sufficient proceeds in our offering to implement our business plans, or to effectively deploy the proceeds raised in our offering;
- Changes in economic conditions generally and the real estate and securities markets specifically;
- Legislative or regulatory changes (including changes to the laws governing the taxation of REITs);
- Our continued qualification as a REIT;
- The availability of capital;
- Our ability to successfully identify, acquire, develop and/or manage properties on terms that are favorable to us;
- Inherent risks in the real estate business, including tenant defaults, potential liability relating to environmental matters and liquidity of real estate investments;
- Potential changes in the financial markets and interest rates; and
- Changes to U.S. generally accepted accounting principles ("GAAP").

Any of the assumptions underlying forward-looking statements could be inaccurate. Our investors are cautioned not to place undue reliance on any forward-looking statements included in this Annual Report. All forward-looking statements are made as of the date of this Annual Report and the risk that actual results will differ materially from the expectations expressed in this Annual Report will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements after the date of this Annual Report, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward-looking statements included in this Annual Report, including, without limitation, the risks described under "Risk Factors," the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Annual Report will be achieved.

PART I

Item 1. Business

Overview

Paladin Realty Income Properties, Inc. ("Paladin REIT" or the "Company") is a Maryland corporation formed on October 31, 2003 that elected to be taxed as a REIT commencing with the taxable year ended December 31, 2006. We were organized to invest in a diversified portfolio of high quality investments, focusing primarily on investments that produce current income. We intend to invest in a variety of real properties, either directly or through joint ventures, including apartments, office buildings, industrial buildings, shopping centers and hotels. We will also seek to invest in loans on real property such as mortgages and mezzanine loans, which we refer to as real estate related investments.

We had acquired interests in 12 income-producing properties through 11 joint venture investments as of December 31, 2010:

	Location	Year Built	Number of Units/Rentable Square Feet
Multifamily Communities			
Champion Farms Apartments	Louisville, Kentucky	2000	264 Units
Fieldstone Apartments	Woodlawn, Ohio	2001	266 Units
Pinehurst Apartment Homes	Kansas City, Missouri	1986 and 1988; renovated in 2006	146 Units
Pheasant Run Apartments	Lee's Summit, Missouri	1985; renovated in 2003 and 2004	160 Units
The Retreat Apartments	Shawnee, Kansas	1984; renovated in 2004 and 2005	342 Units
Hilltop Apartments	Kansas City, Missouri	1986	124 Units
Conifer Crossing	Norcross, Georgia	1981	420 Units
Lofton Place Apartments	Tampa, Florida	1988	280 Units
Beechwood Gardens Apartments	Philadelphia, Pennsylvania	1967; renovated in 2003 and 2004	160 Units
Industrial			
801 Fiber Optic Drive	North Little Rock, Arkansas	2001	56,336 Sq. Ft.
Office			
Two and Five Governor Park (two properties)	San Diego, California	1985 and 1989	22,470 Sq. Ft. and 53,048 Sq. Ft.

Each of our existing joint venture investments is with unaffiliated third parties. We own a majority interest in eight of these joint ventures, and we own minority interests in three of the joint ventures. We are entitled to receive a priority preferred return ranging from 8.25% to 12.0% annually on our invested capital from each joint venture. With the exception of our investment in the joint ventures owning the property at 801 Fiber Optic Drive, Conifer Crossing and Lofton Place Apartments, following a sale of the property, we also receive a priority return of our invested capital before our co-venturer receives a return of its invested capital. We believe that structured transactions such as these provide us with a higher-than-market current return on our invested capital and greater protection of our invested capital, while preserving our ability to participate in property appreciation.

We own substantially all of our assets and conduct our operations through Paladin Realty Income Properties, L.P. ("Paladin OP"), which was organized in the State of Delaware on October 31, 2003 to serve as our operating partnership. We are the sole general partner of Paladin OP. Each limited partner of Paladin OP will have the right in certain circumstances to cause Paladin OP to redeem its limited partnership units for, at our option, cash equal to the value of an equivalent number of our shares or a number of our shares equal to the number of limited partnership units redeemed.

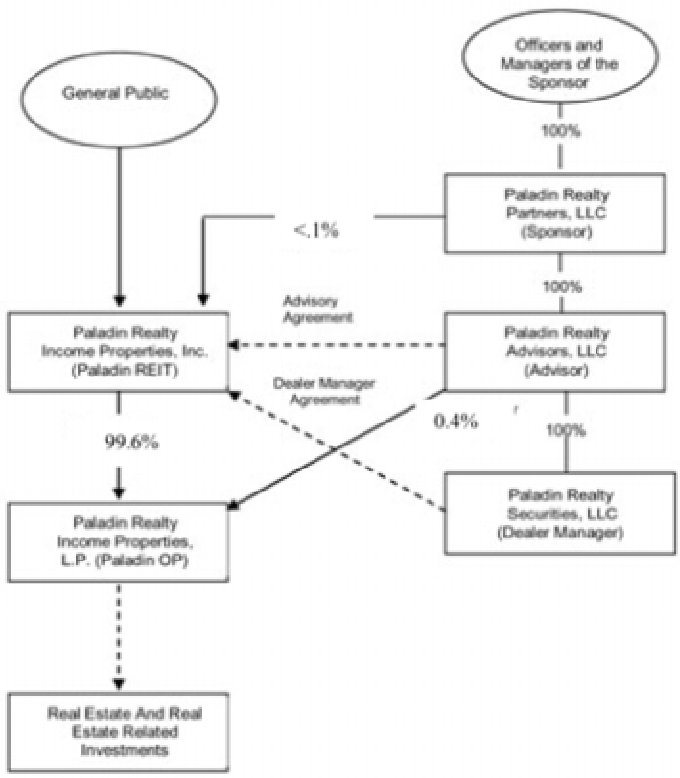
Because we will conduct all of our operations though an operating partnership, we are organized in what is referred to as an “UPREIT” structure, because it allows investors who desire to contribute property to Paladin REIT to transfer the property to Paladin OP in exchange for limited partnership units in Paladin OP and delay taxation of gain until the contributor redeems the limited partnership units for cash or shares as described above. The UPREIT structure gives us an advantage in acquiring properties from persons who may not otherwise transfer their properties because of unfavorable tax results. To avoid confusion, in this Annual Report:

- we refer to Paladin Realty Income Properties, L.P. as “Paladin OP”; and
- the use of “we,” “us,” “our” and similar pronouns refers to either (1) Paladin REIT or (2) Paladin REIT and Paladin OP collectively, as required by the context in which such pronoun is used.

Paladin Realty Advisors, LLC (“Paladin Advisors”) is our advisor pursuant to the fifth amended and restated advisory agreement dated July 28, 2010 (the “Advisory Agreement”), and, as such, supervises and manages our day-to-day operations and selects our investments, subject to oversight by our board of directors. Paladin Advisors will also provide marketing, sales and client services on our behalf. Paladin Advisors was formed on October 31, 2003 and is an affiliate of our sponsor, Paladin Realty Partners, LLC (“Paladin Realty”). The senior officers of Paladin Advisors, who are also officers and directors of Paladin REIT, manage our operations and have primary responsibility for selecting our investments. Paladin Advisors is currently the sole limited partner of Paladin OP.

Paladin Realty Securities, LLC (“Paladin Securities”) serves as our dealer manager pursuant to a dealer manager agreement dated February 6, 2008 (the “Dealer Manager Agreement”). Paladin Securities, a wholly owned subsidiary of Paladin Advisors, is a licensed broker-dealer registered with the Financial Industry Regulatory Authority, Inc. (“FINRA”).

The following chart indicates the relationship among us, Paladin Securities, and Paladin Advisors and certain of its affiliates, including Paladin Realty, our sponsor and the managing member of Paladin Advisors as of December 31, 2010:



On February 23, 2005, we commenced an initial public offering of a maximum of $385,000,000 in shares of our common stock (the “Initial Offering”). The Initial Offering terminated on July 28, 2008 in connection with the commencement of our follow-on offering of $850,000,000 in shares of our common stock (the “Follow-On Offering” and collectively with the Initial Offering, the “Offerings”) on July 28, 2008.

As of December 31, 2010, we had sold 5,370,182 shares of our common stock for aggregate gross proceeds of $53,355,424 and as of March 4, 2011, we had sold 5,673,730 shares of our common stock for aggregate gross proceeds of $56,205,238.

For the year ended December 31, 2010, we had total revenues of $20,048,939 and a net loss attributable to Company of $2,826,134. As of December 31, 2010, our total assets were $157,717,875.

Our headquarters are located at 10880 Wilshire Boulevard, Suite 1400, Los Angeles, California 90024. Our telephone number is 1-866-725-7348. Our website is www.paladinreit.com. We are not incorporating the information on that website into this Annual Report, and the website and the information appearing on the website are not included in, and are not part of, this Annual Report.

Current Investments

As of December 31, 2010, we have acquired interests in 12 income-producing properties through 11 joint venture investments.

On November 3, 2010 our board of directors approved the potential sale of Lofton Place Apartments and Two Governor Park contingent upon certain selling prices. As of the date of this Annual Report, neither property has received an offer that would satisfy the selling price approved by our board of directors.

On February 18, 2011, our board of directors approved the potential sale of 801 Fiber Optic Drive contingent upon a certain minimum selling price. As of the date of this Annual Report, 801 Fiber Optic Drive has received an offer in excess of the minimum selling price approved by our board of directors but has not entered into a definitive purchase and sale agreement.

801 Fiber Optic Drive

801 Fiber Optic Drive is located in the Central Arkansas I-440 Business Park in North Little Rock, Arkansas 72117. The property is owned by PRIP 801, LLC, a joint venture formed to acquire the property. We previously owned a 74.0% interest in PRIP 801, LLC and 801 FO, LLC, an unaffiliated third party, owned the remaining 26.0% interest in PRIP 801, LLC. The purchase price for our interest was approximately $1.7 million. The property is managed by the controlling member of 801 FO, LLC for which it receives a customary management fee. On November 29, 2007, we posted a $550,000 irrevocable standby letter of credit secured by $550,000 cash deposited in a certificate of deposit with Wachovia Bank N.A. Since the mortgage loan was not paid off by November 1, 2010, the lender drew the $550,000 on the letter of credit to paydown the principal balance of the mortgage loan, as described in Note 3. 801 FO, LLC did not contribute any additional money. As a result, the Company currently owns a 79.0% economic interest in PRIP 801, LLC and 801 FO, LLC owns the remaining 21.0% interest in PRIP 801, LLC.

801 Fiber Optic Drive is an industrial distribution facility that consists of approximately 10.95 acres of real property and a 56,336 square foot building that was completed in 2001. The property is 100% leased to FedEx Ground Package System, Inc. ("FedEx Ground"), pursuant to a ten year net lease that commenced on August 1, 2001 and expires on July 31, 2011. FedEx Ground is a subsidiary of FedEx Corporation, a provider of transportation, e-commerce and supply management services. In accordance with the original lease, FedEx Ground also has the option to extend the lease for two additional five-year periods. The first option is through July 31, 2016 at $405,792 per annum. The second option is through July 31, 2021 at $446,376 per annum. On January 28, 2010, PRIP 801, LLC and FedEx Ground amended the lease so that it now expires on July 31, 2016, and effective August 2011, rent will be $371,976 per annum. The current rent is $338,160 per annum.

Champion Farms Apartments

Champion Farms Apartments is located at 3700 Springhurst Boulevard in Louisville, Kentucky 40241. Our interest in this property consists of a 70.0% membership interest in the entity that owns the property, Springhurst Housing Partners, LLC ("Springhurst"). Buckingham Springhurst, LLC, an affiliate of Buckingham Investment Corporation, owns the remaining 30.0% interest in Springhurst. The purchase price for our interest was approximately $4.79 million. Champion Farms Apartments is a 264-unit luxury multifamily property consisting of 14 buildings located on 17.4 acres. The construction of the community was completed in 2000. The property has an aggregate of 248,442 square feet of rentable area and an average unit size of 941 square feet. Champion Farms Apartments is managed by Buckingham Management, LLC, for which it receives a customary management fee.

In connection with our acquisition of our interest in Springhurst, we may be obligated to purchase up to 20% of the membership interests in Springhurst owned by Buckingham Springhurst at a fixed price of $67,500 per 1% additional interest. Buckingham Investment Corporation may exercise this right at any time after the first anniversary of the closing of the acquisition if certain financial requirements have been met. As of December 31, 2010, the financial requirements had not been met.

Fieldstone Apartments

Fieldstone Apartments is located at 10637 Springfield Pike in Woodlawn, Ohio 45246. Our interest in this property consists of an 83.0% membership interest in the entity that owns the property, Glenwood Housing Partners I, LLC ("Glenwood"). We originally purchased a 65.0% interest in Glenwood from Shiloh Crossing Partners II, LLC ("Shiloh II"). Shiloh II is unaffiliated with us and our affiliates, except that affiliates of Shiloh II participate in another joint venture with us relating to Champion Farms Apartments. We purchased an additional 18.0% interest in Glenwood from Shiloh II on July 1, 2008 pursuant to the right Shiloh II had to require us to purchase up to an additional 25.0% of the membership interests in Glenwood owned by Shiloh II. Shiloh II continues to own the remaining 17.0% interest in Glenwood, of which we may be required to purchase up to an additional 7.0% at a fixed price of $62,500 per 1% additional interest if certain financial requirements have been met. As of December 31, 2010, the financial requirements have not been met. The total purchase price for our interest was approximately $5.1 million. Fieldstone Apartments is a 266-unit multifamily rental community consisting of 12 buildings located on 15.2 acres. The construction of the community was completed in 2001. The property has an aggregate of 249,624 square feet of rentable area and an average unit size of 938 square feet. Fieldstone Apartments is managed by Buckingham Management, LLC for which it receives a customary management fee.

In connection with the acquisition, we also entered into a Phase II Option Agreement ("Option Agreement") with Glenwood Housing Partners II, LLC ("Glenwood II"). Glenwood II owns a parcel of land adjacent to Fieldstone Apartments upon which it may construct 88 apartment units with an aggregate of 97,640 square feet of rentable space to be leased, managed and operated as Phase II of the Fieldstone Apartments. The Option Agreement grants us an ongoing option to purchase at least a 70% but not more than 90% beneficial ownership interest in Glenwood II or any affiliated entity that owns the parcel and developments thereon. We may exercise the option at any time after the completion of development and stabilization of the project. If exercised, the purchase price for the option interest will be determined by a formula that utilizes market-rate variables as of that future date.

Pinehurst Apartment Homes

Pinehurst Apartment Homes is located at 500 NW 63rd Street in Kansas City, Missouri 64118. Our interest in this property consists of a 97.5% membership interest in the entity that owns the property, KC Pinehurst Associates, LLC ("KC Pinehurst"). JTL Holdings, LLC and JTL Asset Management, Inc., both affiliates of JTL Properties, LLC, a Kansas City based real estate investment and management company, own the remaining 2.5% interest in KC Pinehurst. JTL Holdings, LLC, JTL Asset Management, Inc. and JTL Properties, LLC are unaffiliated with us and our affiliates except that JTL Holdings, LLC and JTL Asset Management, Inc. participate in two other joint ventures with us relating to Pheasant Run Apartments and the Retreat of Shawnee, and JTL Properties, LLC participates in another joint venture with us relating to Hilltop Village Apartments. The purchase price for our interest was approximately $2.4 million. Pinehurst Apartment Homes is a 146-unit multifamily rental community renovated in 2006, consisting of 10 buildings located on 11.3 acres. The property was developed in two phases in 1986 and 1988. The property has an aggregate of 119,150 square feet of rentable area and an average unit size of 816 square feet. Pinehurst Apartment Homes is managed by CRES Management, LLC, for which it receives a customary management fee.

Pheasant Run Apartments

Pheasant Run Apartments is located at 1102 NE Independence Avenue in Lee's Summit, Missouri 64086. Our interest in this property consists of a 97.5% membership interest in the entity that owns the property, KC Pheasant Associates, LLC ("KC Pheasant"). JTL Holdings, LLC and JTL Asset Management, Inc. own the remaining 2.5% interest in KC Pheasant. The purchase price for our interest was approximately $2.64 million. Pheasant Run Apartments is a 160-unit multifamily rental community consisting of 10 two-story buildings and a clubhouse located on approximately 10 acres. The property was completed in 1985 and underwent a substantial renovation in 2003 and 2004. The property has an aggregate of 112,000 square feet of rentable area and an average unit size of 700 square feet. Pheasant Run Apartments is managed by CRES Management, LLC, for which it receives a customary management fee.

The Retreat of Shawnee

The Retreat of Shawnee, or the Retreat Apartments, is located at 11128 West 76th Terrace in Shawnee, Kansas 66214. Our interest in this property consists of a 97.5% membership interest in the entity that owns the property, KC Retreat

Associates, LLC (“KC Retreat”). JTL Holdings, LLC and JTL Asset Management, Inc. own the remaining 2.5% interest in KC Retreat. The purchase price for our interest was approximately $2.85 million. The Retreat Apartments is a 342-unit rental apartment community consisting of 10 three-story garden-style apartments and an attached clubhouse located on 16.43 acres. The property was developed in 1984 and renovated between 2004 and 2005. The property has an aggregate of 230,400 square feet of rentable area and an average unit size of 674 square feet. The Retreat Apartments is managed by CRES Management, LLC, for which it receives a customary management fee.

Hilltop Village Apartments

Hilltop Village Apartments, or Hilltop Apartments, is located at 8601 Newton Avenue, Kansas City, Missouri 64138. Our interest in this property consists of a 49.0% membership interest in the entity that owns the property, Park Hill Partners I, LLC (“Park Hill Partners”). JTL Properties, LLC owns the remaining 51.0% interest in Park Hill Partners. The purchase price for our interest was $1.05 million. Hilltop Apartments is a 124-unit rental apartment community consisting of five two- and three-story garden-style apartment buildings arranged around a central pool area located on approximately 5 acres. The property was developed in 1986. The property has an aggregate of 78,720 square feet of rentable area and an average unit size of 635 square feet. Hilltop Apartments is managed by CRES Management, LLC, for which it receives a customary management fee.

Conifer Crossing

Conifer Crossing is located at 3383 Holcomb Bridge Road NW, Norcross, Georgia 30092. Our interest in this property consists of a 42.5% membership interest in the entity that owns the property, FPA/PRIP Conifer, LLC (“FPA/PRIP Conifer”). FPA Conifer Investors, LLC owns the remaining 57.5% interest in FPA/PRIP Conifer. The purchase price for our interest was $4.5 million. Conifer Crossing is a 420-unit rental apartment community consisting of 50 wood-frame, two-story, garden-style apartment buildings located on 53.84 acres. The property was developed in 1981. The property has an aggregate of 517,894 square feet of rentable area and an average unit size of 1,233 square feet. Conifer Crossing is managed by Trinity Property Consultants, LLC, for which it receives a customary management fee.

Two and Five Governor Park

Two and Five Governor Park are located at 6310 Greenwich Drive, San Diego, California 92122 and 5060 Shoreham Place, San Diego, California 92122. Our interest in these properties consists of a 47.7% membership interest in the entity that owns the properties, FPA Governor Park Associates, LLC (“FPA Governor Park Associates”). FPA Governor Park Investors, LLC (“FPA Governor Park Investors”) owns the remaining 52.35% interest in FPA Governor Park Associates. The purchase price for our interest was approximately $2.5 million. Two and Five Governor Park are two steel frame office buildings located in the Governor Park office park. Two Governor Park is a two-story office building that was developed in 1985. It has 22,460 square feet of rentable area and sits on a 1.41 acre site. Five Governor Park is a three-story office building that was developed in 1989. It has 53,048 square feet of rentable area and sits on a 2.96 acre site. Two and Five Governor Park are managed by Trinity Property Consultants, LLC, for which it receives a customary management fee.

Lofton Place Apartments

Lofton Place Apartments is located at 5412 Deerbrook Creek Circle, Tampa, Florida 33624. Our interest in this property consists of a 60% membership interest in the entity that owns the property, Evergreen at Lofton Place, LLC (“Evergreen at Lofton Place”). NVR Lofton Place, LP (“NVR Lofton Place”) and BH Lofton, LLC (“BH Lofton”) own 34% and 6% membership interests, respectively. The purchase price for our interest was $3 million. Lofton Place Apartments is a Class B+, 280 unit rental apartment community consisting of twelve, two- and three-story, garden-style apartment buildings located on an 18-acre site. The property was built in 1988. The property has an aggregate of 264,591 rentable square feet and an average unit size of 945 square feet. Lofton Place Apartments is managed by BH Management, for which it receives a customary management fee.

Beechwood Gardens Apartments

Beechwood Gardens Apartments is located at 9805 Haldeman Avenue, Philadelphia, Pennsylvania 19115. Our interest in this property consists of an 82.3% membership interest in the entity that owns the property, Morgan Beechwood, LLC (“Morgan Beechwood”). Morgan Management, LLC (“Morgan Management”) owns the remaining interest in Morgan Beechwood. The purchase price for our interest was $2.55 million. Beechwood Gardens Apartments is a stabilized Class B, 160 unit rental apartment community consisting of eight, three-story, walk-up apartment buildings located on a 5.83-acre parcel. The property was built in 1967 and renovated between 2003 and 2004. The property has an aggregate of 140,000 rentable square feet and an average unit size of 875 square feet. Beechwood Gardens Apartments is managed by Morgan Management, for which it receives a customary management fee.

Investment Objectives

Our investment objectives are:

- to preserve, protect and return our investor's capital contribution;
- to make regular cash distributions;
- to realize growth in the value of our investments upon our ultimate sale of such investments; and
- to provide our investors with liquidity for their investment by listing our shares on a national securities exchange by February 23, 2015, or, if our shares are not listed prior to that date, by commencing an orderly liquidation of our investments and distributing the cash to our investors.

Description of Real Property Investments and Real Estate Related Investments

We will seek to acquire a diversified portfolio of high quality investments, including investments in real properties and real estate related investments, focusing primarily on investments that produce current income. We seek to invest in a variety of types of real properties, either directly or through joint ventures, including apartments, office buildings, industrial buildings, shopping centers and hotels. We will also seek to invest in loans on real property such as mortgage and mezzanine loans, which we refer to as real estate related investments.

Although we are not limited as to the geographic area where we may conduct our operations, we currently do not intend to invest in properties located outside of the United States. If Paladin Advisors in the future determines that it is in our best interests to make investments outside the United States, we may make investments in other countries in North America in the same types of properties that we will acquire within the United States, but we would not expect those investments to comprise a significant portion of our investment portfolio. We are not specifically limited in the number or size of real property investments or real estate related investments we may make or on the percentage of our assets that we may invest in a single property or investment. The number and mix of properties we acquire and other investments we make will depend upon real estate and market conditions and other circumstances existing at the time we are acquiring our properties and making our investments and the amount of proceeds we raise in this and potential future offerings.

Borrowing Policies

We intend to use secured and unsecured debt as a means of providing additional funds for the acquisition of real property and real estate related investments.

Our charter provides that our independent directors must approve any borrowing in excess of 300% of the value of our net assets and the justification for such excess borrowing must be disclosed to our stockholders in our next quarterly report. Net assets for purposes of this calculation are defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation. As of December 31, 2010, our borrowings did not exceed 300% of the value of its net assets. As of December 31, 2010, the Company had $121,134,455 in mortgages payable.

In order to allow us to promptly invest the proceeds of our Follow-On Offering in income-producing investments, we may incur short-term financing associated with new investments during the early stages of our operations, which may also cause us to exceed our charter's leverage guidelines.

Under our charter, there is no limitation on the amount we may borrow to acquire any single investment.

We may not borrow money from any of our directors or from Paladin Advisors and its affiliates unless such loan is approved by a majority of our directors, including a majority of the independent directors, not otherwise interested in the transaction, as fair, competitive and commercially reasonable and no less favorable to us than comparable loans between unaffiliated parties. In addition, Paladin Advisors or its affiliates may borrow funds from unaffiliated third parties under negotiated agreements which may include revolving credit facilities, term loans or other types of loans. We may borrow from Paladin Advisors or its affiliates to provide a portion of the purchase price of a particular real property investment or real estate related investment. Such loans may be secured by a first or junior mortgage on any property so acquired. In addition to conforming with the requirements on all loans to us from Paladin Advisors described above, any such loan from Paladin Advisors or its affiliates will be made at the same interest rate and on substantially the same other terms as the loan made by the unaffiliated third party to Paladin Advisors or its affiliates.

Competition

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, pension funds, other REITs, real estate limited partnerships and foreign investors, many of which have greater resources than we do. As of December 31, 2010, our real estate investments included 801 Fiber Optic Drive, Champion Farms Apartments, Fieldstone Apartments, Pinehurst Apartment Homes, the Pheasant Run Apartments, the Retreat Apartments, Hilltop Apartments, Conifer Crossing, Two and Five Governor Park, Lofton Place Apartments and Beechwood Gardens Apartments. The competitive conditions of each of these investments are favorable. 801 Fiber Optic Drive is located in one of the newest business parks in the Little Rock market located on State Highway 165, less than one mile east of the interchange with I-440. A rail line traverses the south edge of the business park and the property has fiber optic capability. Champion Farms is located in an affluent and growing neighborhood of Louisville, with access to nearby retail centers, schools and transportation routes. Fieldstone Apartments is located in an affluent suburb on the north side of Cincinnati with high barriers of entry for new development. Pinehurst Apartment Homes is located in a mature submarket approximately nine miles north of the Kansas City central business district. Pheasant Run Apartments is located in a southeastern suburb of the Kansas City metropolitan area close to major retail centers, with easy highway access to employment centers. The Retreat Apartments is located in a residential community approximately twelve miles southwest of downtown Kansas City with access to the airport, area employment centers and shopping. Hilltop Village is located in Kansas City with proximity to employment centers, schools, shopping and recreation. Conifer Crossing is located in a northeastern suburb of the Atlanta metropolitan area with easy highway access. Two and Five Governor Park is located 10 miles north of downtown San Diego in a submarket known as the Golden Triangle, which is home to leading industries and research centers. Lofton Place Apartments is located in Carrollwood, 10 miles northwest of downtown Tampa via I-275 and seven miles north of Tampa International Airport and the Westhore office submarket, via the Veteran's Expressway (SR 589). Beechwood Gardens occupies a site at the intersection of Bustleton and Haldeman Avenues in Philadelphia, Pennsylvania and has excellent visibility, access and curb appeal.

Tax Status

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the taxable year ended December 31, 2006, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. We believe that we operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes. Accordingly, we generally will not be subject to federal income tax on our taxable income that is currently distributed to our stockholders, provided that distributions to our stockholders equal at least 90 percent of our taxable income, subject to certain adjustments. If we fail to qualify as a REIT in any taxable year without the benefit of certain relief provisions, we will be subject to federal income taxes on our taxable income at regular corporate income tax rates. We may also be subject to certain state or local income taxes, or franchise taxes.

Employees

We do not have employees. Pursuant to our Advisory Agreement with Paladin Advisors, Paladin Advisors supervises and manages our day-to-day operations and selects our real property investments and real estate related investments, subject to oversight by our board of directors.

Available Information

We are subject to the reporting and information requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and, as a result, file periodic reports, proxy statements and other information with the SEC. We make these filings available on our website (http://www.paladinreit.com), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website (http://www.sec.gov) that contains our annual, quarterly and current reports, proxy and information statements and other information we file electronically with the SEC. Unless specifically incorporated by reference herein, information on our website does not constitute part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

Investment Risks

There is currently no public market for the shares of our common stock. Therefore, it will likely be difficult for our investors to sell their shares and, if our investors are able to sell their shares, they will likely sell them at a substantial discount.

There currently is no public market for our shares of common stock and we have no obligation or current plans to apply for quotation or listing on any public securities market. Therefore, it will be difficult for our investors to sell their shares promptly or at all. If our investors are able to sell their shares, they may only be able to sell them at a substantial discount from the price they paid. This may be the result, in part, of the fact that, at the time we make our investments, the amount of funds available for investment will be reduced by between 11.6% and 13.2% of the gross offering proceeds which will be used to pay selling commissions, the dealer manager fee, organization and offering expenses, acquisition fees, origination fees and other expenses. The price per share could also be reduced as a result of other factors including those described elsewhere in this "Risk Factors" section. Unless our aggregate investments increase in value to compensate for these up-front fees and expenses, which may not occur, it is unlikely that our investors will be able to sell their shares, whether pursuant to our share redemption plan or otherwise, without incurring a substantial loss. We cannot assure our investors that their shares will ever appreciate in value to equal the price paid for their shares. Thus, our investors should consider the purchase of our shares as illiquid and a long-term investment, and must be prepared to hold their shares for an indefinite length of time.

We have experienced annual net losses which could adversely impact our ability to conduct operations, make investments and pay distributions.

We had a net loss of $2,826,134, $4,471,922 and $2,358,550, respectively, for the years ended December 31, 2010, December 31, 2009 and December 31, 2008. As a result, Paladin Advisors has paid expenses on our behalf and has deferred the reimbursement of a portion of these expense payments. In the event that our annual net losses continue and if Paladin Advisors ceases paying expenses on our behalf or deferring reimbursement of expenses, we will have less money available to make investments and pay distributions, and our ability to conduct our operations may be adversely impacted.

To date, our distributions declared and paid have constituted a return of capital.

All of our distributions declared and paid to date have constituted a return of capital. Distributions that are treated as a return of capital for federal income tax purposes generally will not be taxable as a dividend to a stockholder, but will reduce the stockholder's basis in its shares (but not below zero) and therefore can result in the stockholder having a higher gain upon a subsequent sale of such shares. Return of capital distributions in excess of a stockholder's basis generally will be treated as gain from the sale of such shares.

We have not identified most of the investments that we will make with the net proceeds we will receive from our Follow-On Offering. If we are unable to find suitable investments, we may not be able to achieve our investment objectives.

As of December 31, 2010, we have made twelve property investments, which are joint venture interests in 801 Fiber Optic Drive, Champion Farms Apartments, Fieldstone Apartments, Pinehurst Apartment Homes, Pheasant Run Apartments, the Retreat Apartments, Hilltop Apartments, Conifer Crossing, Two and Five Governor Park, Lofton Place Apartments and Beechwood Gardens Apartments. Paladin Advisors has not identified any real property investments or real estate related investments that it is reasonably probable we will make with the additional net proceeds we will receive from our Follow-On Offering. As a result, investors in our Follow-On Offering will be unable to evaluate the manner in which the net proceeds are invested and the economic merits of potential investments prior to the investor making an investment decision. Additionally, our investors will not have the opportunity to evaluate the transaction terms or other financial or operational data concerning our real property investments and real estate related investments. Our investors must rely on Paladin Advisors to evaluate our investment opportunities, and Paladin Advisors may not be able to achieve our investment objectives, may make unwise decisions or may make decisions that are not in our best interest because of conflicts of interest. Further, we cannot assure our investors that acquisitions of real property investments or real estate related investments made using the proceeds of our Follow-On Offering will produce a return on their investment or will generate cash flow to enable us to make distributions to our stockholders.

You may be unable to sell your shares because your ability to redeem your shares pursuant to our share redemption program is subject to significant restrictions and limitations.

Even though our share redemption program may provide you with a limited opportunity to sell your shares to us after you have held them for a period of one year, you should be fully aware that our share redemption program contains significant restrictions and limitations. Redemption of shares, when requested, will generally be made quarterly. We will limit the number of shares redeemed pursuant to our share redemption program as follows: (1) during any calendar year, we will not redeem in excess of 5% of the weighted-average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares requested to be redeemed during a calendar quarter will come exclusively from the proceeds we receive from the sale of shares under our distribution reinvestment plan in the month following such calendar quarter, and if we do not receive sufficient funds in such month to fulfill all such redemption requests, the remaining amounts will be funded with proceeds received from the distribution reinvestment plan in subsequent months. In addition our board of directors, in its sole discretion, may choose to terminate the share redemption program or to reduce the number of shares purchased under the share redemption program upon 30 days' notice. Therefore, you may not have the opportunity to make a redemption request prior to a potential termination of the share redemption program, or you may not be able to sell any of your shares of common stock back to us pursuant to our share redemption program because of the limitations. Moreover, if you do sell your shares of common stock back to us pursuant to the share redemption program, you will not receive the same price you paid for any shares of our common stock being redeemed.

Because we established the offering price on an arbitrary basis, it may not be indicative of the price at which our shares would trade if they were actively traded.

Our board of directors has arbitrarily determined the selling price of the shares of common stock offered hereby and such price bears no relationship to our book or asset values, or to any other established criteria for valuing issued or outstanding shares. Our offering price may not be indicative of the price at which our shares would trade if they were listed on an exchange or inter-dealer quotation system or actively traded by brokers or of the proceeds that a stockholder would receive if we were liquidated or dissolved.

Risks Relating to Our Business

We and Paladin Advisors have limited operating histories, and we may not be able to operate successfully.

We and Paladin Advisors were each formed in connection with commencing our Initial Offering and had no prior operating history, and our investors should not rely upon the past performance of other real estate investment programs sponsored by Paladin Realty to predict our future results. Other than our initial twelve property investments, we have not identified any additional probable investments. Additionally, none of our officers, Paladin Advisors, its affiliates or their respective employees have operated any other public company or an entity that has elected to be taxed as a REIT. Our investors should consider our prospects in light of the risks, uncertainties and difficulties frequently encountered by companies that are, like us, in their early stage of development. To be successful, we must, among other things:

- Identify and acquire investments that further our investment objectives;
- Increase awareness of the Paladin name within the investment products market;
- Establish and maintain contacts with licensed securities brokers and other agents to successfully raise capital in our Follow-On Offering;
- Attract, integrate, motivate and retain qualified personnel to manage our day-to-day operations;
- Respond to competition for our targeted real property investments and real estate related investments as well as for potential investors in our shares; and
- Continue to build and expand our operations structure to support our business.

Our failure, or Paladin Advisor's failure, to operate successfully or profitably could have a material adverse effect on our ability to generate cash flow to make distributions to our stockholders and could cause our investors to lose all or a portion of their investment in our shares of common stock.

We differ from prior programs sponsored by Paladin Realty in a number of respects, and therefore the past performance of those programs may not be indicative of our future results.

The past performance of other investment programs sponsored by Paladin Realty may not be indicative of our future results, and we may not be able to successfully implement and operate our business, which is different in a number of respects from the operations of those programs. The returns to our stockholders will depend in part on the mix of products in which we invest, the stage of investment and our place in the capital structure for our investments. As our portfolio is unlikely to mirror in any of these respects the portfolios of the prior Paladin programs, the returns to our stockholders will vary from those generated by those prior programs. We are also the first publicly offered investment program sponsored by Paladin Realty or any of its affiliates. Therefore, the prior Paladin programs, which were conducted through privately-held entities, were not subject to either the up-front commissions, fees and expenses associated with our Offerings or to many of the laws and regulations to which we will be subject. We would be the first program sponsored by Paladin Realty or any of its affiliates to make or acquire mortgage loans or mezzanine loans. None of Paladin Realty, Paladin Advisors or any of their affiliates has experience making such investments or in operating any other REIT or a publicly-offered investment program. As a result of all these factors, our investors should not assume that our investors will experience returns, if any, comparable to those experienced by investors in the prior programs sponsored by Paladin Realty and its affiliates.

Our ability to successfully conduct our Follow-On Offering is dependent in part on the ability of our dealer manager to successfully establish, operate and maintain a network of broker-dealers.

The dealer manager for our Follow-On Offering is Paladin Securities. Paladin Securities is a wholly owned subsidiary of Paladin Advisors. Paladin Securities has a limited operating history and, other than serving as dealer manager for a portion of our Initial Offering, has not previously acted as a dealer manager for an offering. The success of our Follow-On Offering, and correspondingly our ability to implement our business strategy, is dependent upon the ability of the dealer manager to establish and maintain a network of licensed securities brokers-dealers and other agents. If Paladin Securities fails to perform, we may not be able to raise adequate proceeds through our Follow-On Offering to implement our investment strategy. If we are unsuccessful in implementing our investment strategy, our investors could lose all or a part of their investment.

Because our Follow-On Offering is a "best efforts" offering, the dealer manager and the participating broker-dealers are only required to use their best efforts to sell our shares. If we are unable to raise substantial funds in our Follow-On Offering, we will be limited in the number and type of investments we may make, which will result in a less diversified portfolio.

Our Follow-On Offering is being made on a "best efforts" basis, whereby the dealer manager and the broker-dealers participating in the Follow-On Offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, we cannot assure our investors as to the amount of proceeds that will be raised in our Follow-On Offering. If we are unable to raise sufficient funds, we will have limited diversification in terms of the number of investments owned, the geographic regions in which our investments are located and the types of investments that we make. Their investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of investments. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase.

Payment of fees, distributions and expense reimbursements to Paladin Advisors and its affiliates will reduce cash available for investment and for distribution to our stockholders.

Paladin Advisors and its affiliates perform services for us in connection with the offer and sale of the shares, the selection and acquisition of our investments, the asset management of our investments and administrative and other services. Paladin Advisors and its affiliates will be paid acquisition fees or origination fees, asset management fees and subordinated disposition fees for these services pursuant to the Advisory Agreement between us and Paladin Advisors. In addition, distributions may be payable to Paladin Advisors pursuant to the subordinated participation interest it holds in Paladin OP, upon a distribution of net sales proceeds to our stockholders, the listing of our shares or the termination of Paladin Advisors as our advisor. In addition, Paladin Advisors and its affiliates have provided and will continue to provide administrative services to us for which they are entitled to reimbursement at cost. These fees, distributions and expense reimbursements are substantial and will reduce the amount of cash available for investment or distribution to our stockholders.

To date cash flows from operations were insufficient to pay both our operating expenses and to cover the distributions we have paid and/or declared. In order to permit us to pay distributions, we have used cash distributions from our investments and offering proceeds. Paladin Advisors has paid expenses on our behalf and deferred the reimbursement of such expense payments and its receipt of fees we owe Paladin Advisors. We cannot assure our investors that in the future we will be able to achieve cash flows necessary to pay both our expenses and distributions at our historical per share amounts, or to maintain distributions at any particular level, if at all.

Because our cash flows from operations have been insufficient to pay distributions we have paid or declared to our stockholders through the date of this Annual Report, we cannot assure our investors that we will be able to continue paying distributions to our stockholders at our historical per-share amounts, or that the distributions we pay will not decrease or be eliminated in the future. From the date of inception through December 31, 2010, we have paid $8,349,238 in distributions to our stockholders and intend to continue paying distributions to our stockholders in the future. In order to permit us to pay distributions declared to date, (1) we have used cash distributions from our investments as well as offering proceeds and (2)

Paladin Advisors has deferred the reimbursement of certain general & administrative expense payments and its receipt of asset management and acquisition fees.

Specifically, as of December 31, 2010, Paladin Advisors and its affiliates have incurred on our behalf $7,825,525 in organization and offering costs. In addition, Paladin Advisors and its affiliates paid on our behalf $2,644,293 in general and administrative expenses in accordance with the 2%/25% Rule, as described below, of which $1,747,054 has been reimbursed by the Company to Paladin Advisors and $897,239 has been recorded as due to affiliates on the consolidated balance sheet.

In accordance with our charter and pursuant to the Advisory Agreement, Paladin Advisors must fund and pay us quarterly for any amount of operating expenses that in the 12 months then ended exceed the greater of (1) 2% of our average invested assets or (2) 25% of our net income, which we refer to as the "2%/25% Rule," and we will not reimburse Paladin Advisors for operating expenses incurred on our behalf that in any fiscal year exceed the 2%/25% Rule. During the previous twelve months, our operating expenses, including expenses incurred on behalf of us by Paladin Advisors and its affiliates did not exceed the 2%/25% Rule. Our general and administrative expenses, which are the equivalent of total operating expenses for purposes of the 2%/25% Rule, as a percentage of average invested assets were 1.0% for the year ended December 31, 2010. For the year ended December 31, 2010, we paid Paladin Advisors asset management fees of $380,880 and did not pay Paladin Advisors any acquisition fees.

We may be obligated to pay these amounts to Paladin Advisors in the future, and the payment of these obligations may impact our ability to pay future distributions. Paladin Advisors is not obligated to either pay expenses on our behalf beyond the term of the Advisory Agreement or defer reimbursements of expense payments or fees in future periods. At such time as Paladin Advisors requires us to reimburse such expense payments or pay those fees, or if Paladin Advisors were to cease paying expenses on our behalf or deferring reimbursement of expense payments or fees, our ability to pay distributions to our stockholders could be adversely affected, and we may be unable to pay distributions to our stockholders, or such distributions could decrease significantly.

Our directors will determine the amount and timing of future cash distributions to our stockholders based on many factors, including the amount of funds available for distribution (including whether Paladin Advisors continues to pay expenses and/or defer reimbursement of expense payments or fees), our financial condition, requirements we must meet to qualify to be taxed as a REIT, whether to reinvest or distribute such funds, capital expenditures and reserve requirements and general operational requirements. The amount of funds available for distribution will be affected by our ability to identify and make real property investments or real estate related investments as offering proceeds become available, the returns on those real property investments or real estate related investments we make and our operating expense levels, as well as many other variables. We cannot predict how long it may take to identify additional real property investments or real estate related investments, to raise sufficient proceeds or to make real property investments or real estate related investments. We likewise cannot predict whether we will generate sufficient cash flow to continue to pay distributions at historical levels or at all.

In addition, differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money, use proceeds from the issuance of securities or sell assets to pay out enough of our taxable income to satisfy the requirement that we distribute at least 90% of our taxable income subject to certain adjustments, in order to qualify as a REIT.

We are uncertain of our sources of debt or equity for funding future capital needs. If we are not able to locate sources of funding, our ability to make necessary capital improvements to our properties may be impaired or delayed.

The net proceeds of our Follow-On Offering will be used to make real property investments, directly or through joint ventures, make real estate related investments and to pay various fees and expenses. In addition, to be taxed as a REIT, we generally must distribute to our stockholders at least 90% of our taxable income each year, subject to certain adjustments. Because of this distribution requirement, it is not likely that we will be able to fund a significant portion of our future capital needs from retained earnings. We have not identified any sources of debt or equity for future funding. While we have used short term borrowings since the commencement of the Offerings, including borrowings from affiliates of Paladin Advisors, Paladin Advisors is not required to facilitate any future affiliated loans for us, and we cannot assure our investors that adequate sources of funding will be available to us on favorable terms or at all. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our properties, pay other expenses or expand our business.

Our success will be dependent on the performance of Paladin Advisors as well as key employees of Paladin Advisors, the loss of any of whom could be detrimental to our business.

Our ability to achieve our investment objectives and to make distributions is dependent upon the performance of Paladin Advisors and key personnel of Paladin Advisors in identifying and acquiring investments, the determination of any financing arrangements, the asset management of our investments and operation of our day-to-day activities. Our investors will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments that are not described in this Annual Report, as supplemented. We will rely entirely on the management ability of Paladin Advisors, subject to the oversight of our board of directors. If Paladin Advisors suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, Paladin Advisors may be unable to allocate time and resources to our operations. If Paladin Advisors is unable to allocate sufficient resources to oversee and perform our operations for any reason, we may be unable to achieve our investment objectives or to make distributions to our stockholders.

Certain key personnel of Paladin Advisors, including James R. Worms, Michael B. Lenard, Whitney A. Greaves, William K. Dunbar and John A. Gerson, would be difficult to replace. None of Paladin Advisors' key personnel are currently subject to employment agreements with Paladin Advisors, nor do we maintain any key person life insurance on Paladin Advisors' key personnel. If any of Paladin Advisors' key personnel were to cease employment with Paladin Advisors, our operating results could suffer. We also believe that our future success depends, in large part, upon our ability, and the ability of Paladin Advisors, to attract and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure our investors that we or Paladin Advisors will be successful in attracting and retaining such skilled personnel.

We may structure investments in real properties in exchange for limited partnership units in Paladin OP on terms that could limit our liquidity or our flexibility.

We may make investments in real properties by issuing limited partnership units in Paladin OP in exchange for a property owner contributing property to Paladin OP. If we enter into such transactions, in order to induce the contributors of such properties to accept units in Paladin OP, rather than cash, in exchange for their properties, it may be necessary for us to provide them additional incentives. For instance, Paladin OP's partnership agreement provides that any holder of units may exchange limited partnership units on a one-for-one basis for shares of our common stock, or, at our option, cash equal to the value of an equivalent number of our shares. We may, however, enter into additional contractual arrangements with contributors of property under which we would agree to repurchase a contributor's units for shares of common stock or cash, at the option of the contributor, at set times. If the contributor required us to repurchase units for cash pursuant to such a provision, it would limit our liquidity and thus our ability to use cash to make other investments, satisfy other obligations or make distributions to stockholders. Moreover, if we were required to repurchase units for cash at a time when we did not have sufficient cash to fund the repurchase, we might be required to sell one or more properties to raise funds to satisfy this obligation. Furthermore, we might agree that if distributions the contributor received as a limited partner in Paladin OP did not provide the contributor with a defined return, then upon redemption of the contributor's units we would pay the contributor an additional amount necessary to achieve that return. Such a provision could further negatively impact our liquidity and flexibility. Finally, in order to allow a contributor of a property to defer taxable gain on the contribution of property to Paladin OP, we might agree not to sell a contributed property for a defined period of time or until the contributor exchanged the contributor's units for cash or shares. Such an agreement would prevent us from selling those properties, even if market conditions made such a sale favorable to us.

Our results of operations, our ability to make distributions to our stockholders and our ability to dispose of our investments are subject to general economic and regulatory factors we cannot control or predict.

Our results of operations are subject to the risks of a national economic slowdown or disruption, other changes in national or local economic conditions or changes in tax, real estate, environmental or zoning laws. The following factors may affect income from our real property investments and real estate related investments, our ability to dispose of real property investments and real estate related investments, and yields from our real property investments and real estate related investments:

- Poor economic times may result in defaults by tenants of our real properties and borrowers under our real estate related investments. We may also be required to provide rent concessions or reduced rental rates to maintain or increase occupancy levels;
- Job transfers and layoffs may cause vacancies to increase and a lack of future population and job growth may make it difficult to maintain or increase occupancy levels;
- Increases in supply of competing properties or decreases in demand for our real properties may impact our ability to maintain or increase occupancy levels;
- Changes in interest rates and availability of debt financing could render the sale of properties difficult or unattractive;
- Periods of high interest rates may reduce cash flow from leveraged properties; and

- Increased insurance premiums, real estate taxes, energy costs or other expenses may reduce funds available for distribution or, to the extent such increases are passed through to tenants, may lead to tenant defaults. Also, any such increased expenses may make it difficult to increase rents to tenants on turnover, which may limit our ability to increase our returns.

Some or all of the foregoing factors may affect the returns we receive from our investments, our results of operations, our ability to make distributions to our stockholders or our ability to dispose of our investments.

Risks Related To Conflicts of Interest

We are subject to conflicts of interest arising out of relationships among us, our officers, Paladin Advisors, Paladin Securities and their respective affiliates, including the material conflicts discussed below. All references to affiliates of Paladin Advisors include Paladin Realty, Paladin Securities and each other affiliate of Paladin Realty, Paladin Securities or Paladin Advisors.

Paladin Advisors and its affiliates will face conflicts of interest relating to time management and allocation of resources, and our results of operations may suffer as a result of these conflicts of interest.

Affiliates of Paladin Advisors are general partners and sponsors of other real estate programs having investment objectives similar to ours or to which they have legal and fiduciary obligations similar to those they owe to us and our stockholders. Because affiliates of Paladin Advisors have interests in other real estate programs and also engage in other business activities, the personnel performing services on behalf of these entities may have conflicts of interest in allocating their time and resources between our business and such other activities. During times of intense activity in other programs and ventures, they may devote less time and resources to our business than is necessary or appropriate. If Paladin Advisors, for any reason, is not able to provide sufficient resources to manage our business, our business will suffer as we have no other personnel to perform these services. Likewise, if Paladin Advisors or its affiliates suffer financial or operational problems as a result of any of their activities, whether or not related to our business, and Paladin Advisors is unable to manage our business, we will have no one to select, acquire, manage or dispose of our investments.

In addition, our officers are also officers of Paladin Advisors and officers, limited partners or members of investors in other affiliates of Paladin Advisors. Paladin Advisors will rely on these officers and employees of its affiliates to manage and operate our business. Paladin Advisors and its affiliates are not restricted from acquiring, developing, operating, managing, leasing or selling real estate through entities other than us. These affiliates of Paladin Advisors will continue to be actively involved in operations and activities other than our operations, and the same employees of Paladin Advisors and its affiliates who will manage and operate our business will also be actively involved in those other activities and operations. Those individuals spend a material amount of time managing those activities and operations that are unrelated to our business. Our business may suffer as a result because we lack the ability to manage it without the time and attention of those individuals.

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

Our officers, three of whom also serve as our directors, are also officers of Paladin Advisors and are officers or members of affiliates of Paladin Advisors. As a result, these individuals owe fiduciary duties to these other entities, which may conflict with the fiduciary duties that they owe to us and our stockholders. Some of these entities may compete with us for investment and leasing opportunities. Although Paladin Advisors has agreed, pursuant to the terms of the Advisory Agreement, to generally provide us with the first opportunity to acquire U.S. “core” or “core-plus” real estate that it identifies for investment during periods in which we have, or can reasonably be expected to obtain, sufficient funds for the investment, the determination as to whether a particular investment opportunity meets this priority allocation requirement will be made in Paladin Advisor’s discretion. Conflicts with our business and interests are most likely to arise from involvement in activities related to:

- The allocation of new investments among us and affiliates of Paladin Advisors;
- The allocation of time and resources among us and affiliates of Paladin Advisors;
- Development or management of our properties by affiliates of Paladin Advisors;
- Investments with and/or sales to or acquisitions from affiliates of Paladin Advisors; and
- Compensation to Paladin Advisors.

Paladin Advisors will face conflicts of interest relating to its compensation structure, which could result in actions that are not necessarily in the long-term best interests of our stockholders. The distribution payable to Paladin Advisors

upon termination of the Advisory Agreement may also influence decisions about terminating Paladin Advisors or our acquisition or disposition of investments.

Under the Advisory Agreement between us, Paladin OP and Paladin Advisors and the subordinated participation interest Paladin Advisors holds in Paladin OP, Paladin Advisors is entitled to fees and distributions that are structured in a manner intended to provide incentives to Paladin Advisors to perform in our best interests and in the best interests of our stockholders. Paladin Advisors is entitled to acquisition fees, origination fees, asset management fees and subordinated disposition fees. The distributions Paladin Advisors may become entitled to receive would be payable upon distribution of net sales proceeds to our stockholders, the listing of our shares or the termination of Paladin Advisors as our advisor. However, because Paladin Advisors does not maintain a significant equity interest in us and is entitled to receive substantial minimum compensation regardless of performance, Paladin Advisors' interests are not wholly aligned with those of our stockholders. In that regard, the only fees Paladin Advisors receives with respect to ongoing operation and management of properties are asset management fees, which are based on the amount of our initial investment and not the performance of those investments, which could result in Paladin Advisors not having adequate incentive to manage our portfolio to provide profitable operations during the period we hold our investments. On the other hand, Paladin Advisors could be motivated to recommend riskier or more speculative investments in order to increase the fees payable to Paladin Advisors or for us to generate the specified levels of performance or net sales proceeds that would entitle Paladin Advisors to fees or distributions or would permit us to pay fees and reimbursements that Paladin Advisors has earned but elected under the Advisory Agreement to defer. In addition, Paladin Advisors' entitlement to fees upon the sale of our assets and to participate in net sales proceeds could result in Paladin Advisors recommending sales of our investments at the earliest possible time at which sales of investments would produce the level of return which would entitle the advisor to compensation relating to such sales, even if continued ownership of those investments might be in the best long-term interest of our stockholders.

The subordinated participation interest requires Paladin OP to make a distribution to Paladin Advisors upon termination of the Advisory Agreement, other than a termination by us because of a material breach of the Advisory Agreement by Paladin Advisors. To avoid Paladin OP making this distribution, our independent directors may decide against terminating the Advisory Agreement even if, but for the requirement to make this distribution, termination of the Advisory Agreement would be in the best interest of our stockholders. In addition, the requirement for Paladin OP to make this distribution could cause our independent directors to make different investment or disposition decisions than they would otherwise make, in order to satisfy Paladin OP's obligation to the terminated advisor.

We may acquire investments from, or dispose of assets to, entities managed by Paladin Advisors or its affiliates, which could cause us to enter into transactions on less favorable terms than we would receive from a third party or that negatively affect the public's perception of us.

Although our code of ethics generally prohibits us from acquiring assets from, or disposing of investments to, Paladin Advisors or its affiliates (other than the assignment of a purchase agreement to which Paladin Advisors or one of its affiliates is a party to us on substantially the same terms as the underlying agreement), we may acquire real property investments or real estate related investments from entities which are managed by Paladin Advisors or its affiliates, if so waived by our board of directors. Further, we may also dispose of real property investments or real estate related investments to entities which are controlled by Paladin Advisors or its affiliates. Paladin Advisors or its affiliates may make substantial profits in connection with such transactions. Paladin Advisors or its affiliates may owe fiduciary or other duties to the selling or purchasing entity in these transactions, and conflicts of interest between us and the selling or purchasing entities could exist in such transactions. Because our independent directors would rely on Paladin Advisors in identifying and evaluating any such transaction, these conflicts could result in transactions based on terms that are less favorable to us than we would receive from a third party. Also, the existence of conflicts, regardless of how they are resolved, might negatively affect the public's perception of us.

The fees we pay in connection with our Follow-On Offering were not determined on an arm's length basis and therefore may not be on the same terms as those we could negotiate with a third party.

Our independent directors relied on information and recommendations provided by Paladin Advisors to determine the fees and distributions payable to Paladin Advisors and its affiliates under the Advisory Agreement and the subordinated participation interest in Paladin OP. Our board of directors also relied on information and recommendations provided by Paladin Advisors in connection with its review of the Dealer Manager Agreement with Paladin Securities. As a result, these fees and distributions cannot be viewed as having been determined on an arms' length basis and we cannot assure our investors that an unaffiliated third party would not be willing and able to provide to us the same services at a lower price. The fees Paladin Advisors is entitled to are acquisition fees, origination fees, asset management fees and subordinated disposition fees. The distributions Paladin Advisors may become entitled to receive would be payable upon distribution of net sales proceeds to our stockholders, the listing of our shares or the termination of Paladin Advisors as our advisor. The fees to which Paladin Securities will be entitled are a dealer manager fee and selling commissions.

Because Paladin Securities is an affiliate of Paladin Advisors, investors will not have the benefit of an independent review of us or the prospectus which are customarily performed in underwritten offerings.

Paladin Securities is an affiliate of Paladin Advisors and has not made an independent review of us or the Follow-On Offering. Accordingly, our investors do not have the benefit of an independent review of the terms of our Follow-On Offering. Further, the due diligence investigation of us by the dealer manager cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker.

Paladin Advisors may receive substantial compensation in connection with an internalization transaction, which could negatively impact our investment returns.

We are externally managed and advised by Paladin Advisors pursuant to an Advisory Agreement with a one-year term, subject to renewals by the parties for an unlimited number of successive one-year periods. In order to authorize the renewal of the Advisory Agreement, our board of directors will be required to make a determination that remaining externally advised by Paladin Advisors is in our best interest. At such time as we have substantial assets and operations, our board of directors may determine that it is more cost-effective for us to be self-managed and self-advised. In addition, because a majority of publicly traded REITs are self-managed and self-advised, our board of directors may determine that it is in our best interest to have our own internal management personnel in preparation for listing our shares on a national securities exchange. If our board makes this determination, it will evaluate whether to hire an internal management team on an individual basis, to acquire another advisor or to acquire Paladin Advisors. Our board of directors may determine that the most efficient means of becoming self-managed and self-advised would be to negotiate for us to acquire Paladin Advisors in a transaction referred to as an internalization. An internalization generally includes the acquisition of some of Paladin Advisor's executives and key personnel. While we would then be relieved of paying fees to Paladin Advisors under the Advisory Agreement, we would be required to pay the salaries of our executives and employees and related costs and expenses formerly absorbed by Paladin Advisors under the Advisory Agreement. An internalization transaction could have the effect of reducing the amount of investment returns to our stockholders in the event that we pay more for the advisor than the value of the internal management function to our company.

Paladin Advisors may be entitled to receive substantial compensation from us when we consummate a liquidity event, which could negatively impact our investment returns.

In the future, our board of directors will consider various types of transactions to provide liquidity to stockholders, including but not limited to: (1) listing our common stock on a national securities exchange; (2) our sale or merger in a transaction that provides our stockholders with cash or securities of a publicly traded company; and (3) the sale of all or substantially all of our assets for cash or other consideration. In the event that we sell all or substantially all of our assets, we would be potentially required to pay Paladin Advisors the subordinated distributions of net sales proceeds. In the event that we list our shares on a national securities exchange at such time as we remain externally advised by Paladin Advisors, we would be potentially required to make a one-time cash payment to Paladin Advisors in an amount equal to the amount of cash distributions we would have been required to make to Paladin Advisors if we had liquidated as of the listing date and distributed the net proceeds to our stockholders. In the event that our board of directors approves a sale or merger of our company, it is likely that such a transaction would cause a termination of our Advisory Agreement. Upon the termination of the Advisory Agreement, we would be potentially required to make a one-time payment to Paladin Advisors in an amount calculated in a similar manner based upon the market value of our company as of the date of termination. This potential obligation to make substantial payments to Paladin Advisors in the event of a listing, sale or merger of our company or sale of our assets may limit the amount that our investors will receive upon the consummation of a liquidity event.

We may compete with affiliates of Paladin Advisors for investment opportunities. As a result, Paladin Advisors may not present us with favorable investment opportunities which may reduce our returns on our investments.

Affiliates of Paladin Advisors may have existing programs with investment objectives and strategies similar to ours, and Paladin Advisors and its affiliates may sponsor or advise other similar programs in the future. As a result, we may be making real property investments and real estate related investments at the same time as one or more of the other programs managed or advised by Paladin Advisors and its affiliates. Paladin Advisors may face conflicts of interest in allocating investment opportunities between us and these other programs. For instance, Paladin Advisors may select properties for us that provide lower returns to us than properties that it or its affiliates select to be purchased by another Paladin program. Paladin Advisors has agreed, pursuant to the Advisory Agreement, that during any period in which we have or can reasonably be expected to obtain funds available for investment, it will generally provide us with the first opportunity to invest in any U.S. "core" or "core-plus" real properties that it identifies as a potential investment opportunity and that is suitable for us. However, we cannot be sure that officers and employees acting on behalf of Paladin Advisors and on behalf of managers of other Paladin programs will act in our best interests when deciding whether they are required to allocate any particular investment to us. We are subject to the risk that as a result of the conflicts of interest between us, Paladin Advisors and other entities or programs managed by or affiliated with it, Paladin Advisors may not present us with favorable investment opportunities that Paladin Advisors locates when it would be in our best interest to make such investments. As a result, we may invest in less favorable investments, which may reduce our returns on our investments and ability to make distributions.

We may compete with affiliates of Paladin Advisors for tenants or business, which may reduce our ability to attract and retain tenants and business.

Affiliates of Paladin Advisors have existing programs with investment objectives and strategies similar to ours, and Paladin Advisors and its affiliates may sponsor or advise other similar programs in the future. These existing and future programs may own real properties located in geographical areas in which we may acquire real properties. Therefore, the real properties in which we invest, directly or indirectly, may compete for tenants or business with properties owned by other programs sponsored or advised by Paladin Advisors and its affiliates. Paladin Advisors may face conflicts of interest when allocating opportunities between us and other programs sponsored or advised by Paladin Advisors and its affiliates, and these conflicts of interest may have a negative impact on our ability to attract and retain tenants or business.

If we enter into joint ventures with affiliates, we may face conflicts of interest or disagreements with our joint venture partners that will not be resolved as quickly or on terms as advantageous to us as would be the case if the joint venture had been negotiated at arm's length with an independent joint venture partner. As a result, our returns may be decreased if we enter into joint ventures with affiliates of Paladin Advisors.

Although our code of ethics generally prohibits us from entering into joint ventures with Paladin Advisors or its affiliates (other than the assignment of a purchase agreement to which Paladin Advisors or one of its affiliates is a party to us on substantially the same terms as the underlying agreement), we may enter into joint ventures with Paladin Advisors or its affiliates, if so waived by our board of directors. In the event that we enter into a joint venture with any other program sponsored or advised by Paladin Advisors or one of its affiliates, we may face certain additional risks and potential conflicts of interest. For example, securities issued by the other Paladin program may never have an active trading market. Therefore, if our shares were to become listed on a national securities exchange, we may no longer have similar goals and objectives with respect to the resale of properties in the future. In addition, our organizational documents require that we commence an orderly liquidation of our assets in the event that we are not listed on a securities exchange by February 23, 2015. In the event of such liquidation, any joint venture between us and another Paladin program may be required to sell its real properties at such time. Our joint venture partners may not desire to sell the real properties at that time. Joint ventures between us and other Paladin programs will not have the benefit of arm's length negotiation of the type normally conducted between unrelated co-venturers. Under these joint venture agreements, none of the co-venturers may have the power to control the venture, and an impasse could be reached regarding matters pertaining to the joint venture, including the timing of a liquidation, which might have a negative impact on the joint venture and decrease returns to our investors. Joint ventures with other Paladin programs would also be subject to the risks associated with joint ventures with unaffiliated third parties described below. Although our code of ethics generally prohibits us from entering into joint ventures with affiliates of Paladin Advisors, our independent directors could waive or amend that prohibition at any time.

Risks Associated with Our Organizational Structure

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

Our charter prohibits the ownership of more than 9.8% of the outstanding shares of common stock or any other class of our stock by any one investor. This restriction may discourage a change of control and may deter individuals or entities from making tender offers for our shares, which offers might otherwise be financially attractive to our stockholders or which might cause a change in our management. Further, this restriction may limit the opportunity for stockholders to receive a premium for their shares of common stock that might otherwise exist if an investor attempted to acquire in excess of 9.8% of our shares of common stock or any other class of our stock or otherwise to effect a change of control of us.

Our charter permits our board of directors to issue capital stock with terms that may subordinate the rights of the holders of our current common stock or discourage a third party from acquiring us, even if the acquisition was in our stockholders' best interests.

Our charter permits our board of directors to issue up to 850,000,000 shares of capital stock. Our board of directors (without any further action by our stockholders) may issue shares of our common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications, or terms or conditions of redemption of any such stock. If we ever created and issued preferred shares with a distribution preference over our common stock, payment of any distribution preferences of outstanding preferred shares would reduce the amount of funds available for the payment of distributions on our common stock. Further, holders of preferred shares are normally entitled to receive a liquidation preference in the event we liquidate, dissolve or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. We could also designate and issue shares in a class or series of common stock with similar rights. In addition, under certain circumstances, the issuance of preferred shares or a separate class or series of shares of common stock may render more difficult or tend to discourage:

- A merger, tender offer or proxy contest;
- The assumption of control by a holder of a large block of our securities; or
- The removal of incumbent management.

Certain provisions of Maryland law could restrict a change in control even if a change in control were in our stockholders' best interests.

Certain provisions of Maryland General Corporation Law applicable to us prohibit business combinations with:

- Any person who beneficially owns 10% or more of the voting power of our common stock, which we refer to as an interested stockholder;
- An affiliate of ours who, at any time within the two-year period prior to the date in question, was an interested stockholder; or
- An affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of our outstanding voting stock and two-thirds of the votes entitled to be cast by holders of our outstanding voting stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders' best interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that someone becomes an interested stockholder.

Our stockholders' investment return may be reduced if we are required to register as an investment company under the Investment Company Act.

We are not registered as an investment company under the Investment Company Act of 1940, as amended. If for any reason, we were required to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things:

- Limitations on capital structure;
- Restrictions on specified investments;
- Prohibitions on transactions with affiliates; and
- Compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

We intend to operate in such a manner that we will not be subject to regulation under the Investment Company Act. In order to maintain our exemption from regulation under the Investment Company Act, we must comply with technical and complex rules and regulations.

Specifically, in order to maintain our exemption from regulation as an investment company under the Investment Company Act, we intend to engage primarily in the business of investing in interests in real estate and to make these investments within one year after the Follow-On Offering ends. If we are unable to use a significant portion of the proceeds of our Offerings to make investments in real properties within one year of the termination of the Follow-On Offering, we may avoid being required to register as an investment company under the Investment Company Act by temporarily investing any unused proceeds in government securities with low returns.

In order to avoid coming within the application of the Investment Company Act by operating either as a company engaged primarily in investing in interests in real estate or complying with another exemption from the Investment Company Act, Paladin Advisors may be required to impose limitations on our investment activities. In particular, Paladin Advisors may limit the percentage of our assets that fall into certain categories specified in the Investment Company Act, which could result in us holding assets we otherwise might desire to sell and selling assets we otherwise might wish to retain. In addition, we may have to acquire additional assets that we might not otherwise have acquired or be forced to forgo investment opportunities that we would otherwise want to acquire and that could be important to our investment strategy. In particular, Paladin Advisors will monitor our real estate related investments to ensure continued compliance with one or more exemptions from "investment company" status under the Investment Company Act and, depending on the particular characteristics of those investments and our overall portfolio, Paladin Advisors may be required to limit the percentage of our assets represented by real estate related investments.

If we were required to register as an investment company, our ability to enter into certain transactions would be restricted by the Investment Company Act. Furthermore, the costs associated with registration as an investment company and compliance with such restrictions could be substantial. In addition, registration under and compliance with the Investment Company Act would require a substantial amount of time on the part of Paladin Advisors and its affiliates, thereby decreasing the time they spend actively managing our investments. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court was to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Our stockholders' interest in us will be diluted by our issuance of additional shares in our Follow-On Offering or otherwise.

Existing stockholders and potential investors in our Follow-On Offering do not have preemptive rights to any shares issued by us in the future. Our charter currently authorizes 850,000,000 shares of capital stock, of which 750,000,000 shares are designated as common stock and 100,000,000 are designated as preferred stock. Our board of directors may increase the number of authorized shares of capital stock, increase or decrease the number of shares of any class or series of stock designated, or reclassify any unissued shares without the necessity of obtaining stockholder approval. All of such shares may be issued in the discretion of our board of directors.

Existing stockholders and investors purchasing shares in our Follow-On Offering will also experience dilution of their equity investment in us in the event that we:

- Sell additional shares in the future, including those issued pursuant to the distribution reinvestment plan;
- Sell securities that are convertible into shares of our common stock;
- Issue shares of our common stock in a private offering of securities to institutional investors;
- Issue shares of our common stock to our independent directors pursuant to our incentive stock plan (as of December 31, 2010 we have granted 28,000 shares of common stock to our independent directors pursuant to the incentive stock plan and an additional 34,000 shares remain available for issuance under the plan); or
- Issue shares of our common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests of Paladin OP.

Risks Related to Investments in Real Properties

Competition with third parties in acquiring investments in real properties may reduce our profitability and the return on their investment.

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, pension funds, other REITs, real estate limited partnerships and foreign investors, many of which have greater resources than we do. Many of these entities may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. As such, competition with third parties would result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for investments in real properties, our profitability will be reduced and our investors may experience a lower return on their investment.

Some or all of our real properties may incur vacancies, which may result in reduced revenue and resale value, a reduction in cash available for distribution and a diminished return on their investment.

Some or all of our real properties may incur vacancies either by a default of tenants under their leases or the expiration or termination of tenant leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash distributions to be distributed to stockholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We are dependent on tenants for our revenue, and lease terminations could reduce the amount of our distributions to our stockholders.

The successful performance of our real property investments is materially dependent on the financial stability of our tenants. Lease payment defaults by tenants would cause us to lose the revenue associated with such leases and could cause us to reduce the amount of distributions to stockholders. If the property is subject to a mortgage, a default by a significant tenant on its lease payments to us may result in a foreclosure on the property if we are unable to find an alternative source of revenue to meet mortgage payments. In the event of a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. Further, we cannot assure our investors that we will be able to re-lease the property for the rent previously received, if at all, or that lease terminations will not cause us to sell the property at a loss.

Our real property investments may include special use and single tenant properties that may be difficult to sell or re-lease upon tenant defaults or early lease terminations.

We intend to focus a portion of our investments on commercial and industrial properties which may include manufacturing facilities, special use storage or warehouse facilities and special use, single tenant properties. These types of properties are relatively illiquid compared to other types of real estate and financial assets. This illiquidity will limit our ability to respond quickly to changes in economic or other conditions. With these properties, if the current lease is terminated or not renewed or, in the case of a mortgage loan, if we take such property in foreclosure, we may be required to renovate the property or to make rent concessions in order to lease the property to another tenant or sell the property. In addition, in the event we are forced to sell the property, we may have difficulty selling it quickly, if at all, or we may sell the property at a loss. These and other limitations may affect our ability to sell or re-lease properties and decrease returns to our stockholders.

Long-term leases may not result in fair market lease rates over time. As a result, our income and our distributions to our stockholders could be lower than if we did not enter into long-term leases.

We may enter into long-term leases with tenants of certain of our properties. Our long-term leases would likely provide for rent to increase over time. However, if we do not accurately judge the potential for increases in market rental rates, we may set the rental rates of these long-term leases at levels such that even after contractual rental increases the rental rates under our long-term leases is less than then-current market rental rates. Further, we may have no ability to terminate those leases or to adjust the rent to then-prevailing market rates. As a result, our income and distributions to our stockholders could be lower than if we did not enter into long-term leases.

To the extent that our apartment properties are not fully leased or are leased to residents who are not able to pay rent, our revenues and cash available for distribution to our stockholders may be substantially reduced.

Nine of our eleven existing real estate investments are in apartment communities. An apartment community's revenues and value may be adversely affected by the general economic climate; the local economic climate; local real estate considerations (such as over-supply of or reduced demand for apartments); the perception by prospective residents of the safety, convenience and attractiveness of the communities or neighborhoods in which our properties are located and the quality of local schools and other amenities; and increased operating costs (including real estate taxes and utilities). The underlying value of apartment communities and our ability to make distributions to our investors depend upon our ability to lease our available apartment units and the ability of the residents of our apartment properties to generate enough income to pay their rents in a timely manner. Our residents' inability to pay rents may be impacted by employment and other constraints on their personal finances, including debts, purchases and other factors.

Virtually all of the leases for our apartment communities will be short-term leases (generally, three to 24 months). Ultimately, to the extent we are unable to renew leases, or re-lease apartment units as leases expire, it would result in decreased cash flow from residents and adversely affect our operating results. Increased competition for residents of our apartment communities may also require us to make capital improvements to apartment communities which we would not have otherwise planned to make. Any unbudgeted capital improvements we undertake may divert away cash that would otherwise be available for distribution to stockholders. If we are required to renovate our apartment communities in order to attract residents, tenants may have to be relocated during the renovation, which will add to our costs. Delays in completion of any renovations may add to these costs. Certain significant fixed expenses are generally not reduced when circumstances such as renovations cause a reduction in income from the leases. Vacant apartment units that are being renovated usually cannot be rented to tenants and this will adversely affect our rental income. In addition, we will be subject to normal lease-up risks for units which were not rented during renovation. Factors such as these can result in increased costs and decreased revenues which could materially adversely affect our results of operations and, consequently, amounts available for distribution to our investors.

Our stockholders' investment may be subject to additional risks if we make international investments.

We may make investments in real property located outside the United States. These investments may be affected by factors unique to the laws of the jurisdiction in which the property is located. These laws may expose us to risks that are different from and in addition to those commonly found in the United States. Foreign investments could be subject to the following risks:

- Changing governmental rules and policies;

- Enactment of laws relating to the foreign ownership of real estate, mortgages or securities and laws relating to the ability of foreign persons or corporations to remove profits earned from activities within the country to the person's or corporation's country of origin;
- Fluctuations in the currency exchange rates;
- Adverse market conditions caused by changes in national or local economic conditions;
- Changes in relative interest rates;
- Changes in the availability, cost and terms of debt financing resulting from varying national economic policies;
- Changes in real estate and other tax rates and other operating expenses in particular countries;
- Changes in land use and zoning laws; and
- More stringent environmental laws or changes in such laws.

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

We may be unable to secure funds for future tenant or other capital improvements, which could limit our ability to attract or replace tenants and decrease their return on investment.

When tenants do not renew their leases or otherwise vacate their space, it is common that, in order to attract replacement tenants, we will be required to expend substantial funds for tenant improvements and leasing commissions related to the vacated space. Such tenant improvements may require us to incur substantial capital expenditures. If we have not established capital reserves for such tenant or other capital improvements, we will have to obtain financing from other sources and we have not identified any sources for such financing. We may also have future financing needs for other capital improvements to refurbish or renovate our properties. If we need to secure financing sources for tenant improvements or other capital improvements in the future, but are unable to secure such financing or are unable to secure financing on terms we feel are acceptable, we may be unable to make tenant and other capital improvements or we may be required to defer such improvements. If this happens, it may cause one or more of our properties to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to the property or existing tenants not renewing their leases. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our real properties, pay other expenses or make distributions to our stockholders.

Uninsured losses relating to real properties may reduce their returns.

Paladin Advisors will attempt to ensure that all of our real properties are adequately insured to cover certain casualty losses; however, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, for which we may not obtain insurance unless we are required to do so by mortgage lenders. If any of our real properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by any such uninsured loss. In addition, other than any reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property, and we cannot assure our investors that any such sources of funding will be available to us for such purposes in the future. Also, to the extent we must pay unexpectedly large amounts for uninsured losses, we could suffer reduced earnings that would result in less cash to be distributed to stockholders. In cases where we are required by mortgage lenders to obtain casualty loss insurance for catastrophic events, such insurance may not be available, or may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our properties.

Our operating results may be negatively affected by potential development and construction delays and resultant increased costs and risks.

We may invest a portion of the proceeds available for investment in the acquisition of real properties for development and in the development of such properties. For those real properties, we will be subject to risks relating to uncertainties associated with obtaining development permits and environmental and other concerns of governmental entities or community groups and our ability to control construction costs or to build in conformity with plans, specifications and timetables. Performance may also be affected or delayed by conditions beyond our control. Delays in completion of construction could also give tenants the right to terminate preconstruction leases for space at a newly developed project. These and other such factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. Furthermore, we must rely upon projections of rental income and expenses and estimates of the fair market value of property upon completion of construction when determining a price to be paid for the property at the time of acquisition of the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer. In addition, we may invest in unimproved real property. Returns from development of unimproved properties are also subject to risks and uncertainties associated with obtaining development permits and environmental and other concerns of governmental entities or community groups. Although our intention is to limit any investment in unimproved property to property we intend to develop, their investment nevertheless is subject to the risks associated with investments in unimproved real estate.

Uncertain market conditions relating to the future disposition of real property investments could cause us to sell our investments at a loss in the future.

We intend to hold our various real property investments until such time as Paladin Advisors determines that a sale or other disposition appears to be advantageous to achieve our investment objectives. Paladin Advisors, subject to the oversight of our board of directors, may exercise its discretion as to whether and when to sell an investment, and we will have no obligation to sell investments at any particular time, except in connection with our liquidation if we do not list our shares by the date set forth in our charter (i.e., February 23, 2015). We generally intend to hold real property investments for an extended period of time, and we cannot predict with any certainty the various market conditions affecting real property investments that will exist at any particular time in the future. Because of the uncertainty of market conditions that may affect the future disposition of our investments, we cannot assure our investors that we will be able to sell our properties at a profit in the future. Additionally, we may incur prepayment penalties in the event we sell a real property investment subject to a mortgage earlier than we otherwise had planned. Accordingly, the extent to which our investors will receive cash distributions and realize potential appreciation on our real property investments will, among other things, be dependent upon fluctuating market conditions.

We will be subject to additional risks if we invest in hotels that could increase our costs, limit our ability to manage the operations of any hotels we may own, decrease our profitability and limit the amount of distributions payable to our stockholders.

We may make investments in hotels, in which case our operating results for those investments would be dependent on factors in addition to the risks generally associated with investments in real estate. These additional factors would include:

- Dependence on business travel and tourism;
- Increases in levels of supply or decreases in demand for hotel rooms and related services;
- Competition from other hotels, some of which may be owned and operated by companies having greater marketing and financial resources than we do;
- Increases in operating costs due to inflation, or other factors such as energy costs, taxes and insurance that have historically increased at a faster rate than inflation, which may not be offset entirely by increased room rates;
- Increases in energy costs and other factors that could reduce the amount of business or vacation travel; and
- Reliance on the air travel industry, which is itself particularly subject to risks related to terrorism.

In order to be taxed as a REIT, we cannot operate any hotel or directly participate in the decisions affecting the daily operations of any hotel. Therefore, we would likely lease any hotels we acquire to third parties or wholly owned taxable REIT subsidiaries which we would form in the future. We expect that the rent payable under any such lease with a taxable REIT subsidiary would be based in whole or in part on hotel revenue. However, we would be subject to limits on the rent our taxable REIT subsidiary could pay us, as the REIT rules generally impose a 100% excise tax on any transaction with a taxable REIT subsidiary that does not conform to normal business practice. Under the REIT rules, neither we nor our taxable REIT subsidiaries to which we would lease hotels will be permitted to manage our hotels directly, and as a result, each taxable REIT subsidiary lessee would be required to enter into a management agreement with an eligible third-party operator that would manage the hotel. We cannot assure our investors that our taxable REIT subsidiaries would be able to enter into such management agreements on terms favorable to them, either initially or upon termination of an existing management agreement. Further, the operating results of our hotels would in large part be dependent on the quality of the management provided by such third party managers, over which we would have little control. Even if we believed one or more of our hotels were not being managed in an optimal manner, it likely would be difficult to terminate a manager under the terms of its management agreement. These aspects of investments we may make in hotels could increase our costs, limit our ability to manage the operations of hotels we own, decrease our profitability, and limit the amount of distributions payable to our stockholders.

We face possible liability for environmental cleanup costs and damages for contamination related to real property investments we make, which could substantially increase our costs and reduce our liquidity and cash distributions to stockholders.

Because we intend to make investments in real properties, we will be subject to various federal, state and local environmental laws, ordinances and regulations. Under these laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. The costs of removal or remediation could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real estate for personal injury or property damage associated with exposure to released hazardous substances. In addition, new or more stringent laws or stricter interpretations of existing laws could change the cost of compliance or liabilities and restrictions arising out of such laws. The cost of defending against these claims, complying with environmental regulatory requirements, conducting remediation of any contaminated property, or of paying personal injury claims could be substantial, which would reduce our liquidity and cash available for distribution to our investors. In addition, the presence of hazardous substances on a property or the failure to meet environmental regulatory requirements may materially impair our ability to use, lease or sell a property, or to use the property as collateral for borrowing.

Our costs associated with complying with the Americans with Disabilities Act may reduce our cash available for distributions.

Our real property investments may be subject to the Americans with Disabilities Act of 1990, as amended, which we refer to as the ADA. Under the ADA, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities" that generally require that buildings and services be made accessible and available to people with disabilities. The ADA's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We will be required to comply with the ADA and our funds used for ADA compliance may reduce cash available for distributions and the amount of distributions to our investors.

Risks Associated with Joint Ventures

The terms of joint venture agreements or other joint ownership arrangements into which we may enter could impair our operating flexibility and our results of operations.

In connection with the making of real property investments, we may enter into joint ventures, including co-tenancies and other co-ownership structures, with affiliated or unaffiliated parties. Each of the eleven real estate investments we have made as of the date of this Annual Report is structured as a joint venture with unaffiliated parties. In addition, we may also purchase or develop properties in joint ventures with affiliates of Paladin Realty, the sellers of the properties, developers or similar persons. These structures involve participation in the investment by other parties whose interests and rights may not be the same as ours. These co-venturers may have rights to take some actions over which we have no control and may take actions contrary to our interests. For example, joint ownership of an investment, under certain circumstances, may involve risks not associated with direct ownership of such investment, including the following:

- A co-venturer might have economic or other business interests or goals which are unlike or incompatible with our business interests or goals, including inconsistent goals relating to the sale of properties held in a joint venture or co-tenancy, or the timing of the termination and liquidation of the venture or co-tenancy;
- Such co-venturer may become bankrupt and such proceedings could have an adverse impact on the operation of the joint venture;
- We may incur liabilities as the result of actions taken by co-venturers in which we had no direct involvement; and
- Such co-venturers may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives or fail to take actions as we instruct, or in accordance with our policies and objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT.

If we have a right of first refusal or buy/sell right to buy out a co-venturer, we may be unable to finance such a buy-out if it becomes exercisable or we may be forced to exercise those rights at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest when we would otherwise prefer to purchase our co-venturer's interest. Finally, we may not be able to sell our interest in a joint venture on a timely basis or on acceptable terms if we desire to exit the investment for any reason, particularly if our interest is subject to a right of first refusal of our co-venturer.

We may structure our joint venture relationships in a manner which may limit the amount we participate in the cash flow or appreciation of an investment.

We may enter into joint venture agreements, the economic terms of which may provide for the distribution of income to us in a manner other than in direct proportion to our ownership interest in the joint venture. For example, while we and a co-venturer may invest an equal amount of capital in an investment, the investment may be structured such that we have a right to priority distributions of cash flow up to a certain target return while the co-venturer may receive a disproportionately greater share of cash flow than we are to receive once such target return has been achieved. Ten of our eleven real estate investments as of December 31, 2010 are structured in this manner. If the total returns from a structured investment exceed the target return for such investment, the co-venturer may receive more of the cash flow and/or appreciation upon sale of the property than its direct ownership interest would indicate. Conversely, if the total returns from a structured investment fall short of the target return for such investment, the co-venturer may receive less of the cash flow and/or appreciation upon the sale of the property than its direct ownership interest would indicate. If we do not accurately judge the appreciation prospects of a particular investment, we may have limited participation in the profits of a joint venture investment which could reduce our profitability from the investment.

Risks Associated with Real Estate Related Investments

We may make investments in loans on real property such as mortgages and mezzanine loans, which we refer to as real estate related investments. We will be subject to risks associated with these real estate related investments, including the material risks discussed below.

Our real estate related investments may be impacted by unfavorable real estate market conditions, which could decrease their value.

If we make real estate related investments, we will be at risk of loss on those investments, including losses as a result of defaults on mortgage loans. These losses may be caused by many conditions beyond our control, including local and other economic conditions affecting real estate values, tenant defaults and lease expirations, interest rate levels and the other economic and liability risks associated with real estate described above under the heading "—Risks Related to Investments in Real Properties." We do not know whether the values of the property securing any of our real estate related investments will remain at the levels existing on the dates we initially make the related investment. If the values of the underlying properties drop, our risk will increase and the values of our interests may decrease.

Our returns on mortgage loans may be reduced by interest rate fluctuations.

If we invest in fixed-rate, long-term mortgage loans and interest rates rise, the mortgage loans could yield a return lower than then-current market rates. Also, if interest rates decrease and mortgage loans are prepaid without adequate penalty, we may not be able to make new loans or other real estate related investments at the previously higher interest rates.

Delays in liquidating defaulted real estate related investments could reduce our investment returns.

If there are defaults under our real estate related investments, we may not be able to foreclose on or obtain a suitable remedy with respect to such investments. Specifically, if there are defaults under mortgage loans, we may not be able to repossess and sell the underlying properties quickly. The resulting time delay could reduce the value of our investment. For example, an action to foreclose on a property securing a mortgage loan is regulated by state statutes and rules and is subject to many of the delays and expenses of lawsuits if the defendant raises defenses or counterclaims. Additionally, in the event of default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due to us on the mortgage loan.

Returns on our mortgage loans may be limited by regulations.

Our mortgage loan investments may also be subject to regulation by federal, state and local authorities and subject to various laws and judicial and administrative decisions, which may increase our costs associated with making or acquiring mortgage loans and thereby reduce our returns. In addition, we may determine not to make mortgage loans in certain jurisdictions based on state or local regulation, which may limit our ability to make or acquire mortgage loans that we otherwise believe to be attractive investments.

Foreclosures create additional risks, as we would be subject to all of the risks of owning the property on which we foreclose.

If we acquire property by foreclosure following defaults under our mortgage loans, we will have the economic and liability risks as the owner described above under the heading "—Risks Related to Investments in Real Properties."

If we liquidate prior to the maturity of our real estate related investments, we may be forced to sell those investments on unfavorable terms or at a loss.

If we have not listed our shares on a national securities exchange by the date set forth in our charter (i.e., February 23, 2015), we will be required to commence an orderly liquidation of our assets and distribute the net proceeds to our stockholders. We may make real estate related investments with terms that expire after this "list or liquidate" deadline. If we become required to liquidate those investments prior to their maturity, we may be forced to sell those investments on unfavorable terms or at loss. For instance, if we are required to liquidate mortgage loans at a time when prevailing interest rates are higher than the interest rates of such mortgage loans, we would likely sell such loans at a discount to their stated principal values.

Risks Associated with Debt Financing

We expect to incur mortgage and other indebtedness, which may increase our business risks and impair our ability to make distributions to our stockholders.

We expect to make additional investments with both proceeds from our Follow-On Offering and debt. In addition, we may incur mortgage debt and pledge some or all of our real properties as security for that debt to obtain funds to acquire additional real properties or for working capital. Further, the joint ventures in which we have invested have previously incurred and may in the future incur mortgage debt by obtaining loans secured by some or all of the real property owned by the joint venture. Under our charter, we have a limitation on borrowing which precludes us from borrowing in excess of 300% of the value of our net assets, unless such excess is approved by a majority of our independent directors and is disclosed in our next quarterly report along with the justification for such excess. In the future, we may also borrow funds if necessary to satisfy the requirement that we distribute to stockholders as distributions at least 90% of our annual taxable income, subject to certain adjustments, or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes.

We may incur mortgage debt on a particular real property if we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if cash flow from the property is insufficient to service the mortgage debt, we would be required to use cash flow from other sources, if any is available, to service the mortgage debt and to avoid the mortgage lender foreclosing on the property subject to the loan. Thus, incurring mortgage debt increases our risks since defaults on indebtedness secured by a property may result in foreclosure actions initiated by lenders and our loss of the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our investments in real properties. When we give a guaranty on behalf of an entity that owns one of our investments in real properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one real property may be affected by a default. If any of our properties are foreclosed upon due to a default, we may have less cash available for distributions to our stockholders.

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

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the investments in real properties we wish to make, even if such investments would otherwise be in our best interests, which could reduce the number of investments we can make. In addition, once we have placed mortgage debt on our real property investments, we run the risk of being unable to refinance the entire outstanding loan balances when the loans come due, or of being unable to refinance any amount on favorable terms. In addition, if interest rates are higher when investments require refinancing, we may not be able to refinance the entire outstanding loan balances or our debt service may be higher if we do refinance the loan balances, either of which could reduce our income from those investments and reduce cash available for distribution to our stockholders.

We cannot rely on the principals of Paladin Advisors to guarantee indebtedness in order to assist us in obtaining debt financing.

Certain principals of Paladin Advisors have guaranteed the repayment of certain of Paladin Realty's borrowings from third parties which facilitated loans our sponsor made to us in order to allow us to make our initial three investments. Paladin Advisor's principals are not required to provide any future financing to us or to guarantee any borrowings from third parties to fund any future loans they may make to us, and if they decline to do so, any future financing we may be able to obtain may be on costlier terms, which would adversely impact our ability to make distributions to stockholders.

We have guaranteed the mortgage loan on 801 Fiber Optic Drive, which may result in us being obligated to make substantial payments.

In connection with the refinancing of the mortgage loan on 801 Fiber Optic Drive, we agreed to guarantee the loan in the amount of $1.3 million upon the occurrence of certain limited conditions. If we were to become obligated to perform under this guarantee, it could have an adverse effect on our financial condition and ability to pay distributions.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

In connection with obtaining debt financing, a lender could impose restrictions on us that affect our ability to incur additional debt and affect our distribution and operating policies. Loan documents we enter into may contain customary negative covenants that may limit our ability to further mortgage the property, to discontinue insurance coverage, to replace Paladin Advisors as our advisor or to impose other limitations. Any such restriction or limitation may have an adverse effect on our operations. Any restrictions or limitations on our ability to make distributions could negatively impact our ability to remain qualified as a REIT.

Fluctuations in interest rates could increase our expenses, require us to sell investments or make it more difficult to make attractive investments.

Although none of the loans we have incurred currently bear interest at a variable rate, we may refinance our loans or incur additional loans at variable rates. In such case, increases in interest rates would increase our interest costs, which could have a material adverse effect on our operating cash flow and our ability to make distributions to our investors. In addition, if rising interest rates cause us to need additional capital to service our debt, we may be required to liquidate one or more of our investments in real properties at times which may not permit realization of the maximum return on such investments. Further, increases in interest rates may make investments in other entities more attractive than an investment in us. Conversely, decreases in interest rates may cause the price of real property investments and real estate related investments to increase, thus making it more difficult for us to make otherwise attractive investments. Any of these circumstances could reduce our profitability and our ability to make distributions to our stockholders.

If we enter into financing arrangements involving balloon payment obligations, the repayment of the balloon payments may require us to enter into unfavorable refinancings or to divert funds from other sources, which would reduce distributions made.

Currently, all of our financing arrangements will require us to make a lump-sum or "balloon" payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the investment. At the time the balloon payment is due, we may or may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment, which could require us to incur debt on unfavorable terms or divert funds from other sources to make the balloon payment. As a result, financing arrangements with balloon payments could result in increased costs and reduce our liquidity. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to make the distributions that we are required to make to maintain our qualification as a REIT. Any of these results would have a significant, negative impact on their investment.

As a result of current market conditions, we may be unable to obtain debt financing on favorable terms, if at all.

In order to conduct our proposed activities, including, without limitation, our ability to fund our investments in joint ventures and property acquisitions, we must continue to generate sufficient capital and liquidity. To generate sufficient capital and liquidity to make investments, we rely upon our net operating income and funds that we raise through our borrowing activities. Due to the recent crises in the real estate, credit and liquidity markets, it has become increasingly difficult to obtain debt financing for our investments on favorable terms, if at all. In the event that we are unable to generate capital and liquidity on terms that are favorable to us, our ability to conduct our operations and make investments may be adversely affected.

Tax Risks

We may fail to maintain our qualification as a REIT for federal income tax purposes, which would subject us to federal income tax on our taxable income at regular corporate rates, which would substantially reduce our ability to make distributions to our stockholders.

We elected to be taxed as a REIT beginning with the tax year ended December 31, 2006. In order for us to continue to qualify as a REIT, we must satisfy certain requirements set forth in the Internal Revenue Code concerning, among other things, the ownership of our stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders. The REIT qualification requirements are extremely complex, and official interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so as to maintain our qualification as a REIT. At any time, new laws, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a REIT. It is possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke our REIT election, which it may do without stockholder approval.

If we lose or revoke our REIT status, we will face serious tax consequences that will substantially reduce our ability to make distributions to our stockholders because:

- We would not be allowed a deduction for distributions made to stockholders in computing our taxable income, we would be subject to federal income tax at regular corporate rates and we might need to borrow money or sell assets in order to pay any such tax;
- We also could be subject to the federal alternative minimum tax and possibly increased state and local income and franchise taxes; and
- Unless we are entitled to relief under certain statutory provisions, we would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify.

As a result of all these factors, our failure to maintain our qualification as a REIT could impair our ability to expand our business and raise capital, and would substantially reduce our ability to make distributions to our stockholders.

We will not seek to obtain a ruling from the Internal Revenue Service that we qualify as a REIT for federal income tax purposes, and therefore the IRS could determine we fail to qualify as a REIT, which would substantially reduce our ability to make distributions to our stockholders.

As described herein, we operate so as to qualify as a REIT for federal income tax purposes. Although we have not requested, and do not expect to request, a ruling from the IRS that we qualify as a REIT, we have received an opinion of our counsel that, based on certain assumptions and representations, we do so qualify. Our investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The REIT qualification opinion only represents the view of our counsel based on its review and analysis of existing law, which is subject to future legislative, judicial or administrative changes, any of which could be applied retroactively. The validity of the opinion of our counsel and of our qualification as a REIT will depend on our continuing ability to meet the various REIT requirements described herein. An IRS determination that we do not qualify as a REIT would deprive our stockholders of the tax benefits of our REIT status only if the IRS determination is upheld in court or otherwise becomes final. To the extent that we challenge an IRS determination that we do not qualify as a REIT, we may incur legal expenses that would reduce our funds available for distribution to stockholders.

Failure to make required distributions would subject us to tax.

In order to qualify as a REIT, each year we must distribute to our stockholders at least 90% of our taxable income, subject to certain adjustments. To the extent that we satisfy the distribution requirement but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of:

- 85% of our ordinary income for that year;
- 95% of our capital gain net income for that year; and
- 100% of our undistributed taxable income from prior years.

We intend to pay out our income, if any, to our stockholders in a manner intended to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money, use proceeds from the issuance of securities or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. In the future, we may borrow funds to make distributions to our stockholders and the limited partners of Paladin OP. Any funds that we borrow would subject us to interest rate and other market risks.

If Paladin OP fails to maintain its status as a partnership for federal income tax purposes, its income would be subject to taxation.

We intend to maintain the status of Paladin OP as a partnership for federal income tax purposes. However, if the IRS were to successfully challenge the status of Paladin OP as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that Paladin OP could make to us. This would also result in our losing REIT status and becoming subject to a corporate level tax on our own income.

In addition, if any of the entities through which Paladin OP owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to Paladin OP. Such a recharacterization of Paladin OP or an underlying property owner could also threaten our ability to maintain REIT status.

Employee Benefit Plan and IRA Risks

We, and our investors that are employee benefit plans or IRAs, will be subject to risks relating specifically to our having employee benefit plans as stockholders, which risks are discussed below.

There are special considerations for pension or profit-sharing or 401(k) plans, health or welfare plans or individual retirement accounts whose assets are being invested in our common stock.

If our investors are investing the assets of a pension, profit sharing or 401(k) plan, health or welfare plan, or an IRA in us, our investors should consider:

- Whether their investment is consistent with the applicable provisions of ERISA and the Internal Revenue Code, or any other applicable governing authority in the case of a government plan;
- Whether their investment is made in accordance with the documents and instruments governing their plan or IRA, including their plan's investment policy;
- Whether their investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA;
- Whether their investment will impair the liquidity of the plan or IRA;
- Whether their investment will produce unrelated business taxable income, referred to as UBTI and as defined in Sections 511 through 514 of the Internal Revenue Code, to the plan; and
- Their need to value the assets of the plan annually.

Our investors also should consider whether their investment in us will cause some or all of our assets to be considered assets of an employee benefit plan or IRA. We do not believe that under ERISA and U.S. Department of Labor regulations currently in effect that our assets would be treated as "plan assets" for purposes of ERISA. However, if our assets were considered to be plan assets, transactions involving our assets would be subject to ERISA and/or Section 4975 of the Internal Revenue Code, and some of the transactions we have entered into with Paladin Advisors and its affiliates could be considered "prohibited transactions," under ERISA or the Internal Revenue Code. If such transactions were considered "prohibited transactions" Paladin Advisors and its affiliates could be subject to liabilities and excise taxes or penalties. In addition, our officers and directors, Paladin Advisors and its affiliates could be deemed to be fiduciaries under ERISA, subject to other conditions, restrictions and prohibitions under Part 4 of Title I of ERISA, and those serving as fiduciaries of plans investing in us may be considered to have improperly delegated fiduciary duties to us. Additionally, other transactions with "parties-in-interest" or "disqualified persons" with respect to an investing plan might be prohibited under ERISA, the Internal Revenue Code or other governing authority in the case of a government plan. Therefore, we would be operating under a burdensome regulatory regime that could limit or restrict investments we can make or our management of our properties. Even if our assets are not considered to be plan assets, a prohibited transaction could occur if we or any of our affiliates is a fiduciary (within the meaning of ERISA) with respect to an employee benefit plan purchasing shares, and, therefore, in the event any such persons are fiduciaries (within the meaning of ERISA) of their plan or IRA, our investors should not purchase shares unless an administrative or statutory exemption applies to their purchase.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Information required by this Item 2 is incorporated by reference to the information contained in Item 1. Business under the caption "Current Investments" in this Annual Report on Form 10-K.

Item 3. Legal Proceedings

None.

Item 4. Reserved

PART II

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

Market Information

Our common stock is not currently listed on a national securities exchange or any over-the-counter market. We do not expect our shares to become listed in the near future, and they may not become listed at all. Our charter permits us to list our shares on a national securities exchange on or before February 23, 2015. In the event we do not obtain listing prior to that date, our charter requires us to begin selling our properties and liquidating our assets.

In order for FINRA members and their associated persons to have participated in the offering and sale of our common stock or to participate in any future offering of our common stock, we are required pursuant to FINRA Rule 5110(f)(M) to disclose in each Annual Report distributed to our stockholders a per share estimated value of the common stock, the method by which it was developed and the date of the data used to develop the estimated value. In addition, Paladin Advisors must prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the Annual Reporting requirements of ERISA in the preparation of their reports relating to an investment in our common stock. For these purposes, the estimated value of the shares shall be deemed to be $10.00 per share as of December 31, 2010. The basis for this valuation is the fact that we are currently conducting a public offering of our common stock at the price of $10.00 per share.

Holders

As of March 4, 2011, there were 1,876 holders of record of our common stock.

Distributions

In order to qualify as a REIT, we are required to distribute 90% of our annual taxable income, subject to certain adjustments, to our stockholders. The amount of any cash distributions will be determined by our board of directors and will depend on the amount of distributable funds, current and projected cash requirements, tax considerations, any limitations imposed by the terms of indebtedness we may incur and other factors. If our investments produce sufficient cash flow, we expect to declare and make distributions on a monthly basis. Because we may receive income from interest or rents at various times during our fiscal year, distributions may not reflect our income earned in that particular distribution period but may be made in anticipation of cash flow which we expect to receive during a later quarter and may be made in advance of actual receipt of funds in an attempt to make distributions relatively uniform. Due to these timing differences, we may be required to borrow money, use proceeds from the issuance of securities or sell assets to pay out enough of our taxable income to satisfy the requirement that we distribute at least 90% of our taxable income, subject to certain adjustments, in order to qualify as a REIT. We have declared and paid a 6% distribution every month since December 2005. For the years ended December 31, 2009 and 2010, our board of directors has declared the distributions listed below.

Month	Annualized Rate Declared	Date Made
January 2009	6.0%	February 16, 2009
February 2009	6.0%	March 16, 2009
March 2009	6.0%	April 15, 2009
April 2009	6.0%	May 15, 2009
May 2009	6.0%	June 15, 2009
June 2009	6.0%	July 15, 2009

Month	Annualized Rate Declared	Date Made
July 2009	6.0%	August 17, 2009
August 2009	6.0%	September 15, 2009
September 2009	6.0%	October 15, 2009
October 2009	6.0%	November 15, 2009
November 2009	6.0%	December 15, 2009
December 2009	6.0%	January 15, 2010
January 2010	6.0%	February 15, 2010
February 2010	6.0%	March 15, 2010
March 2010	6.0%	April 15, 2010
April 2010	6.0%	May 17, 2010
May 2010	6.0%	June 15, 2010
June 2010	6.0%	July 15, 2010
July 2010	6.0%	August 16, 2010
August 2010	6.0%	September 15, 2010
September 2010	6.0%	October 15, 2010
October 2010	6.0%	November 15, 2010
November 2010	6.0%	December 15, 2010
December 2010	6.0%	January 18, 2010

Sales of Unregistered Equity Securities

On June 18, 2010, we granted 4,000 shares of restricted common stock at $10.00 per share to each of our independent directors upon their reelection to the board of directors pursuant to our 2005 Independent Director Incentive Stock Plan in a private transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. Two thousand of the shares granted to each independent director vested immediately, and 2,000 of the shares will vest on the first anniversary of the date of grant, provided the independent director continues to provide services to us on such vesting date. The unamortized shares are amortized from the date of grant to June 18, 2011. As of December 31, 2010 we have granted 28,000 of 60,000 shares of common stock authorized under our to our 2005 Independent Director Incentive Stock Plan. Mr. Harvey Lenkin resigned from our board of directors effective January 3, 2011. Accordingly, on January 3, 2011, he forfeited 2,000 shares of restricted stock which would have vested on June 18, 2011. As a result, an additional 34,000 shares remain available for issuance under our 2005 Independent Director Incentive Stock Plan.

Use of Offering Proceeds

On February 23, 2005, our Initial Offering (SEC File No. 333-113863) was declared effective and we commenced our efforts to raise up to 35,000,000 shares of our common stock in the primary offering for $10.00 per share and up to 3,500,000 shares of our common stock pursuant to our dividend reinvestment plan for $10.00 per share, aggregating up to $385,000,000. On July 28, 2008, we commenced our Follow-On Offering of up to 85,526,316 shares of common stock pursuant to a Registration Statement on Form S-11 (SEC File Nos. 333-146867 and 333-113863) which was declared effective by the SEC on July 28, 2008. The Follow-on Offering includes up to 75,000,000 shares to be offered for sale at $10.00 per share in the primary offering and up to 10,526,316 shares to be offered for sale pursuant to our distribution reinvestment plan for $9.50 per share, aggregating up to $850,000,000. As of December 31, 2010, we had sold 5,370,182 shares of common stock in the Offerings, raising gross proceeds of $53,355,424. From this amount, we have incurred $4,525,584 in selling commissions and dealer manager fees to our dealer managers, $9,854,892 in organization and offering costs (of which $1,608,109 has been recorded in our financial statements), $1,801,463 in acquisition or origination fees and $1,170,189 in asset management fees. For the year ended December 31, 2010, the ratio of the cost of raising capital to the capital raised was approximately 11.1%.

As of December 31, 2010, we had offering proceeds, net of selling commissions, the dealer manager fee and organization and offering costs, from the Offerings of $47,184,713. We used a combination of net offering proceeds and debt to purchase our interests in twelve properties and to pay other operating expenses and fees. For more information regarding how we used our net offering proceeds through December 31, 2010, see our financial statements included in this Annual Report.

Share Redemptions

During the quarter ended December 31, 2010, we redeemed shares of our common stock as follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2010 to October 31, 2010	12,653	$ 9.30	12,653	(1)
November 1, 2010 to November 30, 2010	13,238	$ 9.30	13,238	(1)
December 1, 2010 to December 31, 2010	12,907	$ 9.30	12,907	(1)
Total	38,798		38,798	

(1) We adopted a share redemption program effective February 28, 2005, as amended effective as of August 28, 2008 and June 6, 2009. We fund redemption requests received during a quarter with proceeds received from our distribution reinvestment plan in the month following such quarter. If we do not receive sufficient funds in such month to fulfill all redemption requests from the previous quarter, the remaining amounts will be funded with proceeds received from the distribution reinvestment plan in the subsequent months. Subject to funds being available, we will limit the number of shares redeemed pursuant to our share redemption program as follows: (a) we will limit the number of shares redeemed pursuant to our share redemption program during any calendar year to no more than 5% of the weighted-average number of shares outstanding during the prior calendar year; and (b) funding for the redemption of shares will come exclusively from the proceeds we receive from the sale of shares under our distribution reinvestment plan.

Item 6. Selected Financial Data

The following selected consolidated financial data are qualified by reference to and should be read in conjunction with our Consolidated Financial Statements and Notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

	2010	2009	2008	2007	2006
Operating Data:					
Revenues	$ 20,048,939	$ 15,344,761	$ 11,589,811	$ 5,595,622	$ 1,530,502
Loss before equity in earnings and noncontrolling interest	$ (4,087,665)	$ (6,337,842)	$ (2,689,447)	$ (1,627,801)	$ (855,811)
Equity in earnings from real estate joint venture	$ 83,519	$ 81,153	$ 88,224	$ 83,896	$ 75,226
Noncontrolling interest	$ 1,178,012	$ 1,784,767	$ 242,673	$ 219,437	$ 127,817
Net loss attributable to Company	$ (2,826,134)	$ (4,471,922)	$ (2,358,550)	$ (1,324,468)	$ (652,768)
Loss per common share (basic and diluted)	$ (0.59)	$ (1.09)	$ (0.73)	$ (0.75)	$ (1.42)
Distributions declared per common share	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60
Weighted average common shares outstanding-basic and diluted	4,787,071	4,086,673	3,219,095	1,758,564	458,658
Balance Sheet Data:					
Total assets	$157,717,875	$160,931,602	$136,066,319	$64,554,863	$44,774,940
Mortgages Payable	$121,134,455	$121,365,972	$ 98,729,308	$43,879,125	$32,850,000

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

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") is intended to help the reader understand our operations and our present business environment. The MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated financial statements and the accompanying notes thereto contained in Item 8 of this Annual Report on Form 10-K (this "Annual Report"). This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and timing of events could differ materially from those anticipated in these forward-looking statements, as a result of a number of factors, including those factors set forth in Item 1A of this Annual Report and other factors presented throughout this Annual Report.

We are a Maryland corporation formed on October 31, 2003 and have elected to be taxed as a REIT commencing with the year ended December 31, 2006. We were organized to invest in a diversified portfolio of high quality investments, including investments in real properties and real estate related investments, focusing primarily on investments that produce current income.

As of December 31, 2010, we owned interests in 12 income-producing properties through 11 joint venture investments:

	Location	Year Built	Number of Units/Rentable Square Feet
Multifamily Communities			
Champion Farms Apartments	Louisville, Kentucky	2000	264 Units
Fieldstone Apartments	Woodlawn, Ohio	2001	266 Units
Pinehurst Apartment Homes	Kansas City, Missouri	1986 and 1988; renovated in 2006	146 Units
Pheasant Run Apartments	Lee's Summit, Missouri	1985; renovated in 2003 and 2004	160 Units
The Retreat Apartments	Shawnee, Kansas	1984; renovated in 2004 and 2005	342 Units
Hilltop Apartments	Kansas City, Missouri	1986	124 Units
Conifer Crossing	Norcross, Georgia	1981	420 Units
Lofton Place Apartments	Tampa, Florida	1988	280 Units
Beechwood Gardens Apartments	Philadelphia, Pennsylvania	1967; renovated in 2003 and 2004	160 Units
Industrial			
801 Fiber Optic Drive	North Little Rock, Arkansas	2001	56,336 Sq. Ft.
Office			
Two and Five Governor Park (two properties)	San Diego, California	1985 and 1989	22,470 Sq. Ft. and 53,048 Sq. Ft.

We intend to invest in a variety of real estate property types, either directly or through joint ventures, including apartments, office buildings, industrial buildings, shopping centers and hotels. We will also seek to invest in loans on real property such as mortgage loans and mezzanine loans, which we refer to as real estate related investments. We own our assets and conduct our operations through Paladin OP.

Our Initial Offering terminated on July 28, 2008 in connection with the commencement of our Follow-On Offering on July 28, 2008.

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the taxable year ended December 31, 2006, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. We believe we operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes. Accordingly, we generally will not be subject to federal income tax, provided that distributions to our stockholders equal at least the amount of our taxable income. Even if we qualify for taxation as a REIT, we may be subject to federal income and excise taxes on our undistributed taxable income. We may also be subject to certain state or local taxes.

Review of our Policies

Our board of directors, including our independent directors, has reviewed our policies and determined that they are in the best interest of our stockholders. Set forth below is a discussion of the basis for that determination.

Offering Policy

We are conducting a public offering of up to 75,000,000 shares of common stock at $10.00 per share. We are also offering up to 10,526,316 shares of common stock under our distribution reinvestment plan. We believe these offerings are currently in the best interest of our stockholders because they increase the likelihood that we will be able to acquire a diverse portfolio of income-producing properties, thereby reducing risk in our portfolio.

Acquisition and Investment Policies

We intend to invest in a diversified portfolio of high quality investments, focusing primarily on investments that produce current income. We intend to invest in a variety of types of real properties, including apartments, office buildings, industrial buildings, shopping centers and hotels. We will seek to maximize long-term stockholder value by generating sustainable growth in cash flow and portfolio value. In order to achieve these objectives, we may invest using a number of investment structures which may include direct acquisitions, joint ventures, leveraged investments, issuing securities for property and direct and indirect investments in real estate through other real estate related investments. We believe that there are sufficient acquisition opportunities that meet this investment focus. Affiliates of Paladin Advisors have extensive expertise with these types of real estate investments.

For each of our real property investments, regardless of product type, Paladin Advisors will seek to invest in properties with the following attributes:

- *Quality*. We invest in real properties that are suitable for our intended use with a quality of construction that is capable of sustaining the property's investment potential for the long-term, assuming funding of budgeted capital improvements.
- *Location*. We seek to invest in real properties that are located in established markets for comparable properties, with access and visibility suitable to meet the needs of its occupants.
- *Market, Supply and Demand*. We focus on local or regional markets which have potential for stable and growing property level cash flow over the long-term. These determinations will be based in part on an evaluation of market economic, demographic and regulatory factors affecting the real property. For instance, we favor markets that indicate a growing population and employment base or markets that exhibit potential limitations on additions to supply, and we generally seek to limit our investments in areas that have limited potential for demand growth.
- *Predictable Capital Needs*. We seek to invest in real properties where the future expected capital needs can be reasonably projected in a manner that would allow us to meet our objectives of preservation of capital and stability and growth in cash flow.
- *Cash Flow*. We seek to invest in real properties where the current and projected cash flow, including the potential for appreciation in value, would allow us to meet our overall investment objectives. We evaluate cash flow relative to expected growth and appreciation.

Borrowing Policies

By operating on a leveraged basis, we expect that we will have more funds available for investments. This generally allows us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. Our charter provides that our independent directors must approve any borrowing in excess of 300% of the value of our net assets and the justification for such excess borrowing must be disclosed to our stockholders in our next quarterly report. Net assets for purposes of this calculation are defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation.

Disposition Policies

We intend to hold each real property investment or real estate related investment we acquire for an extended period. However, circumstances might arise which could result in the early sale of some investments. The determination of whether a particular investment should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions, other investment opportunities and factors specific to the condition, value and financial performance of the investment. We expect to periodically sell investments in order to dispose of underperforming investments or to realize value in favorably priced investments.

Policies Regarding Operating Expenses

Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the twelve months then ended, as these terms are defined in our charter, unless our independent directors have determined that such excess expenses were justified based on unusual and non-recurring factors. During the twelve months ended December 31, 2010, our operating expenses, including expenses incurred on our behalf by Paladin Advisors and its affiliates, did not exceed the 2%/25% Rule.

Liquidation or Listing Policy

We believe it is in the best interest of our stockholders not to list our common stock on a national securities exchange at this time. First, we are in the fundraising and property-acquisition stage of our life cycle, and remaining unlisted improves our ability to continue to raise new equity and purchase additional properties so that the real estate portfolio can achieve greater size and diversification. Second, we believe it is more cost effective to remain unlisted and utilize Paladin Advisors as our external advisor at the present time than it would be to internalize all the resources necessary to operate a listed company. Third, our shares are offered as a long-term investment. We believe that the ability to provide our stockholders with liquidity in the near-term is outweighed by the long-term benefits of completing the Follow-On Offering and allowing the portfolio to mature. In making the decision of whether to apply for listing of our shares, our directors will try to determine whether listing our shares or liquidating our assets will result in greater value for stockholders. If our shares are not listed for trading on a national securities exchange by February 23, 2015, we will be required to begin the process of selling our properties and other investments and distributing the net sales proceeds to stockholders in liquidation. In making the decision to apply for listing of our shares, our board of directors will try to determine whether listing our shares or liquidating our assets will result in greater value for the stockholders.

Critical Accounting Policies

We believe our most critical accounting policies are the accounting for lease revenues (including straight-line rent), the regular evaluation of whether the value of a real estate asset has been impaired, real estate purchase price allocations and accounting for joint ventures. Each of these items involves estimates that require management to make judgments that are subjective in nature. We rely on our experience, we collect historical data and current market data, and we analyze these assumptions in order to arrive at what we believe to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. In addition, application of these accounting policies involves the exercise of judgments on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes significant estimates regarding impairments. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from those estimates and assumptions.

Real Estate and Depreciation

Land is carried at cost. Building and improvements, furniture, fixtures, and equipment, in-place leases, and tenant improvements are stated at cost, less accumulated depreciation and amortization. We allocate the purchase price of newly acquired properties between net tangible and identifiable intangible assets. The primary intangible asset associated with an apartment or office building property acquisition is the value of the existing lease agreements. When allocating the purchase price to an acquired property, we allocate the purchase price to the estimated value of the land, building and fixtures assuming the property is vacant and to the estimated intangible value of the existing lease agreements. In some circumstances, we engage real estate appraisal firms to provide market information and evaluations that are relevant to its purchase price allocations; however, we are ultimately responsible for the purchase price allocation. We estimate the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up. We depreciate buildings and fixtures based on the expected useful life of the asset, which ranges from 27 to 45 years for the building and improvements and from 5 to 7 years for furniture, fixtures and equipment, using the straight line basis. The intangible value of the lease agreements is amortized over the average remaining life of the existing leases, which ranges from 3 to 24 months, using the straight line basis. This amortization is included in depreciation and amortization expense on the accompanying consolidated statements of operations. Improvements and betterments are capitalized when they extend the useful life of the asset. Expenditures for repairs and maintenance are expensed as incurred.

Effective January 1, 2009, we expense acquisition costs for future investment property acquisitions to record the acquisition at its fair value. Prior to January 1, 2009, we capitalized all acquisitions costs as part of the value of the investment property as an addition to building and improvements.

We review long-lived assets and related identifiable intangibles for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Examples of events or changes in circumstances that may trigger an impairment analysis include (i) a substantial decline in operating cash flows during the period, including declines related to decreased occupancy; (ii) a current or projected loss from operations; (iii) a significant cost accumulation above the original acquisition/development estimate; (iv) a change in plans to sell the property prior to the end of its useful life or holding period; (v) a significant decrease in market price not in line with general market trends or (vi) any other quantitative or qualitative events deemed significant by our management or our board of directors. When such events or changes in circumstances occur, recoverability of the asset to be held and used is measured by a comparison of the carrying amount of the asset to future cash flows, undiscounted and without interest, expected to be generated by the asset. In order to review our investment properties for recoverability, we consider current market conditions, as well as our intent with respect to holding or disposing of the asset. Fair value is determined through various valuation techniques; including discounted cash flow models, quoted market values and third party appraisals, where considered necessary. If our analysis indicates that the carrying value of the investment property is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the current estimated fair value of the real estate property. If the sum of the expected future cash flows (undiscounted and without interest) is less than our carrying amount for the asset, an impairment loss is recognized based upon the asset's fair value. There were no impairment charges taken for the three years ended December 31, 2010.

Acquisition of Real Estate.

The fair value of the real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, building and improvements and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and other value of in-place leases based in each case on their fair values. Acquisition costs are expensed as incurred and are included in property operating expense in the accompanying consolidated statement of operations. Noncontrolling interests acquired are also recorded at estimated fair market value.

The fair value of the tangible assets of an acquired property (which includes land, building and improvements and furniture, fixtures and equipment) is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and building and improvements based on management's determination of relative fair values of these assets. In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market lease values are recorded based on the difference between the current in-place lease rent and management's estimate of current market rents. Below-market lease intangibles are recorded as part of deferred revenue and amortized into rental revenue over the non-cancelable periods and bargain renewal periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the non-cancelable portion of the respective leases.

Investments

We evaluate whether we have a controlling financial interest in an entity through voting rights or other means and accordingly, if it should consolidate the entity. If we determine that the joint venture is a variable interest entity ("VIE"), we assess the terms of its interest in the entity to determine it is the primary beneficiary. The primary beneficiary of a VIE is the party that absorbs a majority of the entity's expected losses, receives a majority of the expected residual returns, or both, as a result of holding variable interests. Variable interests are the ownership, contractual, or other economic interests in an entity that change with the changes in the value of the entity's net assets excluding variable interests.

For a joint venture investment which is not a VIE, we consider other relevant accounting literature including the equity method of accounting for investments in common stock, accounting for investments in real estate ventures and accounting guidance related to general partners to determine the method of accounting for each of the partially-owned entities. We determine whether we should consolidate the entity or account for it on the equity method or cost method. Factors considered in determining whether or not we exercise control include substantive participating rights of partners on significant business decisions, including dispositions and acquisitions of assets, financing and operating and capital budgets, board and management representatives and authority and other contractual rights of our partners. To the extent that we are deemed to control these entities, these entities are consolidated.

As of December 31, 2010, we held a 99.6% ownership interest in Paladin OP and Paladin OP held a 70% ownership interest in Springhurst, an 83% ownership interest in Glenwood, a 97.5% ownership interest in KC Pinehurst, a 97.5% ownership interest in KC Pheasant, a 97.5% ownership interest in KC Retreat, a 49% ownership interest in Park Hill Partners, a 42.5% ownership interest in FPA/PRIP Conifer, a 47.7% ownership interest in FPA Governor Park Associates, a 60% ownership interest in Evergreen at Lofton Place, an 82.3% ownership interest in Morgan Beechwood and a 79% ownership interest in PRIP 801, LLC, as described in Note 3 to the consolidated financial statements. We have determined that Paladin OP and the entities in which it has invested are not VIEs. We consolidate Paladin OP, Springhurst, Glenwood, KC Pinehurst, KC Pheasant and KC Retreat, as we are the majority owner and exercise control over all significant decisions. We also consolidate Park Hill Partners, FPA/PRIP Conifer, FPA Governor Park Associates, Evergreen at Lofton and Beechwood Morgan because we hold a significant ownership interest and exercise control over all significant decisions. We account for our investment in PRIP 801, LLC, under the equity method of accounting, as the other member has substantive participating rights as defined in ASC 810, ASC 323 and ASC 970. This investment is recorded initially at cost, and subsequently adjusted for equity in earnings or losses and cash contributions and distributions.

On a periodic basis we will evaluate whether there are any indicators that the value of our investments in partially-owned entities accounted for by the equity method are impaired. An investment is impaired if our estimate of the fair value of the investment is less than the carrying amount. The ultimate realization of our investment in partially-owned entities is dependent on a number of factors including the performance of that entity and market conditions. If we determine that a decline in the value of a partiallyowned entity is other than temporary, then we record an impairment charge.

Deferred Loan Costs

Loan costs are capitalized and amortized using the effective interest method over the life of the related loan. The amortization is recorded as a component of interest expense.

Revenue Recognition

We primarily lease residential apartments to tenants under non-cancellable operating leases with terms ranging from 3 to 24 months. We also lease commercial space to tenants with lease terms extending to 2015. Rental income related to leases is recognized in the period earned over the lease term. Other income consists of various tenant-related charges and is recognized as revenue in the period in which the applicable charge is incurred.

Accounts Receivable

Accounts receivable is included in prepaid insurance and other assets, net in our consolidated balance sheets. Bad debts are recorded under the specific identification method, whereby, uncollectible receivables are directly written off when identified.

Income Taxes

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the taxable year ended December 31, 2006, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. We believe we operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes. Accordingly, we generally will not be subject to federal income tax, provided that distributions to our stockholders equal at least the amount of our taxable income. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distributes at least 90% of its taxable income to stockholders, subject to certain adjustments. If we fail to qualify as a REIT in any taxable year without the benefit of certain relief provisions, we will be subject to federal and state income taxes on our taxable income at regular corporate income tax rates. Even if we qualify for taxation as a REIT, we may be subject to certain state or local taxes on our income, property or net worth and federal income and excise taxes on our undistributed income. No provision has been made for federal income taxes for the years ended December 31, 2010, 2009 and 2008 in the accompanying consolidated financial statements.

We use a more-likely-than not threshold for recognition and derecognition of tax positions taken or to be taken in a tax return. We have assessed our tax positions for all open tax years as of January 1, 2008 and concluded that there were no material uncertain tax positions to be recognized. Our accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as provision for income taxes. We have not recognized any interest and penalties related to tax uncertainties for the years ended December 31, 2010, 2009 and 2008.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (the “ASU”) No. 2010-01, *Equity (Topic 505):Accounting for Distributions to Shareholders with Components of Stock and Cash* (“ASU No. 2010-01”). This ASU clarifies that when the stock portion of a distribution allows stockholders to elect to receive cash or stock with a potential limitation on the total amount of cash that all stockholders can elect to receive in the aggregate, the distribution would be considered a share issuance as opposed to a stock dividend and the share issuance would be reflected in earnings per share prospectively. ASU No. 2010-01 is effective for interim and annual periods ending on or after December 15, 2009 and should be applied on a retrospective basis. The adoption of ASU No. 2010-01 has no impact on our consolidated financial statements.

Results of Operations

Our operating results are primarily comprised of income derived from our portfolio of properties.

We are not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition, management and operation of properties, the financial impact of the downturn of the credit markets, and those risks listed in Part I, Item 1A. Risk Factors.

As discussed below, increases in operating revenues and expenses are primarily attributable to real estate investments after we commenced operations in December 2005, in addition to the operation of existing properties for the full period. The results of operations are impacted by the timing of our acquisitions including: Retreat Apartments, Hilltop Apartments, Conifer Crossing and Two and Five Governor Park and an additional interest in Fieldstone Apartments in 2008 and Lofton Place Apartments and Beechwood Gardens Apartments in 2009.

Our results of operations are not indicative of what we expect our results of operations will be in future periods as we expect that our operating revenues and expenses will continue to increase as a result of as a result of our future investments in real property and real estate related investments.

Comparison of the Year Ended December 31, 2010 to the Year ended December 31, 2009

Rental income for the fiscal year ended December 31, 2010 was $18,252,403, compared with $14,065,270 for the fiscal year ended December 31, 2009. Our rental income for 2010 has increased as compared to 2009 due to our investments in Lofton Place Apartments in October 2009 and Beechwood Gardens Apartments in December 2009. We expect rental income to continue to increase in future periods, as compared to historical periods, as a result of our future real property investments and real estate related investments.

Other income for the year ended December 31, 2009 was $1,786,841 compared to $1,253,941 for the year ended December 31, 2009. Other income consists of various tenant-related charges and is recognized as revenue in the period in which the applicable charge is incurred. The increase in other income for year ended December 31, 2010 is attributable to our acquisitions in 2009 noted above.

Property operating expenses for the year ended December 31, 2010 were $8,093,028 compared to $6,671,206 for the year ended December 31, 2009. The increase in property operating expenses is attributable to our acquisitions in 2009 noted above. We expect property operating expenses to continue to increase in future periods, as compared to historical periods, as a result of our future real property investments and real estate related investments.

Real property taxes were $1,574,103 for the year ended December 31, 2010 compared to $1,243,597 for the year ended December 31, 2009. The increase in real estate taxes in 2010 is a result of our acquisitions in 2009 noted above.

General and administrative expenses were $1,587,251 for the year ended December 31, 2010 compared to $2,427,858 for the year ended December 31, 2009. As discussed below, general and administrative expenses for the year ended December 31, 2009 include expenses that were incurred in years prior to 2009 and accrued by the Company in the year ended December 31, 2009. General and administrative expenses have decreased, since all such expenses paid by the Advisor on behalf of the Company for the year ended December 31, 2010 were within the 2%/25% Rule and no unreimbursed expenses relating to prior periods were recognized.

Interest expense, including amortization of deferred financing costs, was $7,624,089 for the year ended December 31, 2010 and $6,554,831 for the year ended December 31, 2009. The increase in interest expense was primarily related to our acquisitions in 2009 noted above.

Depreciation and amortization expense was $5,258,133 for the year ended December 31, 2010 compared to $3,812,064 for the year ended December 31, 2009. The increase in depreciation and amortization expense in 2010 is a result of our acquisitions in 2009 noted above.

There were no acquisition costs for the year ended December 31, 2010 since there were no acquisitions made in 2010 as compared to $973,047 for the year ended December 31, 2009.

Loss allocated to noncontrolling interests was $1,178,012 for the year ended December 31, 2010 compared to $1,784,767 for the year ended December 31, 2009. The change was due mainly to acquisitions of properties in 2009 and to the allocation of losses of each project.

Net loss attributable to the Company was $2,826,124 for the year ended December 31, 2010, compared to $4,471,922 for the year ended December 31, 2009, primarily due to the net impact of the items discussed above.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

Rental income for the fiscal year ended December 31, 2009 was $14,065,270, compared with $10,564,798 for the fiscal year ended December 31, 2008. Our rental income for 2009 has increased as compared to 2008 due to our investments in Lofton Place Apartments in October 2009 and Beechwood Gardens Apartments in December 2009 and a full year of operations of Retreat Apartments, Hilltop Apartments, Conifer Crossing and Two and Five Governor Park in which we invested in 2008. We expect rental income to continue to increase in future periods, as compared to historical periods, as a result of our investments in real properties made in 2009 and future real property investments and real estate related investments.

Other income for the year ended December 31, 2009 was $1,253,941 compared to $921,225 for the year ended December 31, 2008. Other income consists of various tenant-related charges and is recognized as revenue in the period in which the applicable charge is incurred. The increase in other income for year ended December 31, 2009 is attributable to our investments in 2008 and 2009.

Property operating expenses for the year ended December 31, 2009 were $6,671,206 compared to $4,332,542 for the year ended December 31, 2008. The increase in property operating expenses is attributable to our investments in 2009. We expect property operating expenses to continue to increase in future periods, as compared to historical periods, as a result of our investments in real properties acquired in 2009 and future real property investments and real estate related investments.

Real property taxes were $1,243,597 for the year ended December 31, 2009 compared to $878,813 for the year ended December 31, 2008. The increase in real estate taxes in 2009 is a result of our investments in 2008 and 2009.

General and administrative expenses were $2,427,858 for the year ended December 31, 2009 compared to $1,873,251 for the year ended December 31, 2008. The increase in general and administrative expenses related primarily to accounting fees, asset management fees, independent director fees, director’s and officer’s liability insurance and legal fees. General and administrative expenses for 2009 included $1,587,086 of expenses incurred in years prior to 2009 but were in excess of the 2%/25% Rule and were approved for reimbursement when the 2%/25% Rule permitted. The amount of general and administrative expenses we were permitted to accrue and pay under the 2%/25% Rule, discussed below under "Related Party Transactions," increased during the year ended December 31, 2009 due to the fact that our average invested assets increased as a result of our investments in 2008 and 2009.

Interest expense, including amortization of deferred financing costs, was $6,554,831 for the year ended December 31, 2009 and $4,430,622 for the year ended December 31, 2008. The increase in interest expense was primarily related to mortgage notes payable and indebtedness incurred in connection with our investments in 2008 and 2009 and certain financing costs that we incurred in connection with such indebtedness.

Depreciation and amortization expense was $3,812,064 for the year ended December 31, 2009 compared to $2,764,030 for the year ended December 31, 2008. The increase in depreciation and amortization expense in 2009 is a result of our investments in 2008 and 2009.

Acquisition costs were $973,047 for the year ended December 31, 2009. Prior to 2009, acquisition costs were capitalized to the real estate assets.

Loss allocated to noncontrolling interests was $1,784,767 for the year ended December 31, 2009 compared to $242,673 for the year ended December 31, 2008. The change was due mainly to our investments in 2008 and 2009 and to the allocation of losses of each project.

Net loss attributable to the Company was $4,471,922 for the year ended December 31, 2009, compared to $2,358,550 for the year ended December 31, 2008, primarily due to the net impact of the items discussed above.

Inflation

Because of our brief operating history, we have not noticed a significant impact from inflation on our revenues, net sales or net income from continuing operations.

Related Party Transactions

Our board of directors, including our independent directors, has reviewed the material transactions between our affiliates and us since the beginning of 2010 as well as any other such proposed transactions. Set forth below is a description of such transactions and the independent directors' report on their fairness.

Our Relationship with Paladin Realty Securities, LLC

Paladin Securities is a wholly owned subsidiary of Paladin Advisors and the dealer manager for our Follow-On Offering.

Selling Commissions and Dealer Manager Fees. Pursuant to the terms of the Dealer Manager Agreement for the Initial Offering, we paid Paladin Securities selling commissions of 7.0% of the gross offering proceeds from the sale of shares of our common stock in our primary offering and 4.0% of the gross offering proceeds from the sale of shares of our common stock pursuant to our dividend reinvestment plan. We also paid Paladin Securities a dealer manager fee during our Initial Offering of up to 2.5% of gross offering proceeds from the sale of shares of our common stock in our primary offering. Pursuant to the terms of the Dealer Manager Agreement for the Follow-On Offering, we pay Paladin Securities selling commissions of 6.0% of the gross offering proceeds from the sale of shares of our common stock in our primary offering and we do not pay any commission from the sale of shares of our common stock pursuant to our distribution reinvestment plan. We also pay Paladin Securities a dealer manager fee during our Follow-On Offering of up to 3.5% of gross offering proceeds from the sale of shares of our common stock in our primary offering. Paladin Securities may pay all or a portion of these selling commissions and dealer manager fees to participating broker-dealers. For the year ended December 31, 2010, we paid $524,728 in selling commissions and dealer manager fees to Paladin Securities. For the year ended December 31, 2009, we paid $715,868 in selling commissions and dealer manager fees to Paladin Securities.

Our board of directors, including our independent directors, believes that this arrangement with our dealer manager is fair. The compensation payable to our dealer manager reflects our belief that such selling commissions and dealer manager fees will maximize the likelihood that we will be able to achieve our goal of acquiring a large, diversified portfolio of real property investments and real estate related investments.

Our Relationship with Paladin Advisors

Many of the services to be performed by Paladin Advisors in managing our day-to-day activities are summarized below. This summary is provided to illustrate the material functions Paladin Advisors performs for us as our advisor, and it is not intended to include all of the services which may be provided to us by Paladin Advisors or by third parties. Under the terms of the Advisory Agreement, Paladin Advisors undertakes to present us investment opportunities consistent with our investment policies and objectives as adopted by our board of directors. In its performance of this undertaking, Paladin Advisors, either directly or indirectly by engaging an affiliate, shall, subject to the authority of the board:

- find and evaluate investment opportunities consistent with our investment policies and objectives;
- structure the terms and conditions of transactions pursuant to which acquisitions and dispositions of investments will be made;
- acquire real property investments and real estate related investments on our behalf in compliance with our investment objectives and policies;
- arrange for financing and refinancing of properties; and
- supervise, as asset manager, property management, leasing, development and construction services provided for our investments by third parties.

Paladin Advisors is subject to the oversight of our board of directors. Every transaction we enter into with Paladin Advisors or its affiliates is subject to an inherent conflict of interest. Our board of directors may encounter conflicts of interest in enforcing our rights against any affiliate in the event of a default by or disagreement with an affiliate or in invoking powers, rights or options pursuant to any agreement between us and Paladin Advisors or any of its affiliates. A majority of the independent directors who are also otherwise disinterested in the transaction must approve each transaction between us and Paladin Advisors or any of its affiliates as being fair and reasonable to us and on terms and conditions no less favorable to us than those available from unaffiliated third parties. Our Advisory Agreement has a one-year term expiring July 28, 2011, subject to an unlimited number of successive one-year renewals upon mutual consent of the parties.

Organization and Offering Costs. Our organization and offering costs are paid by Paladin Advisors or its affiliates, including Paladin Realty, on behalf of us and directly by us. Organization and offering costs consist of actual legal, accounting, printing and other offering expenses, including amounts to reimburse Paladin Advisors, its affiliates or our dealer manager, for all marketing related costs and expenses, including, but not limited to, expenses relating to registering and marketing the shares and other marketing and organization costs, technology costs and expenses attributable to the Offerings, and payment or reimbursement of bona fide due diligence expenses of the dealer manager and broker-dealers participating in the Offerings. Pursuant to the Advisory Agreement, we are obligated to reimburse Paladin Advisors or its affiliates for amounts advanced for organization and offering costs, up to 3.0% of gross proceeds from the Offerings, excluding proceeds from our distribution reinvestment plan. Paladin Advisors or its affiliates will be required to return to us any amount we reimburse them in excess of 3.0% of the gross proceeds from the Offerings, excluding proceeds from our distribution reinvestment plan.

Paladin Advisors or its affiliates have incurred cumulative organization and offering costs of $9,854,892 and $9,069,323 as of December 31, 2010 and 2009, respectively, of which $1,608,108 and $1,394,011 have been reimbursed by us as described in Note 6 of the notes to our consolidated financial statements included herewith. The unreimbursed costs only become a liability to us to the extent they do not exceed 3.0% of the gross proceeds of the Offerings, excluding proceeds from our distribution reinvestment plan. When recorded by us, organization costs are expensed as incurred and offering costs are charged to stockholders' equity. For the years ended December 31, 2010 and 2009, we have recognized $217,000 and $282,731, respectively, of offering costs which were charged to stockholders' equity. For the years ended December 31, 2010 and 2009, we did not recognize any organization costs in the consolidated statements of operations, subject to the 3% limitation.

As of December 31, 2010, the remaining unreimbursed organization and offering costs of $8,246,784 will be recognized in future periods as we receive additional proceeds of our offering.

Expense Reimbursement. Pursuant to the Advisory Agreement, Paladin Advisors is entitled to reimbursement of actual expenses incurred for administrative and other services provided to us by Paladin Advisors and its affiliates for which they do not otherwise receive a fee. Additionally, Paladin Advisors must pay us quarterly any amounts by which our operating expenses exceed the 2%/25% Rule in the 12 months then ended (the "Expense Period"), unless a majority of independent directors approves reimbursement of any excess. We will not reimburse Paladin Advisors for operating expenses that in any fiscal year exceed the 2%/25% Rule. Our average invested assets for any period are equal to the average book value of our assets invested in equity interests in, and loans secured by, real estate before reserves for depreciation or bad debts or other similar non-cash reserves, computed by taking the average of such values at the end of each month during the period. For the year ended December 31, 2010, the average book value of our invested assets before reserves for depreciation or bad debts or other similar non-cash reserves was approximately $156,500,000. Our net income for any period, for purposes of the 2%/25% Rule, is equal to our total revenue less total expenses other than additions to reserves for depreciation, bad debts or other similar non-cash reserves for such period. Operating expenses include all expenses incurred by us under GAAP (including the asset management fee), but excluding organization and offering expenses, selling commissions and dealer manager fees, interest payments, taxes, non-cash expenditures such as depreciation, amortization and bad debt reserves, the subordinated disposition fee, acquisition fees and expenses and distributions pursuant to Paladin Advisors' subordinated participation interest in Paladin OP.

On a quarterly basis, in accordance with the Advisory Agreement, we recognize an expense for operating expenses paid on our behalf by Paladin Advisors that do not cause an excess to the 2%/25% Rule. Additionally, Paladin Advisors must pay any expenses in excess of the 2%/25% Rule to us within 60 days after the end of each fiscal quarter for the 12 months then ended, unless a majority of the independent directors determine that the excess expenses were justified based on unusual and nonrecurring factors which they deem sufficient. Such approved excess represents an unrecognized commitment and becomes payable by us at such time when the excess amount and amounts of future operating expenses are within the 2%/25% Rule. Within 60 days after the end of any Expense Period for which total operating expenses exceed the 2%/25% Rule, we will send our stockholders written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified. However, at Paladin Advisors' option, Paladin Advisors or its affiliate, as applicable may defer the refund of expenses and elect to receive such payments, without interest, in any subsequent fiscal year that Paladin Advisors designates. As of December 31, 2010 there were no unrecognized commitments relating to unreimbursed excess operating expenses pursuant to the 2%/25% Rule.

During the Expense Period ended December 31, 2010, our operating expenses, including expenses incurred on our behalf by Paladin Advisors and its affiliates, did not exceed the 2%/25% Rule. As of December 31, 2010, Paladin Advisors and its affiliates had incurred a cumulative of $2,644,293 in general and administrative expenses on our behalf, of which $1,747,054 has been reimbursed to Paladin Advisors and the remaining $897,239 in due to affiliates on the consolidated balance sheet. During the year ended December 31, 2010, applicable general & administrative expenses under the 2%/25% Rule were $1,452,180, of which $1,426,883 was paid directly by Paladin REIT and the remaining $25,297 was paid on our behalf by Paladin Advisors and its affiliates. For the twelve months ended December 31, 2010, our general and administrative expenses, which are the equivalent of total operating expenses for purposes of the 2%/25% Rule, represented approximately 1.0% of average invested assets.

Acquisition Fees. Pursuant to the terms of the Advisory Agreement prior to its amendment and restatement effective July 28, 2008, we paid Paladin Advisors acquisition fees consisting of 2.75% of (1) the contract purchase price for a property acquired directly or through a joint venture or (2) with respect to real estate related investments, the appraised value of the underlying property, not to exceed 5.5% of the funds we advance with respect to the investment. As amended, our Advisory Agreement provides for an acquisition fee in an amount equal to 1.5% of (1) the purchase price of a real property investment acquired directly; (2) our allocable cost of a property acquired in a joint venture or (3) with respect to real estate related investments, the funds advanced for such investment. Our allocable cost of a joint venture investment is equal to the product of (i) the amount actually paid or allocated to the purchase, development, construction or improvement of properties by the joint venture, inclusive of expenses related thereto, and the amount of outstanding debt associated with such properties and the joint venture, and (ii) the Fund's percentage economic interest in the joint venture.

Acquisition fees were capitalized as part of our investment in 801 Fiber Optic Drive, Champion Farms Apartments, Fieldstone Apartments, Pinehurst Apartment Homes, Pheasant Run Apartments, Retreat Apartments, Hilltop Apartments, Conifer Crossing, Two and Five Governor Park. Acquisition fees related to Lofton Place Apartments and Beechwood Gardens Apartments were expensed when incurred.

Asset Management Fees. Pursuant to the terms of the Advisory Agreement prior to its amendment and restatement effective July 28, 2008, an annual asset management fee was payable to Paladin Advisors monthly in an amount equal to one twelfth of 0.6% of (1) the contract purchase price of a property acquired directly or through a joint venture or (2) with respect to real estate related investments, the appraised value of the underlying property, not to exceed 1.2% of the funds we advanced with respect to the investment. Paladin Advisors received this fee for supervising the management, leasing, development and construction services provided for our properties by third parties and management of real estate related investments. As amended, our Advisory Agreement provides that we will pay Paladin Advisors on a monthly basis an asset management fee in an amount equal to one-twelfth of 0.6% of (1) the purchase price of a real property investment acquired directly; (2) our allocable cost of a property acquired in a joint venture or (3) with respect to real estate related investments, the funds advanced for such investment. Our allocable cost of a joint venture investment is calculated as set forth above under "Acquisition Fees." Paladin Advisors may elect, in its sole discretion, to defer (without interest) payment of the asset management fee in any month by providing us written notice of such deferral.

For each of our existing properties from the respective dates of acquisition through the period that we own the properties, Paladin Advisors has elected to receive a monthly asset management fee equal to one-twelfth of 0.3% of our allocable cost of the real property acquired in these joint ventures. Paladin Advisors acknowledges that it has waived its right to receive any additional amounts due under the Advisory Agreement for such properties.

For the years ended December 31, 2010 and 2009, Paladin Advisors was entitled to asset management fees of $380,880 and $330,123, respectively, relating to the management of 801 Fiber Optic Drive, Champion Farms Apartments, Fieldstone Apartments, Pinehurst Apartment Homes, Pheasant Run Apartments, Retreat Apartments, Hilltop Apartments, Conifer Crossing, Two and Five Governor Park, Lofton Place Apartments and Beechwood Gardens Apartments. All asset management fees were paid prior to December 31, 2010.

Our board of directors, including our independent directors, considers our relationship with Paladin Advisors during 2010 to be fair. Our board of directors, including our independent directors, evaluated the performance of Paladin Advisors and the compensation paid to Paladin Advisors in connection with its decision to amend and restate the Advisory Agreement on July 28, 2010. Our board of directors, including our independent directors, believes that the amounts payable to Paladin Advisors under the Advisory Agreement are similar to those paid by other publicly offered, unlisted, externally advised REITs and that this compensation is necessary in order for Paladin Advisors to provide the desired level of services to us and our stockholders. Our board of directors, including our independent directors, bases its evaluation of Paladin Advisors on factors such as (a) the amount of the fees paid to Paladin Advisors in relation to the size, composition and performance of our portfolio; (b) the success of Paladin Advisors in generating opportunities that meet our investment objectives; (c) rates charged to other REITs and to investors other than REITs by advisors performing the same or similar services; (d) additional revenues realized by Paladin Advisors and its affiliates through their relationship with us, including loan administration, underwriting or broker commissions, servicing, engineering, inspection and other fees; (e) the quality and extent of service and advice furnished by Paladin Advisors; (f) the performance of our portfolio, including income, conservation or appreciation of capital, frequency of problem investments and competence in dealing with distress situations; and (g) the quality of our portfolio relative to the investments generated by Paladin Advisors for its own account.

Trends or Uncertainties

The commercial real estate debt markets have experienced continued volatility as a result of certain factors including the failure of large lending institutions, the placement of Fannie Mae and Freddie Mac into the conservatorship of the U.S. government, the tightening of underwriting standards by lenders and credit rating agencies and the significant inventory of unsold collateralized mortgage backed securities in the market. This has resulted in lenders decreasing the availability of debt financing as well as increasing the cost of debt financing. As our existing debt is fixed rate debt, our current portfolio will not be materially impacted by the current debt market environment. However, should the reduced availability of debt and/or the increased cost of borrowings continue, either by increases in the index rates or by increases in lender spreads, we will need to consider such factors in the evaluation of future acquisitions. This may result in future acquisitions generating lower overall economic returns and potentially reducing future cash flow available for distribution.

The state of the debt markets could also have an impact on the overall amount of capital investing in real estate which may result in a decrease in the price or value of real estate assets. Although this may benefit us for future acquisitions, it could negatively impact the current value of our existing assets.

In addition, the current economic environment has resulted in a trend toward increasing vacancy rates for certain classes of commercial property, including multifamily and office properties. Factors such as rising unemployment have led to increased tenant delinquencies and/or defaults under leases, generally lower demand for rentable space and potential oversupply of rentable space. Although we have not thus far been materially adversely affected by the increasing vacancy rates, the continuation of the economic downturn could impact certain of our real properties and such real properties could experience higher levels of vacancy than anticipated at the time of our acquisition of such real properties. The value of our real properties could decrease below the amounts paid for them. Revenues from properties could decrease due to lower occupancy rates, reduced rental rates and potential increases in uncollectible rent. The longer the period of significant vacancies for a property, the greater the potential negative impact on our revenues and results of operations.

Our management is not aware of any other material trends or uncertainties that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition, management and operation of real property and real estate related investments.

Liquidity and Capital Resources

For the year ended December 31, 2010, our sources of funds were:

- proceeds, net of selling commissions and dealer manager fees, of $5,138,932 from the sale of 567,911 shares of common stock in our Offerings; and
- net operating income of $10,372,113 from our investments in real estate.

We consider net operating income to be an appropriate supplemental performance measure because net operating income reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the property, such as depreciation, interest expense, interest income and general and administrative expenses. Additionally, we believe that net operating income is a widely accepted measure of comparative operating performance in the real estate investment community. However, our use of the term net operating income may not be comparable to that of other real estate companies as they may have different methodologies for computing this amount. We believe that the line on our consolidated statement of operations entitled "Net Loss Attributable to Company" is the most directly comparable GAAP measure to net operating income. The following table is a reconciliation of net operating income to our reported net loss attributable to the Company for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Net Operating Income	$10,372,113	$ 7,404,408	$ 6,274,668
Equity in earnings of real estate joint venture	83,519	81,153	88,224
Interest Income	9,695	25,550	103,788
Depreciation and amortization expenses	(5,258,133)	(3,812,064)	(2,764,030)
Interest expense	(7,624,089)	(6,554,831)	(4,430,622)
General and administrative expenses	(1,587,251	(2,427,858)	(1,873,251)
Noncontrolling interests	1,178,012	1,784,767	242,673
Acquisition costs	-0-	(973,047)	-0-
Net Loss Attributable to Company	$ (2,826,134)	$(4,471,922)	$(2,358,550)

We are dependent upon the net proceeds to be received from our Follow-On Offering to conduct our proposed acquisition activities. The capital required to make additional real property investments and real estate related investments will be obtained from the Follow-On Offering and from any indebtedness that we may incur in connection with the acquisition of any real properties and real estate related investments thereafter. We anticipate that cash flows from the real property investments and real estate related investments that we currently have will generate sufficient cash flows to fund required capital improvements and debt service costs.

We anticipate our sources of funds will continue to consist of net proceeds from the Follow-On Offering, indebtedness and cash flows from operation of real property investments and real estate related investments held. We believe that these cash resources, along with our cash flow from operations will be sufficient to satisfy our cash requirements for the foreseeable future, and therefore, we do not anticipate a need to raise funds from other than these sources within the next twelve months.

Net cash provided by operating activities for the year ended December 31, 2010 was $296,878 compared to net cash used in operating activities of $84,387 for the year ended December 31, 2009 and net cash provided by operating activities of $1,324,628 for the year ended December 31, 2008. The increase in 2010 from 2009 relates to our acquisitions of Lofton Place Apartments and Beechwood Gardens Apartments in 2009. The decrease in 2009 from 2008 relates to the larger net loss attributable to the Company in 2009 related to our acquisitions in 2008 and 2009.

Net cash used in investing activities for the year ended December 31, 2010 was $1,411,411, which included $1,758,557 relating to the purchase of real estate and improvements and contributions to real estate joint venture of $550,000 partially offset by a decrease in restricted cash of $851,165 and distributions from real estate joint venture in excess of equity in earnings of $45,981. Net cash used in investing activities for the year ended December 31, 2009 was $29,645,692, which included $32,494,587 relating to the purchase of real estate and improvements partially offset by a decrease in restricted cash of $2,782,048 and distributions from real estate joint venture in excess of equity in earnings of $66,847. Net cash used in investing activities for the year ended December 31, 2008 was $70,568,788, which included $67,145,384 relating to the purchase of real estate and improvements, an increase in restricted cash of $3,475,780 partially offset by distributions from real estate joint venture in excess of equity in earnings of $52,376.

Net cash provided by financing activities was $2,155,410 for the year ended December 31, 2010 related to $434,786 of borrowings from mortgage lenders, $5,663,430 in proceeds from the issuance of shares of common stock in our Follow-On Offering and $831,453 of contributions from noncontrolling interests partially offset primarily by $666,303 of payments on mortgage payable, $524,728 of selling commissions and dealer manager fees, $185,678 of deferred loan costs, $217,000 of offering costs, $116,757 increase in due from affiliates, $1,396,641 of distributions paid, $1,451,386 of shares redeemed and $215,766 of distributions to noncontrolling interests. Net cash provided by financing activities was $29,665,803 for the year ended December 31, 2009 primarily related to $22,708,779 of borrowings from mortgage lenders, $7,995,779 in proceeds from the issuance of shares of common stock in our Follow-On Offering and $2,972,417 of contributions from noncontrolling interests partially offset primarily by $72,115 of payments on mortgage payable, $715,868 of selling commissions and dealer manager fees, $287,393 of deferred loan costs, $282,731 of offering costs, $106,874 increase in due from affiliates, $1,077,893 of distributions paid, $1,330,231 of shares redeemed and $138,0667 of distributions to noncontrolling interests. Net cash provided by financing activities was $67,158,729 for the year ended December 31, 2008 primarily related to $50,667,612 of borrowings from mortgage lenders, $9,992,767 in proceeds from the issuance of shares of common stock in our Follow-On Offering, $868,977 decrease in due from affiliates and $8,826,659 of contributions from noncontrolling interests partially offset primarily by $67,429 of payments on mortgage payable, $943,952 of selling commissions and dealer manager fees, $522,935 of deferred loan costs, $329,620 of offering costs, $753,653 of distributions paid, $259,991 of shares redeemed and $249,706 of distributions to noncontrolling interests.

Mortgages Payable

We have mortgage loans in an aggregate amount of $121,134,455 outstanding, consisting of (1) $16,350,000 incurred in connection with the acquisition of our interest in Champion Farms Apartments, (2) $16,500,000 incurred in connection with the acquisition of our interest in Fieldstone Apartments, (3) $4,563,278 incurred in connection with the acquisition of our interest in Pinehurst Apartment Homes, (4) $6,250,000 incurred in connection with the acquisition of our interest in Pheasant Run Apartments, (5) $13,600,000 incurred in connection with the acquisition of our interest in Retreat Apartments, (6) $4,250,000 incurred in connection with the acquisition of our interest in Hilltop apartments, (7) $28,700,000 incurred in connection with the acquisition of our interest in Conifer Crossing, (8) $10,260,177 incurred in connection with the acquisition of our interest in Two and Five Governor Park, (9) $12,000,000 incurred in connection with the acquisition of our interest in Lofton Place Apartments and (10) $8,661,000 incurred in connection with the acquisition of our interest in Beechwood Gardens Apartments. All of these loans, except for the loan incurred in connection with the acquisition of our interest in Pinehurst Apartment Homes, are interest only and the earliest debt maturity is in December 2011. These mortgage notes payable are described in detail in Note 4 to our consolidated financial statements included herein.

Related to the mortgage loan for Two and Five Governor Park, the loan has two, one-year extensions which may be exercised if, among other things, the properties have (a) a debt service coverage ratio of 1.2 or better, and (b) a loan to value ratio of no more than 70.0% based on an appraisal. Each extension is subject to an extension fee equal to 1.5% of the outstanding principal balance. On December 17, 2010 the loan was extended for one year until December 19, 2011. Although the properties met the debt service coverage requirement, they did not meet the loan to value ratio test. During December 2010 our joint venture partner contributed $775,000 to FPA/PRIP Governor Park, LLC to pay the extension fee of $162,753, other costs and to pay down the loan by $590,000 in order to satisfy the loan to value requirement. The loan is prepayable at any time prior to its maturity, subject to an exit fee equal to 1.0% of the principal being repaid. The loan is secured by a mortgage on the property pursuant to a Deed of Trust and Absolute Assignment of Rents and Leases and Security Agreement. In addition, the loan is guaranteed by Gregory A. Fowler but only upon the occurrence of certain limited events.

On November 29, 2007, Paladin OP posted a $550,000 irrevocable standby letter of credit with Wachovia Bank, N.A. secured by $550,000 cash deposited in a certificate of deposit with Wachovia Bank, N.A related to the mortgage loan for the 801 Fiber Optic Drive property. Pursuant to the loan agreement, on November 1, 2010, the lender applied the letter of credit and has swept and will continue to sweep all cash flow to repay the loan until the loan is repaid in full. In the event of a default under the loan documents, the cash management agreement further provides that the lender may sweep cash from all accounts maintained by the borrower with the lender (including rent accounts from the property). The loan matures on November 1, 2035.

Leverage Policy

Our charter provides that our independent directors must approve any borrowing in excess of 300% of the value of our net assets and the justification for such excess borrowing must be disclosed to our stockholders in our next quarterly report. Net assets for purposes of this calculation are defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation. As of December 31, 2010, our leverage did not exceed 300% of the value of our net assets.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2010:

Mortgages Payable	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Principal	$121,134,455	$10,560,871	$ 1,985,693	$49,307,130	$59,280,761
Interest	$ 38,784,351	$ 7,333,129	$13,113,428	$10,892,119	$ 7,445,675
Total	$159,918,806	$17,894,000	$15,099,121	$60,199,249	$66,726,436

Distributions

We paid $2,843,351 in distributions in the fiscal year ended December 31, 2010. Our board of directors has declared distributions for the periods listed below to stockholders of record as of the close of business each day during the applicable period and made on the dates listed below.

Of the $2,843,351 distributions, $1,396,641 was paid in cash and $1,446,710 was paid through the distribution reinvestment plan in the form of additional shares issued.

Month	Annualized Rate Declared (1)	Date Paid	Total Distribution
December 1, 2009 to December 31, 2009	6.0%	January 15, 2010	$ 227,749
January 1, 2010 to January 31, 2010	6.0%	February 15, 2010	$ 230,747
February 1, 2010 to February 28, 2010	6.0%	March 15, 2010	$ 210,697
March 1, 2010 to March 31, 2010	6.0%	April 15, 2010	$ 236,156
April 1, 2010 to April 30, 2010	6.0%	May 17, 2010	$ 230,570
May 1, 2010 to May 31, 2010	6.0%	June 15, 2010	$ 241,183
June 1, 2010 to June 30, 2010	6.0%	July 15, 2010	$ 235,911
July 1, 2010 to July 31, 2010	6.0%	August 16, 2010	$ 245,425
August 1, 2010 to August 31, 2010	6.0%	September 15, 2010	$ 247,342
September 1, 2010 to September 30, 2010	6.0%	October 15, 2010	$ 240,540
October 1, 2010 to October 31, 2010	6.0%	November 15, 2010	$ 251,409
November 1, 2010 to November 30, 2010 (2)	6.0%	December 15, 2010	$ 245,622

(1) Distributions were declared in the amount of $0.0016438 per share per day, representing an annualized rate of return of 6.0% on an investment of $10.00 per share if paid each day over a 365-day period.

(2) On November 22, 2010, our board of directors declared distributions for the month of December 2010 that totaled approximately $256,000 when paid on January 18, 2011. On December 17, 2010, our board of directors declared distributions for the month of January 2011 that totaled approximately $259,000 when paid on February 15, 2011. On January 24, 2011, our board of directors declared distributions for the month of February 2011 that will total approximately $238,000 when paid on March 15, 2011. On February 24, 2011, our board of directors declared distributions for the month of March 2011 that will total approximately $273,000 when paid on April 15, 2011.

Each of our 11 real estate investments is structured as a joint venture with an unaffiliated third-party. As required under GAAP, our financial statements present the operations of 801 Fiber Optic Drive on an unconsolidated basis, and the operations of each of our other investments on a consolidated basis. Consolidation requires us to reflect 100% of the income and expenses of property operations with a partial offset to account for the noncontrolling interests held by our joint venture partners. As structured as of December 31, 2010, our investment in Champion Farms Apartments represented a 70% ownership interest, our investment in Fieldstone Apartments an 83% ownership interest, our investment in Pinehurst Apartment Homes a 97.5% ownership interest, our investment in Pheasant Run Apartment a 97.5% ownership interest, our investment in the Retreat Apartments a 97.5% ownership interest, our investment in Hilltop Apartments a 49% ownership interest, our investment in Conifer Crossing a 42.5% ownership interest, our investment in Two and Five Governor Park a 47.7% interest, our investment in Lofton Place Apartments a 60% ownership interest and our investment in Beechwood Gardens Apartments an 82.3% ownership interest. However, by the terms of the joint ventures for Champion Farms and Fieldstone Apartments we are entitled to 100% of available cash flow from each property as a priority distribution until we receive at least an 8.25% return on our invested capital. By the terms of the joint ventures for Pinehurst Apartment Homes and Pheasant Run Apartments, we are entitled to 100% of available cash flow from each property as a priority distribution until we receive at least a 9.0% return on our invested capital. By the terms of the joint ventures for the Retreat Apartment and Hilltop Apartments, we are entitled to 100% of available cash flow from each property as a priority distribution until we receive at least a 12.0% return on our invested capital. By the terms of the joint venture for Conifer Crossing, we are entitled to 100% of available cash flow from the property as a priority distribution until we receive at least an 8.5% return on our invested capital. By the terms of the joint venture for Two and Five Governor Park, we are entitled to 100% of available cash flow from each property as a priority distribution until we receive at least a 9.0% return on our invested capital. By the terms of the joint ventures for Lofton Place Apartments and Beechwood Gardens Apartments, we are entitled to 100% of available cash flow from the properties as a priority distribution until we receive at least a 10.0% return on our invested capital.

The following chart compares cash distributions received from the Company's investments in 801 Fiber Optic Drive, Champion Farms Apartments, Fieldstone Apartments, Pinehurst Apartment Homes, Pheasant Run Apartments, the Retreat Apartments, Hilltop Apartments, Conifer Crossing, Two and Five Governor Park, Lofton Place Apartments and Beechwood Gardens Apartments during the year ended December 31, 2010, the year ended December 31, 2009 and from inception to date.

	Summary of Cash Distributions from Investments			Summary of Distributions Paid to Stockholders		
	Year ended December 31, 2009	Year ended December 31, 2010	Inception to date as of December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2010	Inception to date as of December 31, 2010
801 Fiber Optic	$ 148,000	129,500	761,317			
Champion Farms Apartments	395,196	395,204	1,778,392			
Fieldstone Apartments	424,380	424,382	1,550,562			
Pinehurst Apartment Homes	217,020	217,020	714,828			
Pheasant Run Apartments	237,792	237,792	775,430			
Retreat Apartments	256,500	256,500	814,866			
Hilltop Apartments	120,750	94,500	307,300			
Conifer Crossing	244,375	—	382,500			
Two and Five Governor Park	224,375	225,000	449,375			
Lofton Place Apartments(1)	90,000	285,000	375,000			
Beechwood Gardens Apartments(2)	—	288,520	288,520			
Total	$2,358,388	$2,553,418	$8,198,090	$2,410,031	$2,843,351	$8,349,236

(1) We acquired our interest in Lofton Place Apartments on October 1, 2009.
(2) We acquired our interest in Beechwood Gardens Apartments on December 16, 2009.

Of the $2,843,351 in distributions paid to stockholders for 2010, $1,396,641 was paid in cash and $1,446,710 was paid through the distribution reinvestment plan in the form of additional shares issued. Of the $2,410,031 in distributions paid to stockholders for 2009, $1,077,893 was paid in cash and $1,332,138 was paid through the distribution reinvestment plan in the form of additional shares issued.

As shown in the previous table, from inception through December 31, 2010, the cumulative distributions paid to stockholders of $8,349,236 exceeded distribution from our investments of $8,198,090. In addition, for the year ended December 31, 2010, distributions paid to stockholders of $2,843,351 exceeded cash distributions from our investments of $2,553,418 as well as net cash provided by operating activities of $296,878. For the year ended December 31, 2009, distributions paid to stockholders of $2,410,031 exceeded cash distributions from our investments of $2,358,384 as well as net cash provided by operating activities of $84,387. As a result, portions of the cumulative distributions paid as of December 31, 2010 have been paid with offering proceeds.

Paladin Advisors has paid expenses on our behalf, and Paladin Advisors has deferred the reimbursement of a portion of these expense payments and from time to time has deferred certain other fees owed to it. The repayment of these deferred expenses has impacted, and may continue to impact our ability to pay distributions from cash flow from operations or at all. During 2010, in accordance with the Advisory Agreement, we reimbursed Paladin Advisors $1,725,000 of previously accrued general and administrative expenses, and in the first quarter of 2011, we have reimbursed Paladin Advisor an additional $575,000 of previously accrued general and administrative expenses. These reimbursements have reduced our cash flow provided by operating activities and therefore our ability to fund distributions therefrom.

If Paladin Advisors were to pay additional expense on our behalf in the future and/or defer reimbursement of expense payments or fees, the ultimate repayment of these obligations could adversely impact our ability to pay distributions in future periods as well as potentially adversely impact the value of an investment in the Company.

We are reliant on Paladin Advisors to support our financial position currently because of our small size. As we continue to grow by selling shares in our Follow-On Offering and by making additional investments, we expect to be able to finance our operations without advances from and deferrals of fees otherwise payable to Paladin Advisors; however, as described above, we may not be able to continue to pay distributions at the rate we currently pay or at all.

The amount of distributions to be distributed to our stockholders in the future will be determined by our board of directors and are dependent on a number of factors, including funds available for payment of distributions (including whether Paladin Advisors continues to pay expenses and/or defer reimbursement of expense payments or fees), our financial condition, capital expenditure requirements, annual distribution requirements needed to maintain our status as a REIT under the Internal Revenue Code, any limitations imposed by the terms of indebtedness we may incur and other factors.

Our Performance—Funds from Operations and Modified Funds from Operations

One of our objectives is to provide cash distributions to our stockholders from cash generated by our operations. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, has promulgated a measure known as Funds from Operations, or FFO, which it believes more accurately reflects the operating performance of a REIT such as us. FFO is not equivalent to our net income or loss as defined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as revised in February 2004. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property but including asset impairment writedowns, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO.

The historical accounting convention used for real estate requires a straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, could be less informative.

Presentation of this information is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO the same way, so comparisons with other REITs may not be meaningful. Factors that impact FFO include non cash GAAP income and expenses, one-time non recurring costs, timing of acquisitions, yields on cash held in accounts, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. Furthermore, FFO is not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income, as an indication of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions and should be reviewed in connection with other measurements as an indication of our performance. Our FFO reporting complies with NAREIT's policy described above.

Changes in the accounting and reporting rules under GAAP have prompted a significant increase in the amount of non-operating items included in FFO, as defined. Therefore, we use modified funds from operations, or MFFO, which excludes from FFO one-time, non recurring charges and acquisition expenses, to further evaluate our operating performance. We believe that MFFO with these adjustments, like those already included in FFO, are helpful as a measure of operating performance because it excludes costs that management considers more reflective of investing activities or non-operating changes. We believe that MFFO reflects the overall operating performance of our real estate portfolio, which is not immediately apparent from reported net loss attributable to the Company. As such, we believe MFFO, in addition to net loss attributable to the Company and cash flows from operating activities, each as defined by GAAP, is a meaningful supplemental performance measure and is useful in understanding how our management evaluates our ongoing operating performance. Management considers the following item in the calculation of MFFO:

Acquisition costs: In evaluating investments in real estate, including both business combinations and investments accounted for under the equity method of accounting, management's investment models and analysis differentiates costs to acquire the investment from the operations derived from the investment. Prior to 2009, acquisition costs for these types of investments were capitalized; however beginning in 2009 acquisition costs related to business combinations are expensed. We believe by excluding expensed acquisition costs, MFFO provides useful supplemental information that is comparable for each type of our real estate investments and is consistent with management's analysis of the investing and operating performance of our properties.

The following section presents our calculation of FFO and MFFO for the years ended December 31, 2010, 2009 and 2008:

	December 31, 2010	December 31, 2009	December 31, 2008
Net loss attributable to Company	$ (2,826,134)	$ (4,471,922)	$ (2,358,550)
Add:			
Depreciation and amortization - consolidated entities	5,258,133	3,812,064	2,764,030
Depreciation and amortization - unconsolidated entities	67,198	68,660	68,660
Less:			
Depreciation and amortization of noncontrolling interests	(1,743,659)	(1,203,043)	(600,305)
FFO	$ 755,538	$ (1,794,241)	$ (126,165)
Other Adjustments:			
Acquisition costs	—	973,047	—
MFFO	$ 755,538	$ (821,194)	$ (126,165)
FFO per share-basic	$ 0.16	$ (0.44)	$ (0.04)
FFO per share-diluted	0.16	(0.44)	(0.04)
MFFO per share - basic	0.16	(0.20)	(0.04)
MFFO per share - diluted	0.16	(0.20)	(0.04)
Weighted average number of shares outstanding - basic	4,787,071	4,086,673	3,219,095
Weighted average number of shares outstanding - diluted	4,791,389	4,086,673	3,219,095

Off-Balance Sheet Arrangements

As of December 31, 2010 and 2009, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business plan, we expect that the primary market risk to which we will be exposed is interest rate risk.

We may be exposed to the effects of interest rate changes primarily as a result of borrowings used to maintain liquidity and fund expansion and refinancing of our real estate investment portfolio and operations. Our interest rate risk management objectives will be to limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs while taking into account variable interest rate risk. To achieve our objectives, we may borrow at fixed rates or variable rates. We may also enter into derivative financial instruments such as interest rate swaps and caps in order to mitigate our interest rate risk on a related financial instrument. We will not enter into derivative or interest rate transactions for speculative purposes.

Our interest rate risk is monitored using a variety of techniques. The table below presents, as of December 31, 2010, the principal amounts including amounts required for amortization and at maturity and weighted-average interest rates by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes.

	Expected Maturity Date							
	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
Fixed rate date - principal payments	$10,560,871	$856,695	$1,128,997	$17,020,220	$32,286,910	$59,280,762	$121,134,455	$127,780,739
Weighted-average interest rate on maturing debt (1)	6.97%	5.84%	5.80%	6.03%	5.90%	5.79%		

(1) The "weighted-average interest rate on maturing debt" has been calculated using the current interest rate on amounts either amortized or maturing in a given period.

The estimated fair value of our mortgage loans payable was $127,780,739 as of December 31, 2010. To determine fair value, the fixed-rate debt is discounted at a rate based on an estimate of current lending rates as of December 31, 2010.

As of December 31, 2010, our debt consisted of fixed rate mortgage loan payables in the principal amount of $ 121,134,455, at a weighted-average interest rate of 5.96% per annum.

In addition to changes in interest rates, the value of our real property investments and real estate related investments is subject to fluctuations based on changes in local and regional economic conditions and changes in the creditworthiness of lessees, which also may affect our ability to refinance our debt if necessary.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and supplementary data can be found beginning on Page F-1 of this Annual Report.

Item 9. Changes In and Disagreements With Accountants On Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon, and as of the date of, the evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that the disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for preparing the Company's annual consolidated financial statements and establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework.* Based on this assessment, management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's internal control over financial reporting was effective and that there were no material weaknesses in the Company's internal control over financial reporting, as of the end of the period covered by this Annual Report.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. The Company's management report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Commission that permit the Company to provide only management's report on internal control over financial reporting in this Annual Report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Other than our independent directors, each of our officers and directors are officers of Paladin Advisors and officers, limited partners and/or members of affiliates of Paladin Advisors. As a result, these individuals will be subject to conflicts of interest in allocating their time between us and other activities and operations of Paladin Advisors and its affiliates and between fiduciary duties owed to us and to those entities. Please see Item 1A "Risk Factors—Risks Related To Conflicts of Interest."

All executive officers serve at the pleasure of the board of directors. Our directors and executive officers are listed below. Messrs. Harvey Lenkin and Michael B. Lenard resigned from our board of directors effective January 3, 2011 and March 4, 2011, respectively. Messrs. Lenkin and Lenard had both served on our board of directors since inception and neither resigned because of any disagreements with us. At our request, Mr. Lenard has agreed to continue to serve as our Executive Vice President, Secretary and Counselor.

Name	Age	Positions
Whitney A. Greaves	47	President and Chief Executive Officer
Michael B. Lenard	55	Executive Vice President, Secretary, Counselor and Director
John A. Gerson	62	Executive Vice President, Chief Financial Officer and Director
James R. Worms	65	Chairman of the Board
William K. Dunbar	51	Chief Investment Officer
Harold H. Greene	72	Independent Director
Michael L. Meyer	72	Independent Director
Christopher H. Volk	54	Independent Director

Whitney A. Greaves has served as our Chief Executive Officer and President since November 2008. Ms. Greaves also served as our Chief Operating Officer from May 2007 to November 2008. Ms. Greaves also serves as a Vice President of Paladin Advisors and a Managing Director of Paladin Realty.

Prior to joining Paladin Realty in 1995, Ms. Greaves was a First Vice President and Portfolio Manager for First Nationwide Bank in San Francisco. During her seven year tenure with First Nationwide, her responsibilities included management and disposition of portfolios of non-performing loans and real estate assets. Ms. Greaves was also responsible for restructuring tax-exempt bond financings and credit enhancement facilities with the Federal Home Loan Bank and Fannie Mae, resolving complex construction and partnership litigation disputes and managing several environmental remediation projects. Ms. Greaves has been a member of various industry organizations including the Pension Real Estate Association and the Urban Land Institute.

Ms. Greaves graduated from the University of Redlands with a Bachelor’s degree in Economics and Political Science.

Michael B. Lenard has served as our Executive Vice President, Secretary and Counselor since October 2003. Mr. Lenard also served as one of our directors from October 2003 to March 2011. Mr. Lenard is also an Executive Vice President and Counselor of Paladin Advisors and a Senior Managing Director, Counselor and management committee member of Paladin Realty. He has been a member of various industry organizations, including the Urban Land Institute. Mr. Lenard is the Chairman of the Board of Directors of InPAR S.A., a Brazilian public company, which is a portfolio company of an investment fund managed by an affiliate of Paladin Realty.

Prior to joining the predecessor of Paladin Realty in 1993, Mr. Lenard was a partner in the international law firm of Latham & Watkins, working in its Corporate Department with a special emphasis on private investment funds, international joint ventures and other private and closely held transactions and structures.

Mr. Lenard has served in a variety of leadership positions in Olympic and international sports for over twenty years. He served for eight years as a Vice President of the United States Olympic Committee, or the “USOC,” and on the Board of Directors of the Atlanta Committee for the Olympic Games. More recently, he served as the Chair of the USOC’s Key Strategies Task Force and as the Special Advisor for Business Affairs to the USOC President. Currently, he is Vice President of, and has since 1994 been one of twenty worldwide members of the Swiss-based international body that oversees and operates the court that adjudicates Olympic and international sports disputes. A 1984 Olympian, in addition to other competitive honors and medals, Mr. Lenard was a seven time National Champion in Team Handball and Team Handball Athlete of the Year for 1985 and USOC SportsMan of the Year in Team Handball in 1985.

Mr. Lenard attended New York University Law School and University of Southern California Law School, and graduated from the latter with a Juris Doctor degree and was a member of the Order of the Coif and Law Review. He graduated with distinction from the University of Wisconsin with a Bachelor’s degree in Business Administration in both Accounting and Finance, where he was inducted into the *Phi Kappa Phi* and *Beta Gamma Sigma* national scholastic honor societies.

Mr. Lenard has served as a member of our board of directors and as our Executive Vice President, Secretary and Counselor for the last seven years. This experience and his former legal practice’s emphasis on private investment funds, international joint ventures and other private and closely held transactions and structures provide our board of directors with insight into legal issues we may face.

John A. Gerson has served as our Chief Financial Officer and an Executive Vice President and also as one of our directors since February 2004. He is also an Executive Vice President and Chief Financial Officer of Paladin Advisors and Chief Financial Officer, a Senior Managing Director and a management committee member of Paladin Realty. In addition, Mr. Gerson serves as a director on the board of directors of InPAR S.A., a Brazilian public company, which is a portfolio company of an investment fund managed by an affiliate of Paladin Realty.

Prior to joining Paladin Realty in 1999, Mr. Gerson was Chief Financial Officer of Kohlberg Kravis Roberts & Co., or KKR, a major management buyout firm with more than $10 billion in invested equity capital, from 1985 to 1996. He was responsible for KKR's banking and financing needs, the firm's reporting systems, senior liaison contact with investors, and management of the firm's treasury and general partners' investments. From 1982 to 1985, he was Vice President and Deputy Controller of Societé Generale's U.S. operations, directing all financial accounting and reporting systems of their U.S. business unit. From 1980 to 1982, he was Chief Financial Officer of Wells Fargo Bank International, a $500 million multi-branch international banking subsidiary of Wells Fargo International Bank. Mr. Gerson started his career as Assistant Controller and Assistant Vice President of Irving Leasing Corporation, an equipment leasing and financing subsidiary of Irving Trust Company, after serving as an audit supervisor for Peat, Marwick, Mitchell & Co.

Mr. Gerson is a trustee of Pace University and a member of the American Institute of Certified Public Accountants and the New York State and New Jersey Society of Certified Public Accountants. He graduated from Pace University with a Bachelor's degree in Business Administration.

Mr. Gerson has served as a member of our board of directors and as our Chief Financial Officer for the last six years and has extensive knowledge of our financial position. With this knowledge and his experience as a former chief financial officer for a major management buyout firm with more than $10 billion in invested equity capital, Mr. Gerson provides our board of directors with essential information that enables a better understanding of the business and financial risks facing us.

William K. Dunbar has served as our Chief Investment Officer since May 2007. Mr. Dunbar is also a Vice President of Paladin Advisors and a Managing Director of Paladin Realty.

Prior to joining Paladin Realty in 1998, Mr. Dunbar was a Senior Vice President of Greystone Realty Corp., where he acquired residential and commercial real estate totaling several hundred million dollars, and originated and managed a joint venture development fund. Mr. Dunbar began his career as a Real Estate Loan Officer for Chemical Bank in New York. He has been a member of various industry organizations including the Pension Real Estate Association and the Urban Land Institute.

Mr. Dunbar graduated from Cornell University with a Bachelor's degree and from the J.L. Kellogg Graduate School of Management at Northwestern University with a Masters degree in Management.

James R. Worms has served as one of our directors since October 2003 and as Chairman since November 2008. He also served as our President and Chief Executive Officer from October 2003 to November 2008. Mr. Worms is also the President of Paladin Advisors, and the Chairman and Chief Executive Officer of Paladin Realty. Paladin Realty is our sponsor and the managing member of Paladin Advisors.

Prior to joining the predecessor of Paladin Realty in 1995, Mr. Worms was a Managing Director of Salomon Brothers, where he co-managed the firm's worldwide real estate investment banking activities. In this capacity, he was involved in real estate investment and advisory transactions totaling billions of dollars, including extensive experience in all types of commercial and residential real estate. Prior to joining Salomon Brothers, Mr. Worms was a principal at Eastdil Realty, Inc. where he directed Eastdil's Western Region partnership investment operations. Before joining Eastdil, Mr. Worms worked as a Certified Public Accountant at Coopers & Lybrand. Mr. Worms served on the board of directors for MeriStar Hospitality Corporation, a publicly traded real estate investment trust focused on the lodging industry, from August 1998 until its acquisition by an affiliate of The Blackstone Group in May 2006. Mr. Worms has been a member of various industry organizations including the Pension Real Estate Association, the National Association of Real Estate Investment Trusts, the International Council of Shopping Centers and the Urban Land Institute.

Mr. Worms graduated from UCLA with a Bachelor's degree in Economics and from The Anderson School of Management at UCLA with a masters degree in Business Administration. Mr. Worms also received a law degree from Hastings College of Law.

Mr. Worms has served as a member of our board of directors for the last six years and as our former President and Chief Executive Officer for five years. He brings insight into all aspects of our business due to both his current role and his history with us. The knowledge of our business and his experience managing real estate investment and advisory transactions totaling billions of dollars are assets to our board of directors.

Harold H. Greene has served as one of our directors since February 2004. Mr. Greene is a retired Managing Director of Commercial Real Estate for Bank of America, where he held responsibility for lending to commercial real estate developers in California, from 1998 to June 2001. Prior to joining Bank of America, Mr. Greene served from 1990 to 1998 as an Executive Vice President with Seafirst Bank, where he was responsible for real estate lending for the Northwest and for managing a real estate portfolio comprised of approximately $2 billion in assets. Mr. Greene is a director of William Lyon Homes, a builder of new luxury and single family home communities in California, Nevada and Arizona. He previously served as a director of Grubb & Ellis Company.

Mr. Greene graduated from UCLA with a Bachelor’s degree in Political Science. Mr. Greene has also studied at the Northwestern University Mortgage Banking School and the Southwest Graduate School of Banking at Southern Methodist University.

Mr. Greene has served as a member of our board of directors for the last six years and is a 40-year veteran of the commercial and residential real estate lending industry. He brings both knowledge of the lending industry and experience with real estate portfolio management to our board of directors. In addition, he offers the experience gained by serving as a director and member of the audit, compensation and nominating and corporate governance committees for a builder of new luxury and single family homes.

Michael L. Meyer has served as one of our directors since February 2004. Mr. Meyer is a private real estate investor and since October 1999 has been the Chief Executive Officer of Michael L. Meyer Company, which is a principal of and/or manager of real estate entities and provides those entities with property acquisition financing and management services and advice. Since June 2006, Mr. Meyer has also been a principal in TwinRock Partners, LLC (formerly AMG Realty Investors, LLC), a commercial and residential real estate investment company. From 1974 to 1998, Mr. Meyer was Managing Partner—Orange County with E&Y Kenneth Leventhal Real Estate Group of Ernst & Young LLP and its predecessor. Mr. Meyer is a director of Opus Bank. Mr. Meyer is also a director of KBS Strategic Opportunity REIT and KBS Legacy Partners Apartment REIT.

Mr. Meyer was inducted into the California Building Industry Foundation Hall of Fame in June of 1999 for outstanding achievements in the real estate industry and community. Mr. Meyer was also the recipient of the University of California Irvine Graduate School of Management Real Estate Program Lifetime Achievement Award. Mr. Meyer is a graduate of the University of Iowa.

Mr. Meyer has served as a member of our board of directors for the last seven years. He brings to our board of directors knowledge of the real estate industry and community and over 30 years as a certified public accountant. He has extensive experience as a real estate investor and serves as chief executive officer for a company providing property acquisition, financing and management services and advice to real estate entities. In addition, his service as director for two non-listed REITs is integral to our board’s understanding of current trends in the industry.

Christopher H. Volk has served as one of our directors since February 2004. Mr. Volk served until 2010 as President and Chief Executive Officer and a director of Spirit Finance Capital Management, LLC, a Scottsdale, Arizona-based company that provides advisory services for Spirit Finance Corporation, a real estate investment trust that specializes in providing financing for single tenant, operationally-essential real estate, which he co-founded in 2003. In August 2007, Spirit Finance Corporation was acquired through a merger with Redford Merger Co., which is owned by a consortium of investors including Macquarie Bank Limited, Kaupthing Bank, and other independent equity participants. From 2004 to August 2007, Spirit Finance Corporation was a listed company on the New York Stock Exchange. From 1986 until August 2001, Mr. Volk was President and Chief Operating Officer and a member of the board of directors of Franchise Finance Corporation of America, a NYSE-listed real estate investment trust that focused on providing real estate financing to multi-unit operators of chain restaurants, convenience stores and automotive services and parts outlets, and from August 2001 to December 2002 served as Chief Operating Officer of its successor, GE Franchise Finance.

Mr. Volk has been widely published in areas of finance, credit analysis and evaluation and has frequently served as a guest lecturer and conference speaker. Mr. Volk graduated from Washington and Lee University with a Bachelor’s degree and from Georgia State University with a Masters degree in Business Administration.

Mr. Volk has served as a member of our board of directors for the last seven years. He offers our board of directors REIT leadership experience previously having served as the president, chief executive officer and director of a company providing advisory services to a REIT and as an executive officer of two publicly listed REITs. This experience in the real estate industry assists us in evaluating our investments and investment strategies.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics, or the Code of Ethics, which contains general guidelines for conducting our business and is designed to help directors, employees and independent consultants resolve ethical issues in an increasingly complex business environment. The Code of Ethics applies to all of our officers, including our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions and all members of our board of directors. The Code of Ethics covers topics including, but not limited to, conflicts of interest, record keeping and reporting, payments to foreign and U.S. government personnel and compliance with laws, rules and regulations. The Code of Ethics is available on our website at www.paladinreit.com. We will also post any amendments or waivers to our Code of Ethics on our website within the time periods specified by the SEC.

Additional information required by this Item 10 is incorporated by reference to the information contained under the caption “The Audit Committee” in our 2011 Proxy Statement.

Item 11. Executive Compensation

Information required by this Item 11 is incorporated by reference to the information contained under the caption “Executive Compensation” and “Director Compensation” in our 2011 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item 12 is incorporated by reference to the information contained under the caption “Stock Ownership” in our 2011 Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this Item 13 is incorporated by reference to the information contained under the caption “Certain Relationships and Related Party Transactions” in our 2011 Proxy Statement.

Item 14. Principal Accountant Fees and Services

Information required by this Item 14 is incorporated by reference to the information contained under the caption “Fees Paid to Independent Registered Public Accounting Firm” in our 2011 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this Annual Report:

1. **Consolidated Financial Statements**

Index to Consolidated Financial Statements

Paladin Realty Income Properties, Inc. and Subsidiaries

2. Financial Statement Schedules

All schedules have been omitted as the required information is either not material, inapplicable or the information is presented in the financial statements or related notes.

3. Exhibits

3.1	Second Articles of Amendment and Restatement of the Registrant (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 28, 2008 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant (filed as Exhibit 3.2 to the Registrant's Post-Effective Amendment No. 5 on April 6, 2007 and incorporated herein by reference).
3.3	Amendment No. 1 to Amended and Restated Bylaws (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K on March 28, 2008 and incorporated herein by reference).
4.1	Form of Subscription Agreement (filed as Appendix B to the Registrant's Prospectus on July 28, 2008 and incorporated herein by reference).
4.2	Paladin Realty Income Properties, Inc. Amended and Restated Distribution Reinvestment Plan (filed as Appendix C to the Registrant's Prospectus on July 28, 2008 and incorporated herein by reference).
10.1	Second Amended and Restated Agreement of Limited Partnership of Paladin Realty Income Properties, L.P., dated February 6, 2008 (filed as Exhibit 3.1 to the Registrant's Pre-effective Amendment No. 3 on Form S-11 on July 18, 2008 and incorporated herein by reference).
10.2	Fifth Amended and Restated Advisory Agreement dated July 28, 2010 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on July 28, 2010 and incorporated herein by reference).
*10.3	Paladin Realty Income Properties, Inc. 2005 Independent Director Incentive Stock Plan (filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q on May 13, 2005 and incorporated herein by reference).
10.4	Purchase Agreement and Amendments by and between Makor Properties, LLC and Paladin Realty Partners, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on November 4, 2005 and incorporated herein by reference).
10.5	Assignment and Assumption Agreement by Paladin Realty Partners, LLC to PRIP 801, LLC, dated October 31, 2005 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on November 4, 2005 and incorporated herein by reference).
10.6	Note by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc. dated as of October 31, 2005 (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on November 4, 2005 and incorporated herein by reference).
10.7	Membership Interest Purchase and Sale Agreement by and among PRIP 3700, LLC, Bradley B. Chambers, Buckingham Investment Corporation and Springhurst Housing Partners, LLC, dated as of May 10, 2006 (filed as Exhibit 10.1 of the Company's Current Report on Form 8-K on May 12, 2006 and incorporated herein by reference).
10.8	Amended and Restated Operating Agreement of Springhurst Housing Partners, LLC, dated June 1, 2006, by and between PRIP 3700, LLC and Buckingham Springhurst, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on June 9, 2006 and incorporated herein by reference).
10.9	Note by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc., dated as of June 1, 2006 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on June 9, 2006 and incorporated herein by reference).
10.10	Membership Interest Purchase and Sale Agreement by and between Shiloh Housing Partners II, LLC and Glenwood Housing Partners I, LLC, dated as of December 1, 2006 (filed as Exhibit 10.1 of the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.11 Amended and Restated Operating Agreement of Glenwood Housing Partners I, LLC by and between PRIP 10637, LLC and Shiloh Crossing Partners II, LLC, dated as of December 1, 2006 (filed as Exhibit 10.2 of the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.12 Note for loan of $2,000,000 by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc., dated as of December 1, 2006 (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.13 Note for loan of $1,100,000 by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc., dated as of December 1, 2006 (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.14 Phase II Options Agreement by and between Glenwood Housing Partners II, LLC and PRIP 10637, LLC, dated as of December 1, 2006 (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.15 Purchase and Sale Agreement by and between Pinehurst Associates, LLC and KC Pinehurst Associates, LLC dated as of July 2, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on July 9, 2007 and incorporated herein by reference).

10.16 Operating Agreement of KC Pinehurst Associates, LLC, dated as of September 13, 2007, by and among PRIP 500, LLC, JTL Holdings, LLC and JTL Asset Management, Inc. (filed as Exhibit 10.18 to the Registrant's on Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.17 Assumption Agreement dated September 13, 2007 by and among Pinehurst Associates, LLC, KC Pinehurst Associates, LLC, Federal Home Loan Mortgage Corporation and Robert E. Spielman (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.18 Promissory Note dated December 6, 2005 executed by KC Pinehurst Associates, LLC and payable to NorthMarq Capital, Inc. (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.19 Multi-family Deed of Trust, Assignment of Rents and Security Agreement, dated December 6, 2005 by Pinehurst Associates, LLC in favor of NorthMarq Capital, Inc. (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.20 Guaranty, dated September 13, 2007, by James E. Lippert in favor of the Federal Home Loan Mortgage Corporation (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.21 Guaranty, dated December 6, 2006, by Robert E. Spielman in favor of NorthMarq Capital, Inc. (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-11 (File No. 333-146-867), filed on October 23, 2007).

10.22 Purchase and Sale Agreement by and between Pheasant Run Apts, LS, Limited Partnership and KC Pheasant Associates, LLC dated as of August 2, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on August 8, 2007 and incorporated herein by reference).

10.23 Operating Agreement of KC Pheasant Associates, LLC, dated as of September 25, 2007, by and among PRIP 1102, LLC, JTL Holdings, LLC and JTL Asset Management, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on October 2, 2007 and incorporated herein by reference).

10.24 Multifamily Note effective as of September 26, 2007 made by KC Pheasant Associates, LLC in favor of NorthMarq Capital, Inc. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on October 2, 2007 and incorporated herein by reference).

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10.40 Operating Agreement of FPA/PRIP Conifer, LLC, dated as of August 4, 2008, by and between PRIP 3383, LLC and FPA Conifer Investors, LLC (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K on August 8, 2008 and incorporated herein by reference).

10.41 Multifamily Note effective as of August 5, 2008 made by FPA/PRIP Conifer, LLC in favor of Holliday Fenoglio Fowler, L.P. (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K on August 8, 2008 and incorporated herein by reference).

10.42 Multifamily Deed to Secure Debt, Assignment of Rents and Security Agreement, effective as of August 5, 2008, by FPA/PRIP Conifer, LLC in favor of Holliday Fenoglio Fowler, L.P. (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K on August 8, 2008 and incorporated herein by reference).

10.43 Guaranty, dated August 5, 2008, by Gregory A. Fowler in favor Holliday Fenoglio Fowler, L.P. (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K on August 8, 2008 and incorporated herein by reference).

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10.45 Purchase and Sale Agreement, dated as of September 9, 2008, by and between MIREF Governor Finance, LLC and FPA Governor Park Associates, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on December 24, 2008 and incorporated herein by reference).

10.46 First Amendment to Real Estate Purchase and Sale Agreement, dated as of October 23, 2008, by and between MIREF Governor Park, LLC and FPA Governor Park Associates, LLC (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on December 24, 2008 and incorporated herein by reference).

10.47 Assignment and Assumption of Agreement of Purchase and Sale, dated as of September 25, 2008, by and between Fowler Property Acquisitions, LLC and FPA Governor Park Associates, LLC (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on December 24, 2008 and incorporated herein by reference).

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10.49 Master Lease Agreement, dated as of December 20, 2008, by and between FPA Governor Park Associates, LLC and Trinity Property Consultants, LLC (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K on December 24, 2008 and incorporated herein by reference).

10.50 Promissory Note secured by Deed of Trust effective as of December 19, 2008 made by FPA Governor Park Associates, LLC in favor of MIREF Governor Finance, LLC (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K on December 24, 2008 and incorporated herein by reference).

10.51 Deed of Trust and Absolute Assignment of Rents and Leases and Security Agreement (and Fixture Filing), effective as of December 19, 2008, by FPA Governor Park Associates, LLC for the benefit of MIREF Governor Finance, LLC (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K on December 24, 2008 and incorporated herein by reference).

10.52 Guaranty, dated December 19, 2008, by Gregory A. Fowler in favor MIREF Governor Finance, LLC (filed as Exhibit 10.8 to the Company's Current Report on Form 8-K on December 24, 2008 and incorporated herein by reference)

10.53 First Amendment to Limited Liability Company Agreement of FPA/PRIP Governor Park, LLC, dated as of March 25, 2009, by and between FPA Governor Park Investors, LLC and PRIP 5060/6310, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on March 27, 2009 and incorporated herein by reference).

10.54 First Amendment to Lease, dated as of March 25, 2009, by and between FPA Governor Park Associates, LLC and Trinity Property Consultants, LLC (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on March 27, 2009 and incorporated herein by reference).

10.55	Real Estate Sale Agreement, dated as of June 8, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.56	Reinstatement of and First Amendment to Real Estate Sale Agreement dated as of July 23, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.57	Second Amendment to Real Estate Sale Agreement dated as of August 6, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.58	Third Amendment to Real Estate Sale Agreement dated as of August 11, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.59	Fourth Amendment to Real Estate Sale Agreement dated as of August 12, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.60	Fifth Amendment to Real Estate Sale Agreement dated as of August 13, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.61	Sixth Amendment to Real Estate Sale Agreement dated as of September 1, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.62	Seventh Amendment to Real Estate Sale Agreement dated as of September 22, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.8 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.63	Assignment of Real Estate Agreement, dated as of September 14, 2009, by and between Northview Realty Group, Inc. and Evergreen at Lofton Place, LLC (filed as Exhibit 10.9 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.64	Operating Agreement of Evergreen at Lofton Place, LLC, dated as of October 1, 2009, by and among PRIP Lofton, LLC, NVR Lofton Place, LP and BH Lofton, LLC (filed as Exhibit 10.10 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference)
10.65	Multifamily Note effective as of October 1, 2009 made by Evergreen at Lofton Place, LLC in favor of CWCapital LLC (filed as Exhibit 10.11 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.66	Multifamily Mortgage, Assignment of Rents and Security Agreement, effective as of October 1, 2009, by Evergreen at Lofton Place, LLC in favor of CWCapital LLC (filed as Exhibit 10.12 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.67	Guaranty, dated October 1, 2009, by Charles M. Thompson in favor of CWCapital LLC (filed as Exhibit 10.13 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
21	List of subsidiaries of Paladin Realty Income Properties, Inc.
31.1	Section 302 Certification of Principal Executive Officer.
31.2	Section 302 Certification of Principal Financial Officer.
32.1	Section 906 Certification of Principal Executive Officer.
32.2	Section 906 Certification of Principal Financial Officer.

* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PALADIN REALTY INCOME PROPERTIES, INC.

Date: March 29, 2011

By: /s/ Whitney A. Greaves
Whitney A. Greaves
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ Whitney A. Greaves **Whitney A. Greaves**	President and Chief Executive Officer (Principal Executive Officer)	March 29, 2011
/s/ Michael B. Lenard **Michael B. Lenard**	Executive Vice President, Secretary, Counselor and Director	March 29, 2011
/s/ John A. Gerson **John A. Gerson**	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 29, 2011
/s/ James R. Worms **James R. Worms**	Chairman of the Board	March 29, 2011
/s/ Harold H. Greene **Harold H. Greene**	Director	March 29, 2011
/s/ Michael L. Meyer **Michael L. Meyer**	Director	March 29, 2011
/s/ Christopher H. Volk **Christopher H. Volk**	Director	March 29, 2011

EXHIBIT INDEX

3.1	Second Articles of Amendment and Restatement of the Registrant (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 28, 2008 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant (filed as Exhibit 3.2 to the Registrant's Post-Effective Amendment No. 5 on April 6, 2007 and incorporated herein by reference).
3.3	Amendment No. 1 to Amended and Restated Bylaws (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K on March 28, 2008 and incorporated herein by reference).
4.1	Form of Subscription Agreement (filed as Appendix B to the Registrant's Prospectus on July 28, 2008 and incorporated herein by reference).
4.2	Paladin Realty Income Properties, Inc. Amended and Restated Distribution Reinvestment Plan (filed as Appendix C to the Registrant's Prospectus on July 28, 2008 and incorporated herein by reference).
10.1	Second Amended and Restated Agreement of Limited Partnership of Paladin Realty Income Properties, L.P., dated February 6, 2008 (filed as Exhibit 3.1 to the Registrant's Pre-effective Amendment No. 3 to Form S-11 on July 18, 2008 and incorporated herein by reference).
10.2	Fifth Amended and Restated Advisory Agreement dated July 28, 2010 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on July 28, 2010 and incorporated herein by reference).
*10.3	Paladin Realty Income Properties, Inc. 2005 Independent Director Incentive Stock Plan (filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q on May 13, 2005 and incorporated herein by reference).
10.4	Purchase Agreement and Amendments by and between Makor Properties, LLC and Paladin Realty Partners, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on November 4, 2005 and incorporated herein by reference).
10.5	Assignment and Assumption Agreement by Paladin Realty Partners, LLC to PRIP 801, LLC, dated October 31, 2005 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on November 4, 2005 and incorporated herein by reference).
10.6	Note by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc. dated as of October 31, 2005 (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on November 4, 2005 and incorporated herein by reference).
10.7	Membership Interest Purchase and Sale Agreement by and among PRIP 3700, LLC, Bradley B. Chambers, Buckingham Investment Corporation and Springhurst Housing Partners, LLC, dated as of May 10, 2006 (filed as Exhibit 10.1 of the Company's Current Report on Form 8-K on May 12, 2006 and incorporated herein by reference).
10.8	Amended and Restated Operating Agreement of Springhurst Housing Partners, LLC, dated June 1, 2006, by and between PRIP 3700, LLC and Buckingham Springhurst, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on June 9, 2006 and incorporated herein by reference).
10.9	Note by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc., dated as of June 1, 2006 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on June 9, 2006 and incorporated herein by reference).
10.10	Membership Interest Purchase and Sale Agreement by and between Shiloh Housing Partners II, LLC and Glenwood Housing Partners I, LLC, dated as of December 1, 2006 (filed as Exhibit 10.1 of the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).
10.11	Amended and Restated Operating Agreement of Glenwood Housing Partners I, LLC by and between PRIP 10637, LLC and Shiloh Crossing Partners II, LLC, dated as of December 1, 2006 (filed as Exhibit 10.2 of the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.12 Note for loan of $2,000,000 by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc., dated as of December 1, 2006 (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.13 Note for loan of $1,100,000 by and between Paladin Realty Partners, LLC and Paladin Realty Income Properties, Inc., dated as of December 1, 2006 (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.14 Phase II Options Agreement by and between Glenwood Housing Partners II, LLC and PRIP 10637, LLC, dated as of December 1, 2006 (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K on December 7, 2006 and incorporated herein by reference).

10.15 Purchase and Sale Agreement by and between Pinehurst Associates, LLC and KC Pinehurst Associates, LLC dated as of July 2, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on July 9, 2007 and incorporated herein by reference).

10.16 Operating Agreement of KC Pinehurst Associates, LLC, dated as of September 13, 2007, by and among PRIP 500, LLC, JTL Holdings, LLC and JTL Asset Management, Inc. (filed as Exhibit 10.18 to the Registrant's on Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.17 Assumption Agreement dated September 13, 2007 by and among Pinehurst Associates, LLC, KC Pinehurst Associates, LLC, Federal Home Loan Mortgage Corporation and Robert E. Spielman (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.18 Promissory Note dated December 6, 2005 executed by KC Pinehurst Associates, LLC and payable to NorthMarq Capital, Inc. (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.19 Multi-family Deed of Trust, Assignment of Rents and Security Agreement, dated December 6, 2005 by Pinehurst Associates, LLC in favor of NorthMarq Capital, Inc. (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.20 Guaranty, dated September 13, 2007, by James E. Lippert in favor of the Federal Home Loan Mortgage Corporation (filed as Exhibit 10.18 to the Registrant's Form S-11 (File No. 333-146-867) on October 23, 2007 and incorporated herein by reference).

10.21 Guaranty, dated December 6, 2006, by Robert E. Spielman in favor of NorthMarq Capital, Inc. (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-11 (File No. 333-146-867), filed on October 23, 2007).

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10.61	Sixth Amendment to Real Estate Sale Agreement dated as of September 1, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.62	Seventh Amendment to Real Estate Sale Agreement dated as of September 22, 2009, by and between ERP Operating Limited Partnership and Northview Realty Group Inc. (filed as Exhibit 10.8 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.63	Assignment of Real Estate Agreement, dated as of September 14, 2009, by and between Northview Realty Group, Inc. and Evergreen at Lofton Place, LLC (filed as Exhibit 10.9 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.64	Operating Agreement of Evergreen at Lofton Place, LLC, dated as of October 1, 2009, by and among PRIP Lofton, LLC, NVR Lofton Place, LP and BH Lofton, LLC (filed as Exhibit 10.10 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference)
10.65	Multifamily Note effective as of October 1, 2009 made by Evergreen at Lofton Place, LLC in favor of CWCapital LLC (filed as Exhibit 10.11 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.66	Multifamily Mortgage, Assignment of Rents and Security Agreement, effective as of October 1, 2009, by Evergreen at Lofton Place, LLC in favor of CWCapital LLC (filed as Exhibit 10.12 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
10.67	Guaranty, dated October 1, 2009, by Charles M. Thompson in favor of CWCapital LLC (filed as Exhibit 10.13 to the Company's Current Report on Form 8-K on October 7, 2009 and incorporated herein by reference).
21	List of subsidiaries of Paladin Realty Income Properties, Inc.
31.1	Section 302 Certification of Principal Executive Officer.
31.2	Section 302 Certification of Principal Financial Officer.
32.1	Section 906 Certification of Principal Executive Officer.
32.2	Section 906 Certification of Principal Financial Officer.

* Indicates a management contract or compensatory plan or arrangement.

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Paladin Realty Income Properties, Inc. and Subsidiaries

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Paladin Realty Income Properties, Inc.:

We have audited the accompanying consolidated balance sheets of Paladin Realty Income Properties, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Paladin Realty Income Properties, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for acquisition-related costs effective January 1, 2009 to expense such costs as a result of the adoption of FASB ASC 805-10-25, Business Combinations.

/s/ KPMG LLP

New York, New York

March 29, 2011

PALADIN REALTY INCOME PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Real Estate:		
Building and improvements	$121,848,695	$121,691,321
Land	33,010,100	33,010,100
Furniture, fixtures and equipment	5,319,274	4,231,440
In-place leases	1,809,508	1,809,508
Tenant Improvements	1,029,147	720,366
	163,016,724	161,462,735
Less: Accumulated depreciation and amortization	(14,006,760)	(8,834,410)
Total real estate, net	149,009,964	152,628,325
Investment in real estate joint venture	2,051,061	1,547,042
Cash and cash equivalents	3,122,107	2,081,230
Restricted cash	1,514,717	2,635,731
Prepaid insurance and other assets, net	2,020,026	2,039,274
TOTAL ASSETS	$157,717,875	$160,931,602
LIABILITIES AND EQUITY		
Mortgages payable	$121,134,455	$121,365,972
Due to affiliates	474,258	2,313,166
Unaccepted subscriptions for common shares	121,923	316,826
Accrued expenses and other liabilities	2,805,194	2,561,896
Distributions payable	503,593	459,130
Total liabilities	125,039,423	127,016,990
Equity:		
Company's Equity:		
Preferred shares, $0.01 par value, 100,000,000 shares authorized; none issued or outstanding	—	—
Common shares, $0.01 par value, 750,000,000 shares authorized; 5,069,487 shares and 4,488,725 shares issued and outstanding, respectively	50,694	44,887
Additional paid-in-capital	44,405,174	39,370,776
Accumulated deficit and distributions	(20,548,299)	(14,834,259)
Total Company's equity	23,907,569	24,581,404
Noncontrolling interests	8,770,883	9,333,208
Total equity	32,678,452	33,914,612
TOTAL LIABILITIES AND EQUITY	$157,717,875	$160,931,602

See accompanying notes to consolidated financial statements

PALADIN REALTY INCOME PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2010, 2009 and 2008

	2010	2009	2008
Revenues			
Rental Income	$18,252,403	$14,065,270	$10,564,798
Other Income	1,786,841	1,253,941	921,225
Interest Income	9,695	25,550	103,788
Total Revenues	20,048,939	15,344,761	11,589,811
Expenses			
Property operating expenses	8,093,028	6,671,206	4,332,542
Real property taxes	1,574,103	1,243,597	878,813
General and administrative expenses	1,587,251	2,427,858	1,873,251
Interest expense, including amortization of deferred loan costs	7,624,089	6,554,831	4,430,622
Depreciation and amortization expense	5,258,133	3,812,064	2,764,030
Acquisition costs	—	973,047	—
Total Expenses	24,136,604	21,682,603	14,279,258
Loss before equity in earnings and noncontrolling interests	(4,087,665)	(6,337,842)	(2,689,447)
Equity in earnings from real estate joint venture	83,519	81,153	88,224
Net Loss	(4,004,146)	(6,256,689)	(2,601,223)
Noncontrolling interests	1,178,012	1,784,767	242,673
Net Loss Attributable to Company	$ (2,826,134)	$ (4,471,922)	$ (2,358,550)
Net Loss per common share			
Basic	$ (0.59)	$ (1.09)	$ (0.73)
Diluted	$ (0.59)	$ (1.09)	$ (0.73)
Weighted average number of common shares outstanding			
Basic	4,787,071	4,086,673	3,219,095
Diluted	4,787,071	4,086,673	3,219,095

See accompanying notes to consolidated financial statements

PALADIN REALTY INCOME PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
Years ended December 31, 2010, 2009 and 2008

	Company Stockholders					
	Common Shares					
	Common shares	Amount	Additional Paid-in Capital	Accumulated Deficit and Dividends	Noncontrolling Interests	Total Equity
BALANCE, December 31, 2007	2,605,486	$26,055	$22,840,256	$ (3,519,900)	$ (51,642)	$19,294,769
Issuance of common shares	994,881	9,949	9,912,818	—	—	9,922,767
Shares Redeemed	(27,951)	(280)	(259,711)	—	—	(259,991)
Selling commissions and dealer manager fees	—	—	(943,952)	—	—	(943,952)
Offering costs	—	—	(329,620)	—	—	(329,620)
Contributions	—	—	—	—	8,826,659	8,826,659
Distributions	—	—	—	—	(248,719)	(248,719)
Share-based compensation expense	—	—	36,822	—	—	36,822
Distributions declared ($0.60)	—	—	—	(1,991,351)	—	(1,991,351)
Shares issued pursuant to Distribution Reinvestment Plan	115,240	1,152	1,123,350	—	—	1,124,502
Net Loss	—	—	—	(2,358,550)	(242,673)	(2,601,223)
BALANCE, December 31, 2008	3,687,656	36,876	32,379,963	(7,869,801)	8,283,625	32,830,663
Issuance of common shares	804,083	8,041	7,987,738	—	—	7,995,779
Shares Redeemed	(143,238)	(1,432)	(1,329,061)	—	—	(1,330,493)
Selling commissions and dealer manager fees	—	—	(715,868)	—	—	(715,868)
Offering costs	—	—	(282,731)	—	—	(282,731)
Contributions	—	—	—	—	2,972,417	2,972,417
Distributions	—	—	—	—	(138,067)	(138,067)
Distributions declared ($0.60)	—	—	—	(2,492,536)	—	(2,492,536)
Shares issued pursuant to Distribution Reinvestment Plan	140,224	1,402	1,330,735	—	—	1,332,137
Net Loss	—	—	—	(4,471,922)	(1,784,767)	(6,256,689)
BALANCE, December 31, 2009	4,488,725	44,887	39,370,376	(14,834,259)	9,333,208	33,914,612
Issuance of common shares	567,911	5,679	5,657,751	—	—	5,663,430
Shares Redeemed	(155,469)	(1,555)	(1,449,831)	—	—	(1,451,386)
Selling commissions and dealer manager fees	—	—	(524,728)	—	—	(524,728)
Offering costs	—	—	(217,000)	—	—	(217,000)
Contributions	—	—	—	—	831,453	831,453
Distributions	—	—	—	—	(215,766)	(215,766)
Distributions declared	—	—	—	(2,887,906)	—	(2,887,906)
Issuance of common shares to directors	16,000	160	(160)	—	—	—
Share-based compensation expense	—	—	123,179	—	—	123,179
Shares issued pursuant to Distribution Reinvestment Plan	152,320	1,523	1,445,187	—	—	1,446,710
Net Loss	—	—	—	(2,826,134)	(1,178,012)	(4,004,146)
BALANCE, December 31, 2010	5,069,487	$50,694	$44,405,174	$(20,548,299)	$ 8,770,883	$32,678,452

See accompanying notes to consolidated financial statements

PALADIN REALTY INCOME PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2010, 2009 and 2008

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	$(4,004,146)	$ (6,256,689)	$ (2,601,223)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities			
Equity in earnings from joint venture	(83,519)	(81,153)	(88,224)
Distributions from real estate joint venture	83,519	81,153	88,224
Depreciation and amortization expense	5,258,133	3,812,064	2,764,030
Amortization of deferred loan costs	268,557	249,108	77,995
Amortization of deferred compensation	123,179	—	36,822
Changes in operating assets and liabilities:			
Decrease (increase) in restricted cash	74,956	(261,418)	(245,763)
Increase in prepaid insurance and other assets	(54,323)	(209,481)	(147,871)
Decrease (increase) in due from affiliates	(1,722,151)	1,587,086	890,393
Increase in accrued expenses and other liabilities	352,673	994,943	550,245
Net cash provided by / (used in) operating activities	296,878	(84,387)	1,324,628
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of/ expenditures for real estate and improvements	(1,758,557)	(32,494,587)	(67,145,384)
Decrease (increase) in restricted cash	851,165	2,782,048	(3,475,780)
Distributions from real estate joint venture in excess of equity in earnings	45,981	66,847	52,376
Contributions to real estate joint venture	(550,000)	—	—
Net cash used in investing activities	(1,411,411)	(29,645,692)	(70,568,788)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings from mortgages payable	434,786	22,708,779	50,667,612
Payments on mortgage payable	(666,303)	(72,115)	(67,429)
Deferred loan costs	(185,678)	(287,393)	(522,935)
Decrease (increase) in restricted cash	194,903	(132,326)	25,710
Proceeds from issuance of common shares	5,663,430	7,995,779	9,922,767
Shares redeemed	(1,451,386)	(1,330,231)	(259,991)
Increase (decrease) in unaccepted subscriptions for common stock	(194,903)	132,326	(25,710)
Selling commissions and dealer manager fees	(524,728)	(715,868)	(943,952)
Offering costs	(217,000)	(282,731)	(329,620)
Decrease (increase) in due to affiliates	(116,757)	(106,874)	868,977
Distributions paid	(1,396,641)	(1,077,893)	(753,653)
Contributions from noncontrolling interests	831,453	2,972,417	8,826,659
Distributions to noncontrolling interests	(215,766)	(138,067)	(249,706)
Net cash provided by financing activities	2,155,410	29,665,803	67,158,729
Net increase (decrease) in cash and cash equivalent	1,040,877	(64,276)	(2,085,431)
Cash and cash equivalents – beginning of year	2,081,230	2,145,506	4,230,937
Cash and cash equivalents – end of year	$ 3,122,107	$ 2,081,230	$ 2,145,506
Supplemental disclosure of non-cash investing and financing activities			
Mortgage loan assumed in connection with purchase of real estate	$ —	$ —	$ 4,250,000
Distributions payable	$ 503,593	$ 459,130	$ 376,626
Common stockholders distributions reinvested in accordance with Distribution Reinvestment Plan	$ 1,446,710	$ 1,332,137	$ 1,124,502
Expenditures for real estate and improvements accrued but unpaid	$ —	$ 109,375	$ 1,654,690
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 7,313,639	$ 6,243,358	$ 4,119,045

See accompanying notes to consolidated financial statements

1. Organization

Paladin Realty Income Properties, Inc., a Maryland corporation ("Paladin REIT"), was formed on October 31, 2003 to invest in a diversified portfolio of high quality investments, including real property investments and real estate related investments, focusing primarily on investments that produce current income. As of December 31, 2010, we owned interests in 11 joint ventures that own 12 income-producing properties.

	Location	Year Built	Number of Units/Rentable Square Feet
Multifamily Communities			
Champion Farms Apartments	Louisville, Kentucky	2000	264 Units
Fieldstone Apartments	Woodlawn, Ohio	2001	266 Units
Pinehurst Apartment Homes	Kansas City, Missouri	1986 and 1988; renovated in 2006	146 Units
Pheasant Run Apartments	Lee's Summit, Missouri	1985; renovated in 2003 and 2004	160 Units
The Retreat Apartments	Shawnee, Kansas	1984; renovated in 2004 and 2005	342 Units
Hilltop Apartments	Kansas City, Missouri	1986	124 Units
Conifer Crossing	Norcross, Georgia	1981	420 Units
Lofton Place Apartments	Tampa, Florida	1988	280 Units
Beechwood Gardens Apartments	Philadelphia, Pennsylvania	1967; renovated in 2003 and 2004	160 Units
Industrial			
801 Fiber Optic Drive	North Little Rock, Arkansas	2001	56,336 Sq. Ft.
Office			
Two and Five Governor Park (two properties)	San Diego, California	1985 and 1989	22,470 Sq. Ft. and 53,048 Sq. Ft.

Paladin REIT's investment policy includes a variety of real estate product types, including apartments, office buildings, industrial buildings, shopping centers and hotels. Paladin REIT may also make real estate related investments, which include loans on real property such as first mortgage loans and mezzanine loans. Paladin REIT elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the taxable year ended December 31, 2006. Subject to certain restrictions and limitations, the business of Paladin REIT is managed by Paladin Realty Advisors, LLC ("Paladin Advisors"), an affiliate of Paladin REIT, pursuant to an amended and restated advisory agreement, dated July 28, 2010 (the "Advisory Agreement"). Paladin Advisors supervises and manages the day-to-day operations of Paladin REIT and selects the real property investments and real estate related investments it makes, subject to oversight by the board of directors of Paladin REIT. Paladin Advisors also provides marketing, sales, and client services on behalf of Paladin REIT.

On February 23, 2005, Paladin REIT's initial public offering (the "Initial Offering") was declared effective and Paladin REIT commenced its offering efforts. The Initial Offering terminated on July 28, 2008, in connection with the commencement of Paladin REIT's follow-on offering (the "Follow-On Offering" and collectively with the Initial Offering, the "Offerings") on July 28, 2008. As of December 31, 2010, Paladin REIT had received proceeds of $53,355,424 for 5,370,182 shares in the Offerings.

Paladin REIT owns its assets and conducts its operations through Paladin Realty Income Properties, L.P., its operating partnership ("Paladin OP"). As of December 31, 2010 and 2009, Paladin Advisors held a 0.4% limited partnership interest and Paladin REIT held a 99.6% general partnership interest in Paladin OP.

2. Summary of Significant Accounting Policies

Principles of Reporting

The consolidated financial statements include the accounts of Paladin REIT and its wholly owned and controlled entities (collectively, the "Company"). The Company consolidates any variable interest entities ("VIEs") of which it controls (a) through voting rights or similar rights or (b) by means other than voting rights if the Company is the primary beneficiary, as defined. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity, the Company applies the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

The Company implemented new guidance effective January 1, 2010 regarding VIEs. In accordance with the guidance, the Company re-evaluated all of its equity and loan investments to determine if they are VIEs. For each of these investments, the Company has evaluated (1) the sufficiency of the entities' equity investments at risk to permit the entity to finance its activities without additional subordinated financial support; (2) that as a group the holders of the equity investments at risk have (a) the power through voting rights or similar rights to direct the entities' activities that most significantly impact the entity's economic performance, (b) the obligation to absorb the expected losses of the entity and their obligations are not protected directly or indirectly and (c) the right to receive the expected residual return of the entity and their rights are not capped and (3) the voting rights of these investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the entity, or both, and that substantially all of the entities' activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights.

If an investment was determined to be a VIE, the Company then performed an analysis to determine if the Company is the primary beneficiary of the VIE. U.S. generally accepted accounting principles ("GAAP") require a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that has a controlling financial interest in an entity. In order for a party to have a controlling financial interest in an entity it must have (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (2) the obligation to absorb losses of an entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The accompanying consolidated financial statements are prepared in accordance with GAAP.

Revenues are recognized as earned and expenses are recognized as incurred.

Risks and Uncertainties

The Company is operating in a challenging and uncertain economic environment. Financial and real estate companies continue to be affected by the lack of liquidity in financial markets, declines in real estate values and the reduction in the willingness of financial institutions to make new loans and refinance or extend existing loans on similar terms and conditions.

Noncontrolling Interests

Background

Noncontrolling interests are presented and disclosed as a separate component of equity (not as a liability or other item outside of permanent equity). Consolidated net income includes the noncontrolling interest's share of income. The calculation of earnings per share continues to be based on income amounts attributable to the Company. All changes in the Company's ownership interest in a subsidiary are accounted for as equity transactions if the Company retains its controlling financial interest in the subsidiary.

Presentation

As of December 31, 2010 and 2009, the Company's noncontrolling interests represent noncontrolling ownership interests in joint ventures controlled by the Company through ownership or contractual arrangements. Balances attributable to these noncontrolling interests, including amounts previously included in Prepaid Insurance and Other Assets, were reclassified to become a separate component of equity as of all dates presented. Also, consolidated net income was reclassified to include the amounts attributable to the noncontrolling interests. These noncontrolling interests reported in equity are not subject to any mandatory redemption requirements or other redemption features outside of the Company's control that would result in presentation outside of permanent equity. As of December 31, 2009 and 2008, balances attributed to noncontrolling interests were also reclassified to become a separate component of equity, and the deficit balance represents the joint venture partners' obligation to fund the operating cash deficit in the joint venture entity.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes significant estimates regarding impairments. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from those estimates and assumptions.

Real Estate and Depreciation

Land is carried at cost. Building and improvements, furniture, fixtures, and equipment, in-place leases, and tenant improvements are stated at cost, less accumulated depreciation and amortization. The Company allocates the purchase price of newly acquired properties between net tangible and identifiable intangible assets. The primary intangible asset associated with an apartment or office building property acquisition is the value of the existing lease agreements. When allocating the purchase price to an acquired property, the Company allocates the purchase price to the estimated value of the land, building, and fixtures assuming the property is vacant and to the estimated intangible value of the existing lease agreements. In some circumstances, the Company engages real estate appraisal firms to provide market information and evaluations that are relevant to its purchase price allocations; however, the Company is ultimately responsible for the purchase price allocation. The Company estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up. The Company depreciates the buildings and fixtures based on the expected useful life of the asset, which ranges from 27 to 45 years for the buildings and improvements and from 5 to 7 years for furniture, fixtures and equipment, using the straight line basis. The intangible value of the lease agreements is amortized over the average remaining life of the existing leases, which ranges from 3 to 24 months, using the straight line basis. This amortization is included in depreciation and amortization expense on the accompanying consolidated statements of operations. Improvements and betterments are capitalized when they extend the useful life of the asset. Expenditures for repairs and maintenance are expensed as incurred.

Effective January 1, 2009, the Company expenses acquisition costs for future investment property acquisitions to record the acquisition at its fair value. Prior to January 1, 2009, the Company capitalized all acquisitions costs as part of the value of the investment property as an addition to building and improvements.

The Company reviews long-lived assets and related identifiable intangibles for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. When such events or changes in circumstances occur, recoverability of the asset to be held and used is measured by a comparison of the carrying amount of the asset to future cash flows, undiscounted and without interest, expected to be generated by the asset. In order to review the Company's investment properties for recoverability, the Company considers current market conditions, as well as its intent with respect to holding or disposing of the asset. Fair value is determined through various valuation techniques; including discounted cash flow models, quoted market values and third party appraisals, where considered necessary. If the Company's analysis indicates that the carrying value of the investment property is not recoverable on an undiscounted cash flow basis, the Company recognizes an impairment charge for the amount by which the carrying value exceeds the current estimated fair value of the real estate property. If the sum of the expected future cash flows (undiscounted and without interest) is less than the Company's carrying amount for the asset, an impairment loss is recognized based upon the asset's fair value. There were no impairment charges taken for the years ended December 31, 2010, 2009 and 2008.

Acquisition of Real Estate

The fair value of real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, building and improvements and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and other value of in-place leases based in each case on their fair values. Acquisition costs are expensed as incurred and are included in property operating expense in the accompanying consolidated statement of operations. Noncontrolling interests acquired are also recorded at estimated fair market value.

The fair value of the tangible assets of an acquired property (which includes land, building and improvements and furniture, fixtures and equipment) is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and building and improvements based on management's determination of relative fair values of these assets. In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market lease values are recorded based on the difference between the current in-place lease rent and management's estimate of current market rents. Below-market lease intangibles are recorded as part of deferred revenue and amortized into rental revenue over the non-cancelable periods and bargain renewal periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the non-cancelable portion of the respective leases.

Deferred Loan Costs

Loan costs are capitalized and amortized using the effective interest method over the life of the related loan. The amortization is recorded as a component of interest expense.

Revenue Recognition

The Company primarily leases residential apartments to tenants under non-cancellable operating leases with terms ranging from 3 to 24 months. The Company also leases commercial space to tenants with lease terms extending to 2017. Rental income related to leases is recognized in the period earned over the lease term.

Other income consists of various tenant-related charges and is recognized as revenue in the period in which the applicable charge is incurred.

Accounts Receivable

Accounts receivable is included in prepaid insurance and other assets, net in the consolidated balance sheets. Bad debts are recorded under the specific identification method, whereby, uncollectible receivables are directly written off when identified.

Cash Equivalents

Cash equivalents represent highly liquid investments with maturities at the date of purchase of three months or less.

Restricted Cash

Restricted cash includes subscription proceeds that are held in escrow until investors are admitted as stockholders. Upon acceptance of stockholders, shares of stock are issued, and Paladin REIT receives the subscription proceeds. Restricted cash included $121,923 and $316,826 as of December 31, 2010 and 2009, respectively, for subscription proceeds that were held in escrow. At December 31, 2010 and 2009, restricted cash also included $1,392,794 and $1,768,905, respectively, held in restricted accounts for building and tenant improvements, repairs, property taxes and insurance as required by lenders. At December 31, 2009, restricted cash also included $550,000 held in a restricted account as collateral for a letter of credit in connection with the acquisition of 801 Fiber Optic Drive, as described in Note 3.

Income Taxes

The Company elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the taxable year ended December 31, 2006, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. The Company believes it operates in such a manner as to qualify for treatment as a REIT for federal income tax purposes. Accordingly, the Company generally will not be subject to federal income tax, provided that distributions to its stockholders equal at least the amount of its taxable income. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distributes at least 90% of its taxable income to stockholders, subject to certain adjustments. If the Company fails to qualify as a REIT in any taxable year without the benefit of certain relief provisions, it will be subject to federal and state income taxes on its taxable income at regular corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state or local taxes on its income, property or net worth and federal income and excise taxes on its undistributed income. No provision has been made for federal income taxes for the years ended December 31, 2010, 2009 and 2008 in the accompanying consolidated financial statements.

The Company uses a more-likely-than-not threshold for recognition and decrecognition of tax positions taken or to be taken in a tax return. The Company has assessed its tax positions for all open tax years since January 1, 2007 and concluded that there were no material uncertainties to be recognized. The Company's accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as provision for income taxes. The Company has not recognized any interest and penalties related to tax uncertainties for the years ended December 31, 2010, 2009 and 2008.

Organization and Offering Costs

Organization costs are expensed as incurred and offering costs are charged to stockholders' equity. These costs are subject to a 3.0% limitation of the gross proceeds from the Offerings pursuant to the Company's Advisory Agreement with Paladin Advisors, as described in Note 6.

Expense Reimbursement

Pursuant to the Advisory Agreement, Paladin Advisors is entitled to reimbursement of actual expenses incurred for administrative and other services provided to the Company by Paladin Advisors and its affiliates, including reimbursement of personnel costs and overhead for which they do not otherwise receive a fee. Additionally, Paladin Advisors must pay the Company quarterly for any amounts of operating expenses that in the 12 months then ended (the "Expense Period") exceed the greater of (1) 2% of our average invested assets or (2) 25% of our net income of the Company (the "2%/25% Rule"), unless a majority of independent directors approves reimbursement of any excess. The Company will not reimburse Paladin Advisors for operating expenses that in any fiscal year exceed the 2%/25% Rule, unless a majority of the independent directors approve reimbursement of any excess. The amounts of any approved excess becomes payable by the Company at such time when the excess amounts and amounts of future operating expenses are within the 2%/25% Rule. General and administrative expenses in excess of the 2%/25% that are approved for payment are reflected as expense in the accompanying consolidated statements of operations when they become payable under the 2%/25% Rule.

The average invested assets of the Company for any period are equal to the average book value of the Company's assets invested in equity interests in, and loans secured by, real estate before reserves for depreciation or bad debts or other similar non-cash reserves, computed by taking the average of such values at the end of each month during the period. For the year ended December 31, 2010, the average book value of the Company's assets before reserves for depreciation or bad debts or other similar non-cash reserves is approximately $165,000,000. The net income of the Company for any period is equal to the Company's total revenue less total expenses other than additions to reserves for depreciation, bad debts or other similar non-cash reserves for such period. Operating expenses include all expenses incurred by the Company under GAAP (including the asset management fee), but excluding organization and offering expenses, interest payments, taxes, non-cash expenditures such as depreciation, amortization and bad debt reserves, the subordinated disposition fee, acquisition fees and expenses and distributions pursuant to Paladin Advisors' subordinated participation interest in Paladin OP.

Paladin Advisors must refund the Company for previously reimbursed expenses in excess of the 2%/25% Rule to the Company within 60 days after the end of each fiscal quarter unless the independent directors determine that the excess expenses were justified based on unusual and nonrecurring factors which they deem sufficient. Within 60 days after the end of any Expense Period for which the independent directors approve total operating expenses in excess of the 2%/25% Rule, Paladin REIT will send its stockholders a written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified. However, at Paladin Advisors' option, Paladin Advisors or its affiliate, as applicable, may defer the reimbursement of expenses and elect to receive such payments, without interest, in any subsequent fiscal year that Paladin Advisors designates, as described in Note 6.

Per Share Data

The Company presents both basic and diluted loss per share ("EPS"). Basic EPS excludes potentially dilutive securities and is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Dilutive EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised, where such exercise would result in a lower EPS amount. Excluded from the dilutive EPS calculation is the directors' unvested shares of restricted stock totaling 8,000, for the year ended December 31, 2010, because their effect would be anti-dilutive. There were no unvested shares of restricted stock as of December 31, 2009 or December 31, 2008.

Unaccepted Subscriptions for Common Stock

Unaccepted subscriptions for shares of our common stock include proceeds related to subscriptions that were held in escrow but had not been accepted by the Company as of December 31, 2010 and 2009.

Fair Value of Financial Instruments

The fair values of the Company's cash and cash equivalents, restricted cash, investments in real estate joint ventures, other assets, distributions payable and other liabilities approximate the carrying values due to the short-term nature of these financial instruments. As of December 31, 2010, the mortgage loans payable had an estimated fair value of approximately $127.8 million compared to the carrying value of $121.1 million. As of December 31, 2009, the mortgage loans payable had an estimated fair value of approximately $126.9 million compared to the carrying value of $121.4 million. To determine fair value, the fixed rate debt is discounted at a rate based on an estimate of current lending rates as of December 31, 2010 and 2009.

Share-based Compensation

Under the terms of the Independent Director Incentive Stock Plan, the Company granted 3,000 shares at fair value of $10 per share of restricted common stock to each of the four independent directors on June 30, 2006. One-third of the restricted common stock vested on each of the first three anniversaries of December 2, 2005, the date the Company reached its minimum offering. On June 18, 2010, we granted 4,000 shares of restricted common stock at fair value of $10 per share to each of our independent directors upon their reelection to the board of directors pursuant to the 2005 Independent Director Incentive Stock Plan. Two thousand of the shares granted to each independent director then serving vested immediately, and 2,000 of the shares will vest on the first anniversary of the date of grant, provided the independent director continues to provide services to us on such vesting date. There are 60,000 shares in total authorized under the Independent Director Incentive Stock Plan, which expires on February 28, 2015.

The Company records compensation expense for the restricted common stock. Compensation expense for common stock unvested at March 21, 2006 was based on the grant date fair value of the common stock and was recognized using the straight-line attribution method, assuming no forfeitures. For the years ended December 31, 2010 and 2009, the Company recorded $123,179 and $0, respectively, of related compensation expense which amounts are included in general and administrative expenses in the accompanying consolidated statements of operations. There were no unamortized compensation costs on non-vested shares at December 31, 2009 or 2008.

As of December 31, 2010 8,000 shares of restricted stock were unvested. There have been no forfeitures as of December 31, 2010 or 2009. Effective January 3, 2011, Mr Harvey Lenkin resigned from the Company's board of directors and forfeited 2,000 shares of restricted stock.

Reportable Segments

Management has determined that the Company has one reportable segment, which owns interests in real estate investments.

Environmental Matters

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under such property as well as certain other potential costs relating to hazardous or toxic substances. These liabilities may include government fines and penalties and damages for injuries to persons and adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of or disposal of such substances. As of December 31, 2010, the Company is not aware of any environmental matter that could have a material impact on the consolidated financial statements.

Reclassifications

Common shares redeemed by the Company are reflected as a reduction in additional paid-in capital. Previously, they were reflected as treasury shares.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash* ("ASU No. 2010-01"). This ASU clarifies that when the stock portion of a distribution allows stockholders to elect to receive cash or stock with a potential limitation on the total amount of cash that all stockholders can elect to receive in the aggregate, the distribution would be considered a share issuance as opposed to a stock dividend and the share issuance would be reflected in earnings per share prospectively. ASU No. 2010-01 is effective for interim and annual periods ending on or after December 15, 2009 and should be applied on a retrospective basis. The adoption of ASU No. 2010-01 has no impact on the Company's consolidated financial statements.

3. Investments

Investments in Real Estate

On November 3, 2010 the Company's board of directors approved the potential sale of Lofton Place Apartments and Two Governor Park contingent upon certain selling prices. As of the date of this Annual Report, neither property has received an offer that would satisfy the selling price approved by the board of directors.

	Paladin OP Ownership %	Property	Year Built	Number of Units/Rentable Square Feet
Multifamily Communities				
Springhurst Housing Partners, LLC	70.0%	Champion Farms Apartments	2000	264 Units
Glenwood Housing Partners I, LLC	83.0%	Fieldstone Apartments	2001	266 Units
KC Pinehurst Associates, LLC	97.5%	Pinehurst Apartment Homes	1986 and 1988; renovated in 2006	146 Units
KC Pheasant Associates, LLC	97.5%	Pheasant Run Apartments	1985; renovated in 2003 and 2004	160 Units
KC Retreat Associates, LLC	97.5%	The Retreat Apartments	1984; renovated in 2004 and 2005	342 Units
Park Hill Partners I, LLC	49.0%	Hilltop Apartments	1986	124 Units
FPA/PRIP Conifer, LLC	42.5%	Conifer Crossing	1981	420 Units
Evergreen at Lofton Place, LLC	60.0%	Lofton Place Apartments	1988	280 Units
Morgan Beechwood, LLC	82.3%	Beechwood Garden Apartments	1967; renovated in 2003 and 2004	160 Units
Office				
FPA/PRIP Governor Park, LLC	47.7%	Two and Five Governor Park	1985 and 1989	22,470 Sq. Ft. and 53,048 Sq. Ft.

In connection with Paladin OP's acquisition of its interest in Springhurst Housing Partners, LLC ("Springhurst"), Buckingham Springhurst, LLC was granted the right to require Paladin OP to purchase up to an additional 20% ownership interest in Springhurst from Buckingham Springhurst, LLC upon the occurrence of certain events and the achievement of certain financial benchmarks at Champion Farms Apartments at a cost of $67,500 per 1% of ownership interest. As of December 31, 2010, Paladin OP has not been required to purchase additional interests in Springhurst by Buckingham Springhurst, LLC.

In connection with Paladin OP's acquisition of its interest in Glenwood Housing Partners I, LLC ("Glenwood"), Shiloh Crossing Partners II, LLC ("Shiloh II") was granted the right to require Paladin OP to purchase up to an additional 25% ownership interest in Glenwood from Shiloh II upon the occurrence of certain events and the achievement of certain financial benchmarks at Fieldstone Apartments at a cost of $62,500 per 1% of ownership interest. On July 1, 2008, Paladin OP purchased an additional 18% interest in Glenwood from Shiloh II for $1,125,000. Paladin OP now holds an 83% ownership interest in Glenwood. Since July 1, 2008, Paladin OP has not been required to purchase additional interest in Glenwood.

Also in connection with Paladin OP's initial acquisition of its interest in Glenwood, a wholly owned subsidiary of Paladin OP, PRIP 10637, LLC, entered into a Phase II Option Agreement ("Option Agreement") with Glenwood Housing Partners II, LLC, an Indiana limited liability company ("Glenwood II"). Glenwood II owns a parcel of land adjacent to Fieldstone Apartments upon which it may construct 88 apartment units with an aggregate of 97,640 square feet of rentable space to be leased, managed and operated as Phase II of the Fieldstone Apartments. The Option Agreement grants PRIP 10637, LLC an ongoing option to purchase at least a 70% but not more than 90% beneficial ownership interest in Glenwood II or any affiliated entity that owns the parcel and developments thereon. PRIP 10637, LLC may exercise the option at any time after the completion of development and stabilization of the project. If exercised, the purchase price for the option interest will be determined by a formula that utilizes market-rate variables as of that future date. As of December 31, 2010, the option has not been exercised.

The operating agreements for both Springhurst and Glenwood provide that the Company will receive priority in distributions of operating cash flow until it has received at least 8.25% on its invested equity, after which its co-venture partners will receive distributions until they have reached the same 8.25% on their invested equity. Thereafter, operating cash flow will be distributed 50% to the Company and 50% to its co-venture partners. The operating agreements for both Springhurst and Glenwood also provide for priority distributions of sale proceeds, if any. First, the Company will receive a priority distribution equal to a return of its invested capital. Second, its co-venture partners will receive a distribution equal to their invested capital. Third, the Company will receive an amount that when added to all distributions of cash flow made to the Company during the life of its investment, is sufficient to generate an 11.5% internal rate of return on its invested capital. Fourth, the Company's co-venture partners will receive an amount, that when added to all distributions of cash flow made to its co-venture partners during the life of their investment, is sufficient to generate an 11.5% internal rate of return on their invested capital. Fifth, any further sales proceeds will be distributed 50% to the Company and 50% to its co-venture partners.

The operating agreements for both KC Pinehurst Associates, LLC ("KC Pinehurst") and KC Pheasant Associates, LLC ("KC Pheasant") provide that the Company will receive priority in distributions of operating cash flow until it has received at least 9.0% on its invested equity, after which its co-venture partners will receive distributions until they have reached the same 9.0% on their invested equity. Thereafter, operating cash flow will be distributed 75% to the Company and 25% to its co-venture partners. The operating agreements for both KC Pinehurst and KC Pheasant also provide for priority distributions of sale proceeds, if any. First, the Company will receive a priority distribution equal to a return of its invested capital plus an amount that when added to all distributions of cash flow made to the Company during the life of its investment, is sufficient to generate a 12.0% internal rate of return on its invested capital. Second, the Company's co-venture partners will receive distributions that when added to all distributions of cash flow made to its co-venture partners during the life of their investment, is sufficient to generate a 12.0% internal rate of return on their invested capital. Third, any further sales proceeds will be distributed 50% to the Company and 50% to its co-venture partners.

The operating agreement for KC Retreat Associates, LLC ("KC Retreat") provides that the Company will receive priority in distributions of operating cash flow until it has received at least 12.0% on its invested equity, after which its co-venture partners will receive distributions until they have reached the same 12.0% on their invested equity. Thereafter, operating cash flow will be distributed 50% to the Company and 50% to its co-venture partners. The operating agreement for KC Retreat also provides for priority distributions of sale proceeds, if any. First, the Company will receive a priority distribution equal to a return of its invested capital plus an amount that when added to all distributions of cash flow made to the Company during the life of its investment, is sufficient to generate a 12.0% internal rate of return on its invested capital. Second, the Company's co-venture partners will receive distributions that when added to all distributions of cash flow made to its co-venture partners during the life of their investment, is sufficient to generate a 12.0% internal rate of return on their invested capital. Third, any further sales proceeds will be distributed 50% to the Company and 50% to its co-venture partners.

The operating agreement for Park Hill Partners I, LLC ("Park Hill") provides that the Company will receive priority in distributions of operating cash flow until it has received at least 12.0% on its invested equity, after which its co-venture partners will receive distributions until they have reached the same 12.0% on their invested equity. Thereafter, operating cash flow will be distributed 49% to the Company and 51% to its co-venture partners. The operating agreement for Park Hill Partners also provides for priority distributions of sale proceeds, if any. First, the Company will receive a priority distribution equal to a return of its invested capital plus an amount that when added to all distributions of cash flow made to the Company during the life of its investment, is sufficient to generate a

12.0% internal rate of return on its invested capital. Second, the Company's co-venture partners will receive distributions that when added to all distributions of cash flow made to the co-venture partners during the life of their investment, is sufficient to generate a 12.0% internal rate of return on their invested capital. Third, any further sales proceeds will be distributed 49% to the Company and 51% to its co-venture partners.

The operating agreement for FPA/PRIP Conifer, LLC ("FPA/PRIP Conifer") provides that the Company will receive priority in distributions of operating cash flow until the Company has received at least 8.5% on its invested equity, after which the Company's co-venture partner will receive distributions until the co-venture partner has reached the same 8.5% on its invested equity. If the Company's pro rata distribution exceeds 9.0% in a calendar year, the Company will share 20% of its excess distributions with its co-venture partner as a cash flow bonus. The operating agreement also provides for distributions of sale proceeds, if any. First, the Company and the co-venture partner will receive a 100% return of our equity investments. Second, the Company and the co-venture partner will receive pro rata distributions until the Company and the co-venture partner each have received a 12.0% internal rate of return on their invested capital. Third, the Company will share its pro rata portion of fifty percent of the remaining distributions with the co-venture partner and the co-venture partner will receive all of the other fifty percent of the remaining distributions as incentive compensation.

The operating agreement for FPA/PRIP Governor Park, LLC ("FPA/PRIP Governor Park") provides that the Company's investment will be treated as preferred equity, and the Company will receive a priority preferred return of 9.0% on its invested equity and a fixed, priority 15.0% internal rate of return upon a capital event.

The operating agreement for Evergreen at Lofton Place, LLC ("Evergreen") provides that the Company's investment will be treated as preferred equity, and the Company will receive a priority preferred return of 10.0% per annum on its invested equity. Next, each of its co-venture partners will receive a 10.0% pro rata return per annum on its invested equity. Third, cash flow distributions will be split pro rata between the members until each of the members has received a 12.0% return annually. Thereafter, distributions will be split 50.0% to the Company and 50.0% to its co-venture partners collectively, except upon the occurrence of certain events. Upon a capital event, distributions of residual proceeds will be split pro rata up to a 15.0% internal rate of return to each of the members. Next, the distributions will be split 50.0% to the Company and 50.0% to its co-venture partners collectively until each member has received an 18.0% internal rate of return, except upon the occurrence of certain events. Thereafter, distributions will be split 40.0% to the Company and 60.0% to its co-venture partners except upon the occurrence of certain events. The operating agreement also provides the Company with majority voting rights with respect to all major decisions.

The operating agreement for Morgan Beechwood, LLC ("Morgan Beechwood") provides that the Company's investment will be treated as preferred equity, and the Company will receive a priority preferred return of 10.0% per annum on its invested equity. Next, its co-venture partner will receive a 10.0% pro rata return per annum on its invested equity. Third, cash flow distributions will be split pro rata in accordance with the ownership interest. Upon a capital event, distributions will first be split pro rata in accordance with each member's ownership interest until each member has received its initial investment back. Next, distributions will be split pro rata between the members until each of the members has received a 12.0% return annually. Thereafter, distributions will be split 50.0% to the Company and 50.0% to its co-venture partner.

The Company consolidates Evergreen at Lofton, Morgan Beechwood, FPA/PRIP Governor Park, FPA/PRIP Conifer, Park Hill Partners, KC Retreat, KC Pinehurst, KC Pheasant, Springhurst and Glenwood.

The following table summarizes certain information related to the Company's land and buildings and improvements as of December 31, 2010:

		Initial Costs		Costs Capitalized Subsequent to Acquisition		Total Costs				
Property	Encumbrances	Land Acquired	Building & Improvements	Land Additions	Building & Improvements	Land Acquired	Building & Improvements	Accumulated Depreciation	Year Built	Year Acquired
Champion Farms Apartments	$ 16,350,000	$ 2,335,545	$ 17,856,281	$ —	$ 95,019	$ 2,335,545	$ 17,951,300	$ (1,828,316)	2000	2006
Fieldstone Apartments	16,500,000	1,446,033	18,548,780	78,750	1,202,058	1,524,783	19,750,838	(1,750,444)	2001	2006
Pinehurst Apartment Homes	4,563,278	1,230,000	5,865,966	—	—	1,230,000	5,865,966	(603,447)	1986	2007
Pheasant Run Apartments	6,250,000	1,120,000	7,393,945	—	161,344	1,120,000	7,555,289	(768,414)	1985	2007
Retreat Apartments	13,600,000	1,860,000	13,913,549	—	338,312	1,860,000	14,251,861	(1,599,408)	1984	2008
Hilltop Apartments	4,250,000	430,000	4,475,196	—	59,734	430,000	4,534,930	(363,538)	1986	2008
Conifer Apartments	28,700,000	13,721,349	17,154,149	—	5,953,292	13,721,349	23,107,441	(1,391,677)	1981	2008
Two and Five Governor Park (1)	10,260,177	5,099,027	8,107,703	—	824,582	5,099,027	8,932,285	(504,483)	1985 & 1989	2008
Lofton Place Apartments	12,000,000	3,600,000	11,464,057	—	274,124	3,600,000	11,738,181	(533,867)	1988	2009
Beechwood Garden Apartments	8,661,000	2,089,396	8,160,604	—	—	2,089,396	8,160,604	(321,837)	1967	2009
Total	$ 121,134,455	$32,931,350	$ 112,940,230	$ 78,750	$ 8,908,465	$33,010,100	$ 121,848,695	$ (9,665,431)		

The aggregate cost of the Company's land and buildings and improvements for federal income tax purposes is approximately $154.7 million (unaudited) as of December 31, 2010 and $154.6 million (unaudited) as of December 31, 2009.

Note (1) This investment consists of 2 office buildings.

The following reconciles the historical cost of the Company's land and buildings and improvements from January 1 to December 31, 2010 and 2009:

	2010	2009
Balance, beginning of year	$154,701,421	$126,244,673
Acquisitions	—	25,314,057
Land additions and improvements	157,374	3,142,691
Balance, end of year	$154,858,795	$154,701,421

The following table reconciles accumulated depreciation related to the Company's buildings and improvements from January 1 to December 31, 2010 and 2009:

	2010	2009
Balance, beginning of year	$6,079,139	$3,263,729
Depreciation expense	3,586,292	2,815,410
Balance, end of year	$9,665,431	$6,079,139

Depreciation of buildings and improvements reflected in the statements of operations is calculated over the estimated lives of the buildings and improvements of 27 to 45 years.

The following reconciles in-place leases, net from January 1 to December 31, 2010 and 2009:

	2010	2009
Balance, beginning of year	$ 584,583	$ 7,500
In-place lease additions	—	710,000
Amortization expense	(584,583)	(132,917)
Balance, end of year	$ —	$ 584,583

Investment in Unconsolidated Joint Venture

Paladin OP has a 79% economic interest in PRIP 801, LLC, a joint venture between Paladin OP and 801 FO, LLC, which owns 801 Fiber Optic Drive. 801 Fiber Optic Drive consists of approximately 10.95 acres of real property and a 56,336 square foot building that was completed in 2001, which is 100% leased to FedEx Ground Package System, Inc. ("FedEx Ground"), pursuant to a ten-year net lease that commenced on August 1, 2001 and expires on July 31, 2011. FedEx Ground is a subsidiary of FedEx Corporation, a provider of transportation, e-commerce and supply management services. In accordance with the original lease, FedEx Ground also has the option to extend the lease for two additional five-year periods. The first option is through July 31, 2016 at $405,792 per annum. The second option is through July 31, 2021 at $446,376 per annum. On January 28, 2010, PRIP 801, LLC and FedEx Ground amended the lease so that it now expires on July 31, 2016, and effective August 1, 2011 rent will be $371,976 per annum. The current rent is $338,160 per annum.

Paladin OP accounts for its investment in PRIP 801, LLC under the equity method of accounting since control is shared with the joint venture partner.

Condensed financial information of PRIP 801, LLC, is summarized as follows:

Condensed Balance Sheets
December 31, 2010 and 2009
(unaudited)

	December 31, 2010	December 31, 2009
ASSETS		
Investment in real estate, net	$3,692,244	$3,773,100
Other Assets, net	119,479	139,841
Total Assets	$3,811,723	$3,912,941
LIABILITIES AND MEMBERS' EQUITY		
Mortgage loan payable	$1,357,287	$1,950,000
Other Liabilities	28,180	28,180
Members' Equity	2,426,256	1,934,761
Total Liabilities and Members' Equity	$3,811,723	$3,912,941
Company's share of Members' Equity*	$1,938,516	$1,431,809

Condensed Statements of Operations
Years ended December 31, 2010, 2009 and 2008
(unaudited)

	2010	2009	2008
Revenues and interest income	$ 338,398	$ 338,383	$ 338,554
Expenses	(221,903)	(225,084)	(215,669)
Net income	$ 116,495	$ 113,299	$ 122,885
Company's share of net income*	$ 86,207	$ 83,841	$ 90,912

* The difference in the Company's percentage of members' equity and the Company's percentage of net income reflected above compared to the Company's balance sheets and statements of operations is attributable to the amortization expense of acquisition costs incurred by the Company.

The mortgage loan required payments of interest only at a fixed interest rate of 5.498% through November 1, 2010, the anticipated repayment date. Since the mortgage loan was not repaid or refinanced, interest will accrue at a rate of 8.498% per annum. Pursuant to the terms of a cash management agreement, the borrower was required to post a $550,000 letter of credit by December 1, 2007, or the lender would sweep and retain all cash flow from 801 Fiber Optic Drive. On November 29, 2007, Paladin OP posted a $550,000 irrevocable standby letter of credit with Wachovia Bank, N.A. secured by $550,000 cash deposited in a certificate of deposit with Wachovia Bank, N.A. The borrower did not pay off the loan on November 1, 2010. As a result, the lender applied the letter of credit (or retained cash flow) and will sweep all cash flow to repay the loan until the loan is repaid in full. In the event of a default under the loan documents, the cash management agreement further provides that the lender may sweep cash from all accounts maintained by the borrower with the lender (including rent accounts from the property). The loan matures on November 1, 2035.

The mortgage loan could not be prepaid until January 31, 2008 and, as of December 31, 2010, it has not been prepaid. There was no sale, encumbrance, or other transfer of an interest in the property permitted without the lender's prior written consent. Alex Gilbert, the managing member of 801 FO, LLC, has guaranteed the non-recourse standard loan carve outs, and in exchange for his guarantee, our sponsor, Paladin Realty Partners, LLC ("Paladin Realty"), has agreed to fully indemnify Mr. Gilbert against any defaults caused by the borrower through standard default provisions such as bankruptcy, fraud, misapplication of proceeds and certain environmental violations. The loan agreement obligation is secured by a mortgage on the property and an assignment of rents and personal property. In addition PRIP 801, LLC, has entered into an environmental and hazardous substance indemnification agreement.

The agreements contain various covenants, which among other things, limit the ability of the borrowers to incur indebtedness, engage in certain business activities, enter into material leases on the property and transfer their interests in the property among others. The loan agreements also contain customary events of default, including, without limitation, payment defaults, cross-defaults to certain other agreements with respect to the property and bankruptcy-related defaults. In the event of a default, the loan may be accelerated and all amounts due under the loan will become immediately due and payable.

On February 28, 2011 PRIP 801, LLC refinanced the mortgage loan in the amount of $1,300,000. The new loan bears interest at a fixed rate of 6.75% and matures on February 1, 2014. The loan is generally prepayable subject to a prepayment premium of 1.5% based on the remaining amount of the loan, unless the property is sold to a third party. The loan is secured by a mortgage on the property pursuant to a Loan and Security Agreement, effective as of February 28, 2011. In addition, the loan is guaranteed by the Company.

4. Mortgages Payable

Mortgages Payable

Mortgage loans payable consist of the following:

	December 31, 2010	December 31, 2009
Mortgage loan payable—interest only at a fixed rate of 6.14% payable monthly until the loan matures on July 1, 2016, secured by Champion Farms Apartments property (1)	$ 16,350,000	$ 16,350,000
Mortgage loan payable—interest only at 6.05% payable monthly until July 1, 2011, after which principal and interest are due until the loan matures on July 1, 2014, secured by the Fieldstone Apartments property (1)	16,500,000	16,500,000
Mortgage loan payable—principal and interest at 5.58% payable monthly until the loan matures January 1, 2016, secured by the Pinehurst Apartment Homes property (2)	4,563,278	4,639,581
Mortgage loan payable—interest only at 5.95% payable monthly until the loan matures on October 1, 2017, secured by the Pheasant Run Apartments property (3)	6,250,000	6,250,000
Mortgage loan payable—interest only at 5.58% payable monthly until February 1, 2013, after which principal and interest are due until the loan matures on February 1, 2018, secured by the Retreat Apartments property (4)	13,600,000	13,600,000
Mortgage loan payable—interest only at 5.81% payable monthly until December 1, 2012, after which principal and interest are due until the loan matures on December 1, 2017, secured by the Hilltop Apartments property (5)	4,250,000	4,250,000
Mortgage loan payable—interest only at 5.96% payable monthly until September 1, 2011, after which principal and interest are due until the loan matures on September 1, 2015, secured by the Conifer Crossing property (6)	28,700,000	28,700,000
Mortgage loan payable—interest only at 7.00% payable monthly until the loan matures on December 19, 2011, secured by the Two and Five Governor Park properties (7)	10,260,177	10,415,391
Mortgage loan payable-interest only at 5.66% payable monthly until November 1, 2011, after which principal and interest are due until the loan matures on October 1, 2019, secured by the Lofton Place Apartments property (8)	12,000,000	12,000,000
Mortgage loan payable—interest only at 5.49% payable monthly until February 1, 2012, after which principal and interest are due until the loan matures on January 1, 2020, secured by the Beechwood Gardens Apartments property (9)	8,661,000	8,661,000
Total mortgage loans payable	$121,134,455	$121,365,972

(1) In general, the mortgage loan may be voluntarily or involuntarily prepaid subject to certain prepayment penalties. The loan agreement obligation is secured by a mortgage on the property and an assignment of rents and personal property.

(2) The loan is prepayable at any time prior to its maturity, subject to a prepayment penalty equal to the greater of (a) one percent of the outstanding balance or (b) an amount calculated pursuant to a formula based on the remaining life of the loan and then-current interest rates. In addition, the loan is guaranteed by James E. Lippert, an affiliate of JTL Holdings, LLC and JTL Asset Management, Inc., pursuant to a guaranty dated September 13, 2007, but only upon the occurrence of certain limited events.

(3) Assuming no event of default occurs before the initial maturity date, the loan will automatically be extended until October 1, 2018 with an adjustable interest rate based on the Federal Home Loan Mortgage Corporation Reference Bill Index. The loan is prepayable at any time prior to its maturity, subject to a prepayment penalty equal to the greater of (a) one percent of the outstanding balance or (b) an amount calculated pursuant to a formula based on the remaining life of the loan and then-current interest rates. In the event of default, the entire unpaid principal balance, any accrued interest, any prepayment penalty and all other amounts payable under the promissory note will be due and payable.

(4) Assuming no event of default occurs before the initial maturity date, the loan will automatically be extended until February 1, 2019 with an adjustable interest rate based on the Freddie Mac Reference Bill Index. The loan is prepayable at any time prior to its maturity, subject to a prepayment penalty equal to the greater of (a) one percent of the outstanding balance or (b) an amount calculated pursuant to a formula based on the remaining life of the loan and then-current interest rates. The loan is secured by a

multifamily mortgage on the property pursuant to a Multifamily Deed of Trust, Assignment of Rents and Security Agreement. In addition, the loan is guaranteed by James E. Lippert, but only upon the occurrence of certain limited events.

(5) Assuming no event of default occurs before the initial maturity date, the loan will automatically be extended until December 1, 2018 with an adjustable interest rate based on the Freddie Mac Reference Bill Index. The loan is prepayable at any time prior to its maturity, subject to a prepayment penalty equal to the greater of (a) one percent of the outstanding balance or (b) an amount calculated pursuant to a formula based on the remaining life of the loan and then-current interest rates. The loan is secured by a multifamily mortgage on the property pursuant to a Multifamily Deed of Trust, Assignment of Rents and Security Agreement. In addition, the loan is guaranteed by James E. Lippert, but only upon the occurrence of certain limited events.

(6) Assuming no event of default occurs before the initial maturity date, the loan will automatically be extended until September 1, 2016 with an adjustable interest rate based on the Freddie Mac Reference Bill Index. The loan is prepayable at any time prior to its maturity, subject to a prepayment penalty equal to the greater of (a) one percent of the outstanding balance or (b) an amount calculated pursuant to a formula based on the remaining life of the loan and then-current interest rates. The loan is secured by a multifamily mortgage on the property pursuant to a Multifamily Deed of Trust, Assignment of Rents and Security Agreement. In addition, the loan is guaranteed by Gregory A. Fowler, a management committee representative of FPA Conifer Investors, LLC, but only upon the occurrence of certain limited events.

(7) The loan has two, one-year extensions which may be exercised if, among other things, the properties have (a) a debt service coverage ratio of 1.2 or better, and (b) a loan to value ratio of no more than 70.0% based on an appraisal. Each extension is subject to an extension fee equal to 1.5% of the outstanding principal balance. On December 17, 2010 the loan was extended for one year until December 19, 2011. Although the properties met the debt service coverage requirement, they did not meet the loan to value ratio test. During December 2010, the Company's joint venture partner contributed $775,000 to FPA/PRIP Governor Park, LLC to pay the extension fee of $162,753, other costs and to pay down the loan by $590,000 in order to satisfy the loan to value requirement. The loan is prepayable at any time prior to its maturity, subject to an exit fee equal to 1.0% of the principal being repaid. The loan is secured by a mortgage on the property pursuant to a Deed of Trust and Absolute Assignment of Rents and Leases and Security Agreement. In addition, the loan is guaranteed by Gregory A. Fowler but only upon the occurrence of certain limited events.

(8) Assuming no event of default, the loan will mature on October 1, 2019. The loan may be prepaid or defeased during the loan term, subject to certain conditions and limitations. The determination as to prepayment or defeasance is based on actions of the lender with regard to securitizing the loan, which actions are beyond our control. The borrower possesses the right to prepay the loan, in total but not in part, only if the Note is (i) not assigned to a REMIC trust; or (ii) if the Note is assigned to a REMIC trust on or after October 1, 2010. If the loan is prepayable, it shall be subject to a yield maintenance penalty equal to the greater of (a) one percent of the outstanding balance, or (b) an amount calculated pursuant to a formula based on the remaining life of the loan and then-current interest rates. The option to prepay will be replaced with an option to defease if the lender has assigned the Note to a REMIC trust by October 1, 2010; however, if the Note has been securitized, the loan will be subject to a maximum two-year lock-out to defeasance. The loan is secured by a mortgage on the property pursuant to a Multifamily Mortgage, Assignment of Rents and Security Agreement. In addition, the loan is guaranteed by Charles M. Thompson, but only upon the occurrence of certain limited events.

(9) Assuming no event of default, the loan will mature on January 1, 2020. The loan may be prepaid or defeased during the loan term, subject to certain conditions and limitations. The determination as to prepayment or defeasance is based on actions of the lender with regard to securitizing the loan, which actions are beyond the Company's control. The borrower possesses the right to prepay the loan, in total but not in part, only if the Note is (i) not assigned to a REMIC trust; or (ii) if the note is assigned to a REMIC trust on or after January 1, 2011. If the loan is prepayable, it shall be subject to a yield maintenance penalty equal to the greater of (a) one percent of the outstanding balance, or (b) an amount calculated pursuant to a formula based on the remaining life of the loan and then-current interest rates. The option to prepay will be replaced with an option to defease if the lender has assigned the note to a REMIC trust by January 1, 2011; however, if the note has been securitized, the loan will be subject to a maximum two-year lock-out to defeasance. The loan is secured by a mortgage on the property pursuant to a Multifamily Mortgage, Assignment of Rents and Security Agreement. In addition, the loan is guaranteed, jointly and severally, by Herbert Morgan, Robert C. Morgan and Robert J. Moser, but only upon the occurrence of certain limited events.

The loan agreements contain various covenants, which among other things, limit the ability of the borrower to incur indebtedness, engage in certain business activities, enter into material leases on the property and transfer their interest in the property among others. The loan agreements also contain certain customary events of default, including, without limitation, payment defaults, cross-defaults to certain other agreements with respect to the property and bankruptcy-related defaults. In the event of default, the loan may be accelerated and all amounts due under the loan will become immediately due and payable. As of December 31, 2010, the Company is in compliance with its debt covenants.

Principal payments due on the mortgage loans payable as of December 31, 2010 are as follows:

2011	$ 10,560,871
2012	856,695
2013	1,128,997
2014	17,020,220
2015	32,286,910
Thereafter	59,280,762
Total	$121,134,455

Paladin REIT's charter provides that its independent directors must approve any borrowing in excess of 300% of the value of its net assets and the justification for such excess borrowing must be disclosed to its stockholders in its next quarterly report. Net assets for purposes of this calculation are defined to be Paladin REIT's total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of Paladin REIT's assets before non-cash reserves and depreciation. As of December 31, 2010, Paladin REIT's borrowings did not exceed 300% of the value of its net assets.

5. Equity

Preferred Shares

Paladin REIT's board of directors, through Paladin REIT's charter, has the authority to authorize the issuance of 100,000,000 preferred shares in one or more classes or series. The rights and terms of such preferred shares will be determined by the board of directors. However, the voting rights of the preferred shares sold in a private offering shall not exceed voting rights which bear the same relationship to the voting rights of common stock as the consideration paid for each such preferred share bears to the book value of each outstanding share of common stock. As of December 31, 2009 and 2008, Paladin REIT had not issued any preferred shares.

Redemptions

In the normal course of business, Paladin REIT redeems its shares from existing shareholders, which is reflected as a reduction in common shares and additional paid in capital. Previously, such share redemptions were reflected as treasury shares. As of June 6, 2009, Paladin REIT's Share Redemption Program was amended to limit the number of shares redeemed pursuant to the Share Redemption Program during any calendar year, to no more than 5% of the weighted-average number of shares outstanding during the prior calendar year. As of August 28, 2008, Paladin REIT's Share Redemption Program was amended to waive the one-year holding period in the event of the death or qualifying disability of a stockholder and to disclose that certain fees charged by Paladin RE1T's registrar and transfer agent, Phoenix American Financial Services, Inc., for share redemptions are now charged to investors seeking to redeem shares of common stock pursuant to the program.

6. Related Party Transactions

Paladin Realty Securities, LLC ("Paladin Securities"), a wholly owned subsidiary of Paladin Advisors, began serving as the dealer manager for the Initial Offering pursuant to a dealer manager agreement dated June 5, 2007, as amended by the amendment to the dealer manager agreement dated February 23, 2008 (the "IPO Dealer Manager Agreement"). Pursuant to the terms of the IPO Dealer Manager Agreement, Paladin REIT paid Paladin Securities selling commissions of 7.0% of the gross offering proceeds from the sale of shares of Paladin REIT's common stock in its primary offering and 4.0% of the gross offering proceeds from the sale of shares of its common stock pursuant to its dividend reinvestment plan. Paladin REIT also paid Paladin Securities a dealer manager fee of up to 2.5% of gross offering proceeds from the sale of shares of Paladin REIT's common stock in its primary offering.

In connection with the Follow-On Offering, Paladin REIT entered into a dealer manager agreement dated February 6, 2008 (the "Follow-On Dealer Manager Agreement") with Paladin Securities. Pursuant to the terms of the Follow-On Dealer Manager Agreement, Paladin REIT pays Paladin Securities selling commissions of 6.0% of the gross offering proceeds from the sale of shares of Paladin REIT's common stock in its primary offering and Paladin REIT does not pay any commission from the sale of shares of its common stock pursuant to its distribution reinvestment plan. Paladin REIT also pays Paladin Securities a dealer manager fee of up to 3.5% of gross offering proceeds from the sale of shares of Paladin REIT's common stock in its primary offering. Paladin Securities may pay all or a portion of these selling commissions and dealer manager fees to participating broker-dealers.

For the year ended December 31, 2010, Paladin REIT incurred $524,728 in selling commissions and dealer manager fees to Paladin Securities.

The Advisory Agreement entitles Paladin Advisors to specified fees upon the provision of certain services with regard to the Offerings as well as reimbursement for organization and offering costs, and certain other costs, incurred by Paladin Advisors on behalf of the Company.

Amounts due to (from) Affiliates

	December 31, 2010	December 31, 2009
General and administrative expenses due to affiliates (1)	$ 897,239	$2,619,390
Organization and offering costs due from affiliates (2)	(422,981)	(306,224)
Total due to affiliates	$ 474,258	$2,313,166
Unrecognized organization and offering costs (3)	$7,825,525	$7,373,714

(1) Pursuant to the Advisory Agreement, the Company will not reimburse Paladin Advisors for operating expenses that exceed the 2%/25% Rule, except as permitted by the 2%/25% Rule, as described in Note 2. During the year ended December 31, 2010, the Company incurred $1,452,180 of general and administrative expenses, including $25,297 paid on our behalf by Paladin Advisors, in accordance with the 2%/25% Rule. Pursuant to the Advisory Agreement, the Company paid $380,880 in asset management fees due to Paladin Advisors for the Company's 12 properties during the year ended December 31, 2010. For each of these 12 properties, from the respective dates of acquisition through the period that the Company owns the properties, Paladin Advisors has

elected to receive a monthly asset management fee equal to one-twelfth of 0.3% of the Company's allocable cost of the real property acquired. Paladin Advisors acknowledges that it has waived its right to receive any additional amounts due under the Advisory Agreement for such properties. Due to affiliate in the accompanying consolidated balance sheet includes $897,239 of unreimbursed general and administrative expenses, which are within the 2%/25% Rule. During 2010, in accordance with the Advisory Agreement, the Company reimbursed Paladin Advisors $1,725,000 of previously accrued general and administrative expenses, paid in increments of $575,000 on June 1, July 7, and October 5, 2010, respectively. As of December 31, 2010, there were no unrecognized commitments relating to unreimbursed excess operating expenses pursuant to the 2%/25% Rule.

(2) Organization and offering costs of the Company are paid by Paladin Advisors or its affiliates, including Paladin Realty, on behalf of the Company and directly by the Company. Organization and offering costs consist of actual marketing, legal, accounting, printing and other offering expenses, including amounts to reimburse Paladin Advisors, its affiliates or its dealer manager, for all marketing related costs and expenses, including, but not limited to, expenses relating to registering and marketing the shares and other marketing and organization costs, technology costs and expenses attributable to the Offerings, and payment or reimbursement of bona fide due diligence expenses of the dealer manager and broker-dealers participating in the Offerings. Pursuant to the Advisory Agreement, the Company is obligated to reimburse Paladin Advisors or its affiliates for amounts advanced for organization and offering costs. Such costs only become a liability of the Company to the extent they do not exceed 3.0% of the gross proceeds of the Offerings. For the year ended December 31, 2010, the Company paid $330,854 of offering costs. Due to the application of the 3.0% limitation, the Company recognized $217,000, which was charged to stockholders' equity with the additional amount of $116,757 recorded as due from affiliates. Paladin Advisors is required to reimburse the current balance of $422,981 within 60 days after the end of the Follow-On Offering.

(3) Not reflected in the consolidated financial statements at December 31, 2010 and 2009 as these amounts have exceeded the 3.0% limitation as described above in Note 2 and only become due to affiliates when they do not exceed such limitation.

7. Quarterly Financial Data (Unaudited)

The following table presents selected unaudited quarterly financial data for each quarter during the years ended December 31, 2010 and 2009:

	For the Quarter Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Revenues	$4,918,510	$4,995,214	$ 5,015,161	$ 5,120,054
Equity in earnings from real estate joint venture	$ 19,738	$ 21,581	$ 21,341	$ 20,859
Net loss attributable to Company	$ (547,184)	$ (804,842)	$ (869,498)	$ (604,610)
Loss per common share:				
Basic	$ (0.12)	$ (0.17)	$ (0.18)	$ (0.12)
Diluted	$ (0.12)	$ (0.17)	$ (0.18)	$ (0.12)

	For the Quarter Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Revenues	$3,580,089	$3,628,338	$ 3,663,686	$ 4,472,648
Equity in earnings from real estate joint venture	$ 21,420	$ 17,481	$ 20,267	$ 21,985
Net loss attributable to Company	$ (954,316)	$ (933,787)	$(1,083,231)	$(1,500,588)
Loss per common share:				
Basic	$ (0.25)	$ (0.23)	$ (0.26)	$ (0.34)
Diluted	$ (0.25)	$ (0.23)	$ (0.26)	$ (0.34)

8. Subsequent Events

The following events occurred subsequent to December 31, 2010, and in addition to any other events disclosed elsewhere in these consolidated financial statements.

Event Affecting an Asset

On February 20, 2011, a fire ignited at Fieldstone Apartments causing significant damage to 12 units, or approximately 5% of available rentable space. The Company's loss related to the fire is expected to be limited to the $10,000 deductible under its property insurance policy.

Potential Changes in Investments

On February 18, 2011, the Company's board of directors approved the potential sale of 801 Fiber Optic Drive and approved the potential acquisition of an economic interest in Stone Ridge Apartments, located at 1000 Watermark Place, Columbia, South Carolina 29210.

Share Redemption Program

From January 1 to March 11, 2011, 91stockholders redeemed 39,896 shares for $371,063.

EXHIBIT 21

Subsidiaries

Paladin Realty Income Properties, L.P. (Delaware)

Glenwood Housing Partners I, LLC (Indiana)

PRIP 10637, LLC (Delaware)

Springhurst Housing Partners, LLC (Indiana)

PRIP 3700, LLC (Delaware)

PRIP 801, LLC, (Delaware)

KC Pinehurst Associates, LLC (Delaware)

PRIP 500, LLC (Delaware)

KC Pheasant Associates, LLC (Delaware)

PRIP 1102, LLC (Delaware)

KC Retreat Associates, LLC (Delaware)

PRIP 11128, LLC (Delaware)

PRIP 6700, LLC (Delaware)

Park Hill Partners I, LLC (Delaware)

PRIP 3383, LLC (Delaware)

FPA/PRIP Conifer, LLC (Delaware)

PRIP 5060/6310, LLC (Delaware)

FPA/PRIP Governor Park, LLC (Delaware)

PRIP Lofton, LLC (Delaware)

PRIP Beechwood, LLC (Delaware)

PRIP Stoneridge, LLC (Delaware)

EXHIBIT 31.1

Certifications

I, Whitney A. Greaves, certify that:

1. I have reviewed this annual report on Form 10-K of Paladin Realty Income Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 29, 2011

/s/ Whitney A. Greaves

Whitney A. Greaves
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certifications

I, John A. Gerson, certify that:

1. I have reviewed this annual report on Form 10-K of Paladin Realty Income Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 29, 2011

/s/ John A. Gerson

John A. Gerson
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the annual report on Form 10-K of Paladin Realty Income Properties, Inc. (the "Company") for the period ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the President and Chief Executive Officer of the Company, certifies, to her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Whitney A. Greaves
Whitney A. Greaves
President and Chief Executive Officer
(Principal Executive Officer)

March 29, 2011

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the annual report on Form 10-K of Paladin Realty Income Properties, Inc. (the “Company”) for the period ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Executive Vice President and Chief Financial Officer of the Company, certifies, to his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John A. Gerson
John A. Gerson
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

March 29, 2011